



**Twenty-Fifth Conference Debate
The Italian Chamber of Commerce and Industry for the UK**

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The Savoy, London

“DIPLOMACY AND BUSINESS”

PROCEEDINGS

Honorary President

H.E. Luigi Amaduzzi

The Italian Ambassador to the
Court of St James's

President of the Chamber:

Dott. Leonardo Simonelli

Chairman of the Conference:

*Ambassador Richard N. Gardner
Of Counsel
Morgan, Lewis & Bockius LLP*

Speakers:

*H.E. Cardinale Giovanni Battista Re
Prefect of the Congregation of
Bishops
The Holy See*

*The Lord Mayor of the City of London
Alderman Gayn Arthur
Dott. Rainer Masera
Chairman
Sanpaolo IMI Spa*

*Sir Evelyn de Rothschild
Chairman
N M Rothschild & Sons Ltd*

Guest of Honour:

Cav. Lav. Vittorio Merloni
Chairman
Merloni Elettrodomestici Spa

Mr Paul Bristol
Executive Chairman
International Oil Club

Prof. Mario Baldassarri
Minister for the Economy and
Finance
The Italian Government

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WELCOME

Leonardo Simonelli:

We need speakers for our conference able to meet this task and we have found them. So we must now thank them for their generosity in sparing us their valuable time. We have two bankers, Sir Evelyn de Rothschild, and Professor Rainer Masera; we have two industrialists, Vittorio Merloni and Paul Bristol; and then two institutional representatives, Professor Mario Baldassarri and Alderman Gavyn Arthur, the Lord Mayor, in the presence of the spiritual wisdom of the Catholic Church, with his Eminence Cardinal Giovanni Battista Re. They are all men of international stature and experience and I am sure they will enlighten us with their thought and their involvement in this great project. I also trust that the audience will participate in the debate by asking questions at the end of the presentations. Professor Mario Baldassarri, Italian Minister for Economy and Finance, will address us at lunch.

We are of course very lucky to have Richard Gardner as chairman. His long and successful experience as a diplomat and his legal career with Morgan, Lewis Counsellor at Law, make up his formidable background as displayed in your programme. He will introduce the speakers.

Mr Gardner was ambassador to Rome during the violent time known in Italy as the *anni di piombo*, the years of lead, when Aldo Moro and many others paid for their contribution to progress with their lives. He is writing a book about these years and there will be lessons to be learned.

As usual, my role is very limited because I think that we have to take full advantage of the presence of our speakers and our illustrious participants. I am therefore pleased to place the debate in the very capable hands of our chairman. As I have already said, we have a busy morning. You will see from the programme that there will be two sessions, one hour each with three speakers, for an average of 15-20 minutes each. On behalf of the Chamber and its council, I would like to thank our chairman, our speakers, and of course to all of you for joining us today.

I shall have the pleasure of introducing our Guest of Honour, Professor Baldassarri, at lunch. Now, I am glad to hand the proceedings over to you, Richard. Thank you very much.

Richard Gardner:

Lord Mayor, Excellencies, Ladies and Gentlemen:

It is a great honor to be serving as Chairman of this annual conference and to give the opening address. “Diplomacy and Business” is a vast subject. I am reminded of the story of the school boy who was asked to write a 50-word essay on a subject of his choice and who headed his paper, “The Universe—and Other Problems.” I will not speak of the Universe today, but I will try to identify some of the “other problems” that could benefit from the wisdom of our speakers if they care to address them.

For the purpose of our discussion, I shall define diplomacy in the broadest sense – as the formulation and implementation of international policies by governments in pursuit of their national interests. Today, it is obvious that these government policies can have a profound impact on business interests, just as the actions of business firms can have a profound impact on government interests. The closest government and business consultation and cooperation is therefore essential.

It seems to me that the critical challenges for diplomacy and business today fall into three main areas: first, international and domestic security; second, trade and development; and third, corporate governance, bank regulation, and corporate responsibility. I would like to say a few words about each.

Security

El Qaeda and other groups of fanatical Islamists have declared war on our free Western societies, as well as on their own conservative and generally ineffective Islamic governments. In highly vulnerable cities like London and New York, I fear we shall be living for the foreseeable future under the threat of catastrophic attacks by suicidal Jihadists, possibly using biological, chemical or one day even nuclear weapons.

Our security is also threatened by the nuclear ambitions of North Korea and Iran ongoing violence in Iraq, the collapse of the peace process between Israel and the Palestinians, and the uncertain prospects of the Saudi Arabian regime upon which we all critically depend for our oil supplies, which is deeply implicated in support for international terrorism by reason of its reliance upon financial support of Wahhabism – the most intolerant and anti-Western version of Islam.

It is difficult for business leaders or ordinary citizens to look to the future with confidence in the face of such grave risks to our common security. Europe and America bear a special responsibility for common action. How can we restore an agreed US-European policy in the

U.N. Security Council and elsewhere on Iraq and on the Israel-Palestinian problem? What more should we be doing to assure our energy security? What joint measures should we be taking to promote the political and economic modernization of those Arab regimes that now serve as breeding grounds for terrorists? The wisdom of our panelists will be welcome on all these difficult questions.

Trade and Development

The failure of the WTO Ministerial at Cancun means that the Doha Round will almost certainly not be completed by the end of next year, as had been planned. The most important reasons for this failure were the inability of the United States and the European Union to overcome the opposition of their domestic farm lobbies to any substantial opening of their markets to the agricultural products of developing countries. President Chirac in particular will not accept any major changes in the EU's Common Agricultural Policy that could impact French farmers, and President Bush needs the votes of the farm states, as well as of the textile and steel producing states, in the next election. The developing countries, led by India and Brazil, also contributed to the failure by refusing to accept any reduction of their high tariffs or any rationalization of their cumbersome customs procedures, which damage other developing countries as well as themselves.

If domestic politics continue to frustrate international trade diplomacy, it will mean the end of multilateral trade liberalization rounds under the auspices of WTO-GATT and the further balkanization of world trade into bilateral and regional arrangements. What are the political implications of these possible developments, and what would they mean for business?

One regional arrangement that is now receiving priority attention is the Euro-Mediterranean Partnership linking the EU countries to twelve less developed countries of the Mediterranean Basin. Is this proposal for a Euromed Free Trade Area realistic? Will it include agriculture? What can be done to promote public and private investment in the less developed Mediterranean countries? Current demographic trends lend a practical urgency to these economic questions. In 1950, the Northern Mediterranean countries had a combined population of 125 million, while the Southern Mediterranean countries had a combined population of 70 million. If present trends continue, according to UN estimates, by 2050 the Northern Mediterranean countries will have a population of 145 million, while the Southern Mediterranean countries will have a population of 420 million! I ask myself if any long-term policy for Mediterranean stability and the control of unwanted South-North migration into the EU can possibly succeed without the institution of effective family planning programs to stabilize population growth in the southern Mediterranean area.

Our catalogue of economic problems would not be complete without some reference to the tragic situation in sub-Saharan Africa, especially the Aids, Malaria and Tuberculosis pandemics, and also the new challenge created by China's WTO membership and its manifestly undervalued currency, which is triggering complaints of unfair competition in the United States, the EU and many developing countries. Finally, in the economic area, we must not forget the structural problems currently holding back European growth, such as rigid labour markets, unaffordable pension systems and the huge, unsustainable budget and external deficits that loom ever larger as uncertainties over the American economy.

Corporate Governance, Bank Regulation and Corporate Social Responsibility

The recent excesses of corporate greed and malfeasance in the US have focused attention on both sides of the Atlantic on corporate governance issues, but many European companies are unhappy about their application to the Sarbanes-Oxley legislation, in whose drafting they had no part. A particularly sensitive issue is whether Europe auditors should be obliged to register and be accountable to the new American regulatory authority, the Public Accounting Oversight Board.

American banks, it appears, will not be accepting the guidelines on capital adequacy contained in the Basle II agreement. European banks now face the question of whether they should accept Basle II without change, considering that it may unduly restrain the ability to lend to small and medium-sized borrowers.

Finally, I would like to say a few words on corporate social responsibility. Many European countries, but fewer American ones, have signed up to Kofi Annan's Global Compact, under which they voluntarily agree to respect international standards relating to human rights, labour rights, and environmental protection. However, going beyond this voluntary approach, a UN body has recently recommended that all international corporations should be subject to monitoring by the UN to assure that they are complying with these standards. In addition, international oil companies are now facing law suits in US courts, charging them with complicity in human rights violations in countries like Myanmar, Indonesia, Colombia, and Ecuador. These developments raise new questions for corporate leadership.

Last year's UN Conference on Financing for Development advanced the idea of public-private partnerships to help developing countries. For example, pharmaceutical companies could devote more research to diseases afflicting African countries and could join with donor governments to help design health care systems. Agribusiness could assist in the struggle against

hunger and malnutrition. Information technology companies could enlist in the effort to overcome the digital divide and help increase Internet use in the developing world.

Well, I have not given you the Universe, only a few of the problems. I hope our speakers will help us to resolve some of them.

Alderman Gavyn Arthur:

Chairman, President, your Eminence, your Excellencies, ministers, ladies and gentlemen. Thank you both very much, Chairman and President, for your stirring introductions and for the kind words you've said about me. There is no more fitting place in my view for any conference to take place than in London. London has for many centuries benefited from policies of openness and welcome to overseas business. It was after all the freedom of the London markets that first attracted to London the Lombards who landed here in the middle of the 13th century. They travelled from Genoa, from Florence, and Venice, and they set up business as bankers. The City of London owes really everything to them, as they laid the foundations of much of our present financial system. The Lombards lent money to the state and to the king, and for security took mortgages on the custom dues of the port of London. And the custom of maritime insurance was almost certainly begun by them. The Lombards sent back to Italy their money by the first bills of exchange. It still goes on today; the nine Italian banks resident in the City of London, who employ some 750 staff, follow in that great tradition. They are very welcome and active members of our business community.

Now you may be wondering what the Lord Mayor of London, a civic role, is doing speaking to a conference like this. The reason is that it is an unusual role. It goes back a long way. In addition to carrying out the normal civic duties that any mayor does in his own territory, I have my long convention and authority which dates back to the *Magna Carta*, establishing my role as that of ambassador at home and abroad for all the financial services based in London and the United Kingdom – not only British institutions, but all institutions. Sometimes when I travel abroad, I take with me representatives of the Italian banks and other institutions based here in London. There is a huge amount of travel involved in the Lord Mayor's role – about 100 days of every year are spent abroad and I visited some 27 countries this year alone. One of the regular visits is to the capital of a country about to assume the presidency of the European Union, and so I visited Athens at the end of last year and of course Rome this May.

Regulation, of course, stemming from a European Union, has an enormous effect on London, which is now the financial capital of Europe, and very much the motor which drives

Europe's financial markets. European financial firms have congregated in the City. There are 95 EU banks resident here, with assets of more than 1 trillion euros. Many of them run their entire European-wide businesses from London, with only domestic retail operations being run from their head office. Today, over half of all European investment banking is managed from London. This amounts to some 63.5 billion euros. London is the principle centre for trading the euro, whether it is banking deposits, overnight money, loans, euro denominated bonds, equities, or derivatives, London is very much the place. Therefore, I say with considerable pride that whilst the United Kingdom has elected to remain outside the euro zone at present, London is most definitely in.

During my visits to ministers, regulators and officials during my term of office, we have discussed the many important issues relating to the single market in financial services. Europe desperately needs a deeper, more integrated capital market in order to compete on the world stage. In comparison to the United States, our capital market is still too fragmented, too expensive, and relatively inefficient. There would be great benefit to all countries if the cost of capital were lowered. There are particular benefits for small and medium-sized enterprises and I know how vital a role SMEs play in the Italian economy. In London, as I have said, we have benefited greatly from a thriving and open market in financial services. In our experience, this can bring positive benefits for both wholesale customers and retail consumers by lowering prices and increasing choice which will in turn, of course, enhance job creation in the EU. All this is about the economic prosperity of Europe and it is in all our interests that we seize this opportunity. Economic reform across Europe will also have a positive effect on the euro. For at present, despite being the second largest traded currency in the world, as we all know, the euro has still to fulfil its true potential.

In London, we believe that the EU's financial services action plan will lead us to a more positive and effective framework, as well as being a step forward for Europe's financial markets. For we must remember the world financial markets, spurred on by ever more sophisticated technology and the increasing size of the banks and other financial institutions, are changing rapidly. They will certainly look very different by 2005, when the FSAP will hopefully be completed. Yet again, and I say this on behalf of the City of London, regulation must be appropriate. It must distinguish between wholesale and retail markets. Regulation is necessary. Too much of it will stifle markets because of course markets have to have some form of independence to be markets in the first place. Too little regulation will also of course destroy confidence in the market and it will suffer through lack of probity. It is that balancing act which is so important for the European Union through its various directives takes into account.

There is ample evidence that a liberal market place will encourage, as I have said, growth. We believe that other countries, other financial centres, can also benefit from similar policies such as that we intend through the financial services action plan. Growth promotes efficiency by increasing competitiveness throughout the market. Growth promotes financial depth in the markets, which are more liquid, with larger amounts of funds in them; and also broader, owing to the different banks and financial institutions working in the market. Growth supports business as more firms, both big enterprises and SMEs, are needed to service the funds in the market. Growth enhances financial systems, ensuring they keep up to date with the latest innovations, improving access to foreign capital, and keeping abreast of international standards of business, and this, of course, is all that the FSAP plans to achieve throughout the European Union. We have progressed a long way with negotiations on the various directives, but again I say this on behalf of the City of London, it is essential that every member state works to ensure that this negotiation is supported by early and efficient implementation if the single market is to be a reality and to be a success. We must ensure that our markets are all in line with one another.

There are always teething problems with such a process. Therefore, consultation by business plays a vital role in the negotiations. Practitioners who work in the markets as we all do every day, are often quicker to spot potential problems than those who perhaps may come from academic backgrounds and do not have such close involvement in the financial system. Here in London, the international firms of the City are, through the mayoralty, working collectively to ensure that the voice of international business is heard during the various negotiations. It is the view of the City of London, and I think very much the theme of this conference, that in our current, somewhat fragile economic climate, we must discuss and cooperate in all aspects of financial and business services. For example, the City is active in Brussels, lobbying, practicing diplomacy if you like, for the development of the single market. Over the next few months, the Corporation of London, of which I am the head, intends to open a representative office – a mini-embassy if you like, in Brussels, to assist in this process. This new office will not lobby on behalf of United Kingdom-owned banks and financial institutions only. It will work for the whole European and international financial services industry based in the City of London.

When we seek to unite markets as disparate as those which still exist in the European Union, there are going to be some costs and some difficult issues to resolve. We should bear in mind the common principles which underpin the single market. This involves compromises on all sides and changes to long-standing practices in all countries. This is difficult, but it is fundamental, absolutely fundamental, to the development of a market as a whole. It is vital that we should also take into account the cost benefit issue. Any short-term problem will in all probability be more than overridden by long-term gain. This is the key element of our principle

of proportionality. We must be flexible and we do hope the European markets can develop in a way that will allow them to respond quickly and effectively to moments of global crisis. In order to do this, we must proactively remove barriers to our competitiveness. We also need to tackle the 20 per cent EU productivity gap and encourage innovation and entrepreneurship. As has been touched on already, we must reform where reform is needed.

I have just returned from a tour of the central Asian republics and India. It was very difficult for me when talking to the president, the prime minister, the finance minister, Mr Arune Jakely, as I did late on Tuesday, to lecture them about the need to liberalise their financial services and trade. They pointed out to me that the United States and Europe, under the guise of the Common Agricultural Policy, were about as protectionist as you could find. I must say that it is the view of the City of London that it is absolutely essential that protectionist policies of rich, successful developed countries be opened up if we are to have any prospect of developing countries doing the same as well. We have to set the example; most importantly, we can afford to do so.

These, I think, if I can sum up, are the issues that affect the European Union. The Chairman touched on, if I can conclude, by simply commenting on a couple of points that he made. He touched on issues of international security. And it is very much the belief of the mayoralty of London that talking and diplomacy have a vital part to play. This year I have spent some time in approximately 17 Maghreb and Middle East countries. The last two, namely Iraq and Kuwait, I'll be visiting in some two weeks time. I was able to spend three days in Syria two months ago, spending some four and a half hours in private conversation with the president and his wife. As a result of those conversations, the Bank of England and other City institutions are paying a number of visits during the rest of the year in order to assist in the process of opening up the Syrian financial and banking economy, which virtually doesn't exist at the moment. The London Business School, the City Business School, is setting up a branch there in order to assist with the development. We believe that to be the best way of drawing a country like Syria into the international mould is by assisting it through its business, resulting in an even more liberalised economy and a liberalised outlook from Syria as a whole. I believe can deliver diplomacy. Again, it is a problem which I face when I visit other countries, because we don't only talk about business, but about human rights as well. It is difficult to lecture countries about human rights, when they respond by mentioning prisoners without trial in Guantanamo Bay. That is an issue the world needs to address. In a few weeks' time, just before Ramadan, all the Arab ambassadors and Arab institutions will be attending a series of business lunches with me at the Mansion House, and again we hope and pray that will assist in improvements in the area which the chairman has mentioned.

In the City of London, we are most enthusiastic participators in the great European experiment and the great European ideal. However, we do not believe that by always being quiet and never criticising or indicating a problem which needs to be addressed, that we are helping Europe. We believe that Europe is strong enough and powerful enough to cope with occasional criticisms and to deal with those few problems which I think, in our hearts, we all know need to be addressed; whether in Europe, the Middle East or anywhere in the world, diplomacy and business together can achieve a very great deal. Thank you very much.

Richard Gardner:

Thank you, Lord Mayor, for your incisive presentation. It is now my privilege to introduce Sir Evelyn de Rothschild. Sir Evelyn was educated at Harrow. It seems to be a Harrow reunion here today, and that of another magnificent college, Trinity College, Cambridge. Since 1976, he's been chairman of N M Rothschild and Sons Ltd, as you know, one of the oldest family-owned merchant banks in the City. He's been a director of more organisations that I possibly could mention in the time we have, but you should know of course that he was knighted by Her Majesty the Queen in 1989. He's a governor of the London School of Economics, an active patron of the arts, a supporter of many important charities and we Americans know that he is married to the well-known American financial expert Lynn Forrester, who we much appreciate, and thus he divides his time between homes in New York and London. Sir Evelyn, the floor is yours.

Sir Evelyn de Rothschild:

Mr Chairman, Mr President, Your Eminence, Ladies and Gentlemen:
I am delighted to be able to address you at this annual conference. I have always admired the energy and cohesiveness of the Italian business community. It might interest you to know that not only have we been involved for over two centuries in much part of our activity with Italy, but I myself am partly Italian. As early as 1821, N M Rothschild's brother Carl journeyed to Naples to negotiate a loan to the Government of Ferdinand II. By the mid 1820s, he had established a permanent banking house in Naples, which of course was one of the most important cities in Europe at that time.

Later on, towards the middle and end of the 19th century, Carl in Naples and Solomon von Rothschild in Vienna worked together for the development of industry and the railway system throughout Italy. Then James de Rothschild of Paris arranged a series of loans to Piedmont and

with that helped Cavour's victorious Austrian campaign, leading to the establishment of the Kingdom of Italy in 1861. Later, in the 1860s, N M Rothschild & Sons in London became the principal banker to the Royal Italian Government, and still today London and Paris provide loans to the Italian government. So it might interest you to know that we were proud to be involved with banking in 19th Century Italy and its important role in political evolution.

Since then, banking has evolved and the work we do now may seem rather different. But if you take a closer look, you will see that a lot of Rothschild's current business in Italy today still involves advice and support to the Italian government, particularly on the privatisation of state-owned industry. It goes without saying that this too is a sector of business that requires a great deal of political savvy, or diplomacy, if it is to succeed.

Which takes me to the theme of today's conference...you have already heard from the Lord Mayor about the challenges and opportunities facing the City of London. I want to talk to you about some of the challenges that face a family owned bank in this world that is getting bigger and more complicated, not to mention globalisation.

N M Rothschild and Sons has always been a family business. It is now one of the very few major international banks to remain in private ownership. One theme I want to stress is that family businesses are neither as rare, nor as threatened, as many people assume. I believe that they continue to have a crucially important role to play in the modern economy and I want today to explain why I hold this view.

From their very beginnings in Frankfurt, London, Paris, Naples and Vienna, my forbearers adopted strategies designed to ensure the long-term stability and success of their enterprise. As I have explained, it was already international. Its core strategy was to concentrate the capital of the business and its management within the family to preserve its cohesion and philosophy. The words that were chosen as the motto of the partnership to express that philosophy – *Concordia, Integritas, Industria* – still encapsulate it very neatly today.

My family has retained control of the Group and provided its strategic dynamism throughout its 200 years, but as the scope and scale of its banking business grew, the family of course opened its doors to bring in the professional skills that were needed to preserve and develop the business. Moreover, ingenious ways had to be found to enable the growing numbers of employees – now about 3,000 worldwide – to share fairly in the success of the family enterprise.

But the underlying financial and management cohesion continues to this day to be provided by the family, and this in turn enables strict respect to be maintained for the integrity and quality of service provided by the bank, while at the same time encouraging enterprise, adaptation and innovation in all its sectors of activity.

The principal business of the Rothschilds has always been banking, but banking, as I have already suggested, has meant very different things from one decade to the next as the demands of the market have developed. One of the greatest challenges has always been to stay on the crest of the breaking wave while managing risks prudently in an environment of constant change. I don't need to tell this audience that in investment banking there has been dramatic change over the past 30 years. What are today called investment banks used to be known as merchant banks, from their origins as merchants providing banking services for international trade – the kind of role my forbears in Italy were performing in 19th century Naples. Their job was to finance the international movement of goods on either a 90 or 120 day basis. Bills on London for these periods were accepted by the merchant banks of the City and in turn backed by the Bank of England as the lender of last resort. As I well remember, the worldwide movement of goods was still being financed out of London in this way when I first started in the City. I was involved in the movement of pulp and paper from Canada through the United States and across the Atlantic to the United Kingdom. This was low risk business with a comfortable 1% spread. Even as late as the 1950s, it was all very Dickensian – if I may call it that. Yet this was the core of the London merchant banking market of those days. It accounted for more than three quarters of the earnings of family banks such as Barings, Schrodgers, Lazards, Kleinwort Benson, Morgan Grenfell and ourselves.

Before long, the big US investment banks and other international banks joined in this process and the whole London based M&A industry developed, enabling private companies to go public on a grand scale, and enabling public companies to raise more finance for development than they had ever been able to do in the past. I was the last Chairman of the Acceptance Houses Committee which was set up during the First War; until recently it had seventeen members. In 1987, it was dispensed with the help of the Bank of England and created the Investment Banking Association instead which grouped many more people and if we had it today we would have only two: Rothschild and Lazards. So, therefore, it has gone from seventeen members in 1987 to two in 2003.

But don't be misled by that. Family businesses are still the predominant form of enterprise throughout the world. A study published a year or so ago by the Harvard Business School Press put the proportion of family owned businesses at between 65 and 80% of all enterprises

throughout the world. Some of them are among the world's best known businesses. In the United States, according to one estimate, 40% of Fortune 500 companies are family owned or controlled. In the European Union, more than 65% of businesses – some 17 million altogether – are estimated to be family owned, and between them they employ more than 100 million people. That's 60% of the entire EU workforce.

In Italy the list of great families that own their own businesses starts with the Agnellis and the Antinoris and runs right through the alphabet. Here in Britain, more than three-quarters of the 8,000 largest enterprises are family owned. 50% of people employed in the private sector work for companies that are not quoted on any stock exchange.

Of course, there are pros and cons to family ownership. One overwhelming pro is immunity from takeover, which means you don't have to be looking over your shoulder all the time at your share price. Another is that family business can draw special strength from the shared history, identity and common language within families. My own family has certainly found this an enormous benefit over the generations and up to the present day. On the other hand, this same family relationship can sometimes give rise to conflicts. One of my colleagues at NM Rothschild & Sons many years ago invented an acronym "UFR" which stood for "Ugly Family Row". But when things go well, cohesion within a family can bring a unique level of commitment and a long-range sense of purpose and direction, which is hard to achieve in any other form of business.

How can family businesses meet the challenges of the future? It seems to me clear that along with such obvious things as getting the business focus right, recruiting the right people, and thinking internationally, there are a number of essential factors that have to be present. First of all, there has to be complete mutual trust between the various parties, whether they are family or otherwise. Secondly, there has to be an understanding that this isn't based on trying to make a very quick return. Thirdly, one must reward people for their endeavours, but in respect of merit. All these points seem to me have changed dramatically in the last few years. Of course part of this is due to technological developments that have taken place, the speed of communication, the ease of movement by individuals around the globe and the opportunities for more people to be involved in development in one way or another in their countries.

However, I am worried about some aspects of the change. Excesses particularly in the Investment Banking sector have reached a fever pitch. Maybe the lessons of the market will reassert themselves. Or maybe people's ideas will have to be looked at, investigated and unfortunately regulated. Because excesses make it difficult for people to judge whether the service they are receiving is of the highest quality, whether it really is worth the money they pay

for it, and whether it is done with full integrity. That is the key factor – *Integrity, Concordia and Industria*. My family's motto still remains in my thinking the key to the future with Integrity as the key, *Concordia* getting on with each other and *Industria* working together.

So I leave you with the thought that there are great opportunities still for private business, private banking and family businesses. Each person today should be able to see opportunities that exist. Start up can be easy to achieve because there is no great need for capital to start something. Anyone, however young or old, who has a good idea and is industrious, can start a business. In both our countries, there will be many people who have vibrant ideas, the ability to see opportunities and the will to take them forward. None of us can know what the future holds. What we do know is that individuals have the opportunity to grow successful businesses provided they remember certain basics, i.e. preserving integrity, maintaining quality and looking beyond the short-term results to the long term interests of the company in the political environment in which it finds itself. That is what our business is about and that is how, I believe, with a good dose of diplomacy, we shall continue to meet the business challenges of the future

I think, before finishing, I would just like to pass two comments run on similar lines that were said by the previous speakers. Firstly, I think that considering what has happened at Cancun and maybe could happen at the World Bank I think there must be a lot more give and take between the richer nations and the poorer nations. I also believe that the most challenging factor that we have in the modern world of today and have had for some time, but we really have got to face up to it, is the socio-economic problems of the rich and the poor. The socio-economic problems of the poor can only be dealt with if the richer nations face up to the needs that are there and how we try and cope with them. One of the areas in which the private sector can help, and the private sector is helping, is in Private Finance Initiative or Public Finance Initiative, which ever way you look at it is the sense that is using the opportunity of working alongside Government to improve hospitals, schools, transportation, and generally develop the infrastructure which is so necessary in some of these countries. It is very difficult not to realise that we have a challenging moment and that challenging moment should be taken up and I am sure that the private sector can be of great help in this matter.

Thank you for allowing me to speak to you today.

Richard Gardner:

The Lord Mayor is obliged to depart. We thank you, Lord Mayor, for your presence at this meeting. I take particular pleasure in introducing now Rainer Masera, Chairman and CEO of

Sanpaolo IMI. Indeed, I take particular pleasure because I'm a member of his Board of Directors. Sanpaolo IMI, as you know, is one of the three largest Italian banking groups. And you also know that Rainer is one of the most distinguished world bankers and economists. He took his doctorate at Oxford. He had a distinguished career at the Bank of Italy when I arrived as ambassador. I believe, Rainer, you were head of the research department. He has a big responsibility now at Sanpaolo IMI because the bank has 46,000 employees, almost 5,000 financial advisors, total revenues and net income in 2002 of 7,160 and 898 million euros respectively. Under his leadership, the bank's profits have grown impressively. Through the acquisition of Banco di Napoli, then the merger with the Cardine group, the national reach of the bank has been extended. The bank and its group also have strong partnerships with the Cassa di Risparmio di Firenze and Cassa di Risparmio di Forlì and recently a partnership with the Banca delle Marche has been established. Finally, the group recently took a significant step to enter into the Slovenian market by becoming a principal shareholder of Banka Koper. Rainer, we look forward very much to what you have to tell us.

Rainer Masera

Your Eminence, Mr Minister, Dott. Simonelli, thank you so much for inviting me to attend this very important meeting. I will use my time to cover a few issues which I feel to be of importance and, if I may, I will follow an economic principle.

The economic principle is that of comparative advantage. Although I fully share the view that diplomacy and business must be seen concurrently, they can indeed work together very well. I also believe that it would be appropriate that I concentrate on more economic rather than diplomatic issues, especially since we have distinguished guests who have a pre-eminence in this field. Let me, however, start with the last points made by Sir Evelyn. I totally agree that we are not wise enough as industrialist countries. We do not see that should we take a more open approach, vis-à-vis the developing world, this would be in our own interest. It is not only a question of ethics, as the Church indicates to us, and not only a question of solidarity which, after all, belongs to individual principles. It is a matter of interest and we have evidence of this. At the end of World War II, (the Americans of course were not under threat of terrorist attacks) America opened up its frontiers and embarked upon a plan, the Marshall Aid Plan, unprecedented in the world. Huge flows of funds from the United States went not only to the United Kingdom but also to France, Germany, Italy and Japan, the countries who had fought against the United States. Let me remind you that, in the case of Italy, there were many in the US who said that we did not deserve this aid. Important American economists and politicians stood and said, 'no, it is of vital importance that Italy has all the necessary aid to rebuild its industrial

infrastructure'. So, in a way, I totally agree that we should not only open up our frontiers because, if we go to China and tell them they have to adjust their exchange rate and they retaliate by questioning our Common Agricultural Policy, we are just getting nowhere. Fundamentally, I believe that should we take a more open approach, and I have tried to develop these ideas as you know Mr Chairman in the note I wrote a year ago, it would be in our own interest, as it was in the American interest to avoid what would have been a major slump, after World War II, by providing funds to developing countries of the time. They in turn would, of course, place many of their orders with the United States and this therefore helped the world economy advance towards the most vibrant period of its history.

I have a continuing quarrel with the Lord Mayor on the use of Lombards. If you remember, he indicated to us when the Lombards came here and who the Lombards were, coming from Genoa, Florence and Venice. No, in my view, the Lombards came from Lombardy. There is a debate among economic historians whether Lombards should be taken as Lombards and Italians at large, or whether Lombard denotes more specifically Lombardy. Perhaps because I was born in Como, I belong to the second part of this debate. The debate is not without importance because if you go back in history - it is probably one of the reasons why I am here - Sir Evelyn's ancestors provided funds to Cavour. Sanpaolo dates back to the 16th century but it was a very small bank at the time. With the funds provided to Cavour and the Savoy family they were, of course, very important in creating Italian unity and I think we can pay tribute here to a remarkable family of bankers who helped in the creation of modern Italy. If you go back to the Lombards in the 13th century, Florence was the centre of the world at that time and the Florentines, the Bardis and the Peruzzis, came here. They were merchants and bankers, but mainly bankers, whilst in my view the Lombards were mainly merchants rather than bankers. In any event, time is short, but I think it is not without interest. What happened with the Bardis and the Peruzzis is that they lent to the King of England, the King of England lost his wars with the French and the Bardis and the Peruzzis lost their fortunes. It was different from the case of the Savoy family. While the Lombards, who were not as flamboyant as the Florentine bankers, were rather merchants than bankers, they continued to lend to traders (in those days, wool was of course the most important commodity sent from England throughout Europe) and therefore they continued to prosper. Indeed - and I'll stop here - there is evidence of this because you not only have Lombard Street here in London, but there is also rue de Lombard in Paris. In the case of rue de Lombard, there is clear evidence that they indeed came from Lombardy, many of them from Masera and other small places in the Domodossola area. There is evidence that they were partly merchants and partly chimney sweeps. One day, in a French castle, a chimney sweep overheard that there was a plot to murder Louis XIII, so he went to the King's mother, Maria di Medici, and told her. She made the necessary enquiries and found out that he was right.

Subsequently, they killed her son's potential murderers and, in return, the Lombards from Masera, Craveggia and other places received a special seal which would allow them to maintain their family business in France. Hence, there is a history of banking in Europe which is extremely interesting and we have had an opportunity here to discuss certain very important topics.

Let me go back because there are two or three further issues I would like to take up. First of all, if I may, I would like to refer back to Basle II - you made passing reference to it. It is a major change which will anyway, with or without Basle II, affect the financial landscape in Europe. I continue, however, to be preoccupied by the fact that the Americans apparently will have 10 or 20 banks belonging to the Basle II elite. The Chinese have indicated that they are not interested in this. The Japanese claim that sooner or later they will come to Basle II but with the difficulties of their banking system they will not, in my view, be able to respect the current deadline. The Indians made it clear that this is too complex and sophisticated and therefore it is not of interest and, apparently, some Latin American countries might also be pulling back.

At this point, of course, the exercise, which I believe will go forward, becomes totally European, which from a financial point of view may, after all, be a way of integrating the European Union. I think we have every right to continue to indicate what, in our view as bankers, are changes that should still be made. We have made significant efforts to improve the situation for small and medium sized enterprises, but I will not dwell on these. There are, however, major elements which are still unclear and I would strongly stress that appropriate degrees of freedom be given to local and to national supervisory authorities. For instance, in the case of Italy, it is vital that the so-called *Consorzio Fidi*, which means nothing to the rest of the world, be able to survive and possibly develop in an appropriate way. This implies that the Italian supervisory authorities should have an overview of this process which otherwise would not be accepted by other countries.

Leaving this aside, it appears to me that there are at least two major points which absolutely need revising and with which we are battling. One is securitisation, and I find it odd that London, the centre of securitisation, does not fully take up – or it is beginning to just now but perhaps too late – the issue of securitisation. As those who are in banking know, securitisation has been one of the vital improvements in the financial scene. Certainly, banks have used it to the extreme and perhaps they should not have done so, in consideration of the inadequacy of Basle I to overcome certain structures. It is of fundamental importance that securitisation moves forward because this would allow greater integration between banking and the other financial intermediaries. The second continues to be pro-cyclicality. My suggestion, and

the suggestion of certain important banks, is that there should at least be a new phase-in period and a test. A simulation test of probability based on given default, a loss-given default, over a transitional period, to see whether, as I believe, the current transition is overly cyclical.

Then, essentially I would say, there is the issue of infrastructure finance, which I will not elaborate on because I think there is no time to take it up here. There are technical issues which may prevent or may impair infrastructure or development. It is of fundamental importance, especially for a country like Italy, but I would say for all major European countries, not to have this negative impact of Basle II on infrastructure. Infrastructure is essential to Europe and here diplomacy and business go hand in hand. Let me take this opportunity to stress the utmost importance to Italy, and Europe in general, of the “corridor five” link between Lyon, Turin, Trieste and Slovenia and Hungary. It is crucial because we run the risk, under current conditions, that Europe will move East and North and will leave the Mediterranean out. So, it is important that Italy plays this double hinge role of maintaining not only a significant relationship with the Eastern and Northern countries but also with the Mediterranean. This infrastructure link has economic and political importance therefore, Mr Minister, whatever the government is doing and whatever you are doing in terms of relationships with France, under the current circumstances, would be of vital importance.

I conclude by looking at the Mediterranean. I have already pointed out what I believe in general and I feel this is even more important, mainly because of the demographic trends you alluded to. Here, and I refer especially to the Minister present in this hall, I believe there is a debate concerning the possibility of creating a Mediterranean bank. This debate has both political and business connotations. My perception is that Greece, Italy, France and Spain will not have sufficient political power to go forward for the creation of a new Mediterranean bank and, therefore, my suggestion would be not only to move in terms of the exercise of the European Investment Bank but also to foster the development of the EIB in this area. It is of vital importance that the European Bank, of which I also happen to be a director, maintains a crucial role in this area so it will be left to politicians to decide whether there is a possibility of creating a new bank. In any event, we should not undermine the role of the European Investment Bank, the figures of which are present in documents which can be made available and which clearly indicate that the EIB, through its Cairo office, is moving forward. It is their actions we must endorse and encourage what it is doing. We should not however attempt to create a bank, unless sufficient political resolve is obtainable at European level.

On this note, Mr Chairman, I conclude. Thank you.

Richard Gardner

Thank you so much Rainer. Ladies and gentlemen, we now pass on to the second part of our morning's programme. Now we begin with Vittorio Merloni, and I take a very special pleasure in introducing him, because during my time as ambassador, he was head of Confindustria and history will record his singular contribution to Italy because it was in large part due to his influence that the *scala mobile* was finally changed in 1984. Over the strong opposition of the Italian Communist Party, I should say, but with the support of Mr Craxi, isn't that right? So that's something we all remember and of course he's chairman of Fineldo, the Vittorio Merloni family holding company that controls Merloni Elettrodomestici, now Europe's third biggest producer of domestic appliances, and other companies. Fineldo controls MPE and Merloni Progetti in the energy sector; Cofiri, Faber Factor and CAI. in financial services. Although I must admit that I did not know this before, it also controls Panini, Benelli and Cinecittà in the entertainment sector. Thanks to his leadership, his company has grown twenty times in twenty years. Aside from Jack Welch, who else can say that? I don't know. He is also President of Assonime, the Association of Publicly Listed Italian Companies. It is a great pleasure, Vittorio, to give you the floor.

Vittorio Merloni

I would like to express my thanks to our Chairman, Mr. Simonelli, for the kind invitation to attend this important conference on Diplomacy and Business. I am here, together with Mr Bristol, to represent the industrial world. I am an Italian entrepreneur and I will focus on the evolution of Italian industry. When we think about Italian industry, what comes to mind first is the family company. I will try to compare the evolution of the family organisation and that of certain models of competition, which you will see divided into three stages: past, present and future. The question is "was the family model the reason for the Italian economic miracle, or was it the evolution of competition models that guided the success of the Italian family company?" I can not answer that question. I will show you a chart of competition models and economic growth. As you can understand, it is quite complicated to compare issues such as competition models and the family company.

As you can see, the Competition Model is in three stages, which we'll look at one by one. Considering each generation is around 30 years, I've linked the three stages with three generations. The first two phases of development correspond to the first two stages in the Competition Model. Will they still correspond in the 3rd stage, from today till 2035? The first stage is that of "*cost driven competition*". This exactly coincided with Italy's post-war reconstruction,

from 1945 to 1975. The second stage - “*investment driven competition*” – coincides with the technology boom, from 1975 to 2005. The third stage - “*innovation driven competition*” – is the intangible future we can not predict today, although we can try to imagine it.

Let’s look at the first stage - *cost driven competition*. We must remember that this started in 1945, after the war. Business started up again practically from scratch. Entrepreneurs’ families usually lived over or near the factory. Their children grew up in the factory and then started work in the family business. This was my experience, too. I lived next door to the factory and used it as my playground. The family business was the emblem of the Italian miracle. In those days competition was driven by low cost raw materials and labour. This period came to an end in 1975, after oil prices had risen ten times in five years. Professor Baldassarri here is an expert on that “oil shock”. In 1970 a barrel of oil cost \$1.50, in 1975 it cost \$15, but the worst blow came in 1979, when OPEC decided to tie oil prices to inflation. In 1979, we saw \$30 a barrel for the first time. Driven by oil, inflation exploded, of course, as did the cost of raw materials and labour. *Cost driven competition* is still very important today but it is no longer the only growth factor.

The second stage is *investment driven competition*. In this period, entrepreneurs’ children all went to school, most to university. Many did Masters Degrees, learnt languages, travelled the world. This generation experienced great technological changes and the creation of multinational businesses. This was the period of large scale investments – in automating industry and in information systems for business management. These two processes, lean production and office automation, were the two things that reined in inflation to levels at which industry could survive. These investments involved enormous amounts of capital. But families often weren’t able to afford the high cost of industrial plant and all the hardware and software for information systems. Further, new brands and new products were being developed, so substantial investments had to be made in brand and product advertising. Today we say that the brand counts for more than the product, which means big investments.

The need to raise capital to build a new foundation for Italian industry led many businesses to the stock market. Merloni Elettrodomestici was listed in 1987. It was listed simply on the basis of its shareholders’ equity, so I didn’t make much of a fortune there. However, the positive aspect of being a listed company is that it requires far more judicious management by the entire structure. This was a big benefit for my company, not so much in terms of the capital that flowed in, but of the way the company came to be managed. At the same time, the growth and internationalization of such companies required more highly qualified managements than in the previous generation. Many families went hunting for the best managers on the market, even poaching them from other companies. We, too, chose this path and our family business, even

though it was listed, was still controlled by the family. In 1997, we appointed an external CEO, who came from a completely different industry – from telephony in fact.

At this point we must ask a question: will the third generation stay on in the family business? Will third generation grandchildren be interested in carrying forward businesses established 60 or 70 years earlier by their grandfathers? Let me give a personal example. My four children work in four businesses completely different from the ones my father and I pursued. I don't know how many family companies will carry on, but those who do, and I hope there will be many, will be giants. They'll all be listed, they'll be called public companies, but many will still be guided by families. I'll give you two examples: the Fords, who control Ford with 10%, and the Agnellis, who control Fiat with 15%. This is also important in connection with what Sir Evelyn Rothschild explained this morning: that 75% of Italian enterprises are still controlled by families. Yes, they're public companies, they're listed, but there's always a family behind them.

In coming years, competition will be increasingly fierce at increasingly high levels, but it will be a period of innovation. There has always been innovation, nothing new here. So one asks: what is innovation? Innovation has two components – unique values and the speed at which they can be implemented. I'd like to give two examples of unique values showing that innovation is no longer a matter of products, not even service – it's something more exclusive, more unique. Take Harley Davidson, one of the top 100 brands, not far behind Volkswagen. Harley Davidson produces 200,000 bikes a year. Volkswagen produces millions of cars a year and is a global enterprise present in Europe, North and South America and Asia. In Asia alone it's building two enormous factories to turn out 5,000 cars a day, in China. Since most of you here are Italian, let's take the example of Armani and Prada. I think Armani will probably turn out to be the most important. Prada is maybe worth more because of the fame it won with the America's Cup. So why has Harley Davidson become so famous? Because of Woodstock, because it created a bikers' club and kept them together. These are unique values that are difficult to perpetuate with cars or black suits.

Innovation applies to all the intangible assets as well, such as the value of the brands and software and services in our company. Let me make an example of our company in the UK, which is our biggest market. The company has 6,000 employees and turns out 3 million pieces a year. Of these 6,000 employees, only 2,500 work in factories. The others work in services and home delivery, which also includes a practical demonstration of the new appliance and taking away the old one. The service side of the business in the UK today is worth more than the product. Our leadership in the UK (our nearest rival has only a third of our market share) is based on "unique values".

Innovation is speeding up. I'll give an example from the white goods industry, which is what I know best. There are three time scales – very short term, medium term and long term. In the UK they call this very short term “APE.”, *anti price erosion*, meaning we protect the price, the value of the appliance. And who are the masters of this enormous and hugely potent and rapid innovation? Think of mobile phones, DVDs, think of televisions. New models are launched every three, at the most six months, to stay competitive and above all to keep prices up, because the real battle with the distribution is to start with a price and immediately discount it. So every three months you have to change model. The second time scale is what is called a platform, which lasts two or three years, no more. An example is Indesit, which has changed its product platform three times in six years. The third is a matter of vision. You can't think of innovation in the short term only. You have to think ahead five, ten years.

I'd like to finish with another example. I was going to mention daily newspapers, the most innovative business of all because they're completely new everyday – but perhaps they're not a good example of industry as a whole. So I'll take Formula One. Who changes cars everyday more than the F1 industry? Innovation for them is a daily phenomenon. But success isn't only a question of innovation. What happens when racing cars all attain more or less the same performance levels? People make the difference: the team. In the end, the people who win are the drivers, the team managers, the mechanics.

Richard Gardner:

Thank you, Vittorio, for offering us valuable advice indeed. One subject we haven't yet touched, but which is of vital importance for our future is energy and oil. We're very fortunate to have one of the world's experts on this subject, Paul Bristol, with us here today. At present he is Executive Chairman of the International Oil Club, as well as chairman of Africa Petroleum Inc, chief executive of Clarges Energy Limited and executive chairman of Focus Limited. In 1997, he acquired Audax, an on-line publisher of economic and financial research. Earlier, he had acquired an interest in Oilfield Inspection Services Ltd and made a successful takeover bid for the company.

I read recently in the annual volume of the International Energy Agency that our countries, thirty years from now, will be even more dependent on the oil producers of the Middle East than we are today barring some dramatic breakthrough in fuel sales or some other alternative energy source and barring massive conservation strategies. So we look forward to hearing what Paul is going to tell us about oil and any other subjects that he may wish to deal with.

Paul Bristol:

Your Eminence, Mr Chairman, ladies and gentlemen, I am very privileged to be here today to be able to speak to all of you. I'm going to speak on a very particular subject when it comes to the oil industry: Iraq. First of all, I'd say that the theme of this conference, business and diplomacy, is very much relevant to the situation in Iraq today. The two subjects are absolutely vital. Iraq can only move forward with business but at the same time, Iraq can only move forward with diplomacy. Now I talk to you and they are solely my views. I was in Baghdad at the beginning of June for a week; in the beginning of August for just more than a week; and I came back from Baghdad, in fact, two days ago. I also travel frequently to the States. I have found, during my visits to Iraq, that in coming back here you only hear one side of the situation, which tends to be the depressing side. The top items in the media on the news are that soldiers and civilians have been killed. You get nothing, as I would see it, from the other side of the progressive improvement that I have certainly seen over the last three months. I want to cover three subjects. One is the question of Iraqi security and the present situation as I see it in Baghdad. Secondly I'd like to cover the question of Iraqi business, looking at it from the perspective of the oil industry, and thirdly, I'd like to cover the charitable side that is vital to assisting the Iraqis to develop from their present position.

Now, the security side is still very problematical, but it is I think short term. There are very real problems in reaching Baghdad. One can be very lucky and obtain a DHL C130 from the American military or even from our own. One can go through Damascus or Diyarbikar in Turkey, but the main way of getting to Baghdad at the moment is through Oman, which takes 10-12 hours in a taxi. The roads are plagued with bandits, but there were bandits in of Ramadi and Falluja during Saddam Hussein's time as well. This is not something new, but if one is careful and looks out, I don't think it is a problem. I've done it five times now, but it is one of these things that should be straightened out, in fact, very quickly.

The main problem is that there are no airports available for use at the moment, though permission has been given to British Airways, KLM, and a number of companies, to get into Basra, and I think two into Baghdad. This is not taking place. In Baghdad, there is a big problem because the ex Ba'athist leadership is kept in prison at the airport and therefore it is rather complicated to use the terminal when you have the prisoners there. There is no problem in Basra, but flights haven't yet started, although I would hope very much that they do in the next few weeks. Now, when you go into Baghdad, you are advised to take a convoy, which means going with five or six GMCs with black windows at one hundred miles per hour, without stopping, because of the bandits. Recently, the Avis representative, travelling from Amman to

Baghdad, wouldn't stop for a BMW – the person in the side seat was pointing a Kalashnikov at him – and he was shot dead. However, this only happens on ten per cent, maybe five per cent of trips. One has to be careful, for example minimising risk by not keeping too much money on your person. For instance, I put seventy dollars in my wallet and, because there are no credit cards or anything like that that, put the rest in the top of my socks. I thought if I was asked to take my shoes off, I could take my shoes off, but they wouldn't necessarily look into my socks at the same time. So there are some sort of natural things that you have to do to keep yourself safe.

In Baghdad, I've stayed at the Palestine Hotel and the Sheraton in the centre, which is extremely well guarded by Americans with tanks, armoured cars, etc. One is safe in those areas. I have been to the oil ministry many, many times, and the Coalition Provisional Authority at the palace, and out to restaurants in the evening. I have not had a problem. I have walked on the streets of Baghdad. I have not had a problem. Now, if you follow the media, you would imagine that you can't do anything at all. It is not true. I can't think of an occasion when a visiting businessman has been killed in Baghdad since the coalition took control of Baghdad five months ago, with the exception of a few journalists, but one gets the impression from the press that it is impossible to go anywhere. I don't know where that comes from. Okay, that's my view. I've spent about twenty-odd days in Iraq, but I have been able to move around freely by taxi. I don't have a bodyguard and I go out quite normally.

I would like to finish the security situation with just two facts. In the north, from Mosul to Kirkuk and into the Kurdish area, security operates normally. There is the odd terrorist attack, but even in Western Europe that is not abnormal. South of Basra is relatively stable. The problem is the central area. It is the Sunni area. The Sunni Moslem minority of 16 per cent of the population of Iraq is the powerbase of the late regime. In this area, one has the inevitable short-term problem of terrorist activities, because these people have not been disarmed. The American made certain mistakes; they disbanded of the army, 400,000 soldiers, but the soldiers took their weapons home with them and that was not an advisable thing. On the other side, Saddam Hussein's old clique, the Republican Guard, is still very much in place in the central Sunni area of Ramadi, Falluja, some areas of Baghdad and up to Tikrit. The rest of the country is actually very, very stable. There is a Council. Now everybody says it wasn't democratic. Of course it wasn't democratic. How many democratic regimes are there in the Middle East? The Council is the head of the government and there are some extremely good ministers. I can only speak for two I know very well – the oil minister and the minister of water – and they are top people. They have come from outside. They were exiles, but that is more or less inevitable in a situation where the powers that be over the last 30 odd years were Ba'athists, supporters of a terrorist regime run by Saddam Hussein. So I believe that it is not a failure, but it is very

problematical. I don't believe that we want so many foreign troops in Iraq. I believe we should produce Iraqis on the streets. I believe there should be soldiers, policemen, who are Iraqis. We must hand Iraq back to the Iraqis as quickly as is possible.

With regard to diplomacy, can the American and the British really make a deal with France and Germany? I find this infuriating because how ever much we may have disagreed on involvement, regime change and weapons of mass destruction, we have got to move forward, and I think we need everybody's help, not only in the Western world but the international community, to create a stable and prosperous Iraq. I personally believe that there are gigantic business opportunities in Iraq. There has been extensive comment about Halliburton, Schlumberger, Fluor and Bechtel getting all the contracts, and that is rubbish. They have been brought in because they are the only major oil service companies that can start to pull together service operations, wellheads and suchlike of an oil industry which thirty years behind. They're like the Russians in Iraq. Over the last five years, the Russians needed to bring in American companies to get things right in their oilfields. The Iraqis are doing the same. There are vast opportunities in the oilfield areas. I am currently advising the ministry of oil and the new oil minister. I shall return to Baghdad shortly to attend a conference, because it seems to me that the oil ministry in Iraq needed to meet the international oil industry. From 8-12 December, the International Oil Club, together with OPIC, the Overseas Private Investment Corporation in Washington, will be hosting a conference to discuss the current status of the petroleum industry, production facilities, gas production in the future, opportunities and challenges on the E and P side, and the marketing aspect and the pricing of Iraqi oil. Iraq is the second largest oil producer in the world, and has the potential to become the largest. Sixty-five per cent of their expected reserves have never been drilled. The opportunities in Iraq are enormous. The forthcoming conference will be a small gathering for oil companies, service companies and banks to meet their Iraqi equivalents.

On the commercial side, I think we desperately need to be able to give something to Iraq at the same time. In the oil ministry, they have the best grouping of trained oil people that I've met, if I may put it, in any third world country. They are excellent, but they still need help with training and education. Together with Prince Pignatelli, chairman of the steering committee of the International Oil and Gas Foundation, we hope to attract financing from the major oil companies of the Gulf States and Saudi Arabia, to help the Iraqis with training and education. I believe that what we take out, we must put back. In conclusion, I would like to say to everybody here that if we don't help Iraq, we will have the most unbelievable problem in the whole of the Middle East. In terms of prices of twenty-five to thirty dollars a barrel, if we don't help Iraq

getting itself in order, I don't know where that price could go. It is up to us, the oil industry, commerce and banks, to assist the Iraqi people, because they need help and they are our friends.

Thank you very much.

Richard Gardner:

Well, thank you, Paul Bristol. That's a powerful statement and based on your first hand knowledge of the situation. Our last speaker is His Eminence Cardinal Giovanni Battista Re. We are very, very fortunate to have him with us today. As you know, he is currently the Prefect of the Congregation for Bishops and President of the Pontifical Commission for Latin America. He taught in the Brescia seminary and served as a curate before entering the diplomatic service of the Holy See. He was posted to Panama and Iran before being recalled to the Secretariat of State where he served as personal secretary to Archbishop Giovanni Benelli. He was proclaimed Cardinal by Pope John Paul II in the consistory of 21 February 2001 and in October of that year he served as President Delegate for the 10th Ordinary General Assembly of the Synod of Bishops. We are very fortunate to have you with us, Your Eminence, and we look forward to your remarks.

H E Cardinal Giovanni Battista Re:

I feel somewhat out of place today, because I am not competent in your professional activities. However, I am convinced that we are all driven by the same desire to unite our efforts so that the future of humanity can be better than its past. I shall speak about economics in the service of humanity. I have listened with pleasure to Mr Merloni's conclusion, in which he states that, in the end, the human factor brings success, because what counts is innovation. I shall also speak about the importance of ethical principles. Indeed, the word ethics has already been used in this conference.

The Catholic Church lives within human society and participates in its problems, its hopes, its sadness and its joy. For this reason, it has not ever been indifferent, rather deeply active in various human, economic, financial, social and cultural questions. As a man of the Church, in a meeting with people who are as highly qualified as yourselves in the financial and economic sector, I would like to place my contribution in the field of harmonisation between the requirements of finance and the markets and those of ethics and social justice. Obviously, economic and financial activity can be achieved according to the specific methods of these fields, but this is not enough. We must also take ethics into consideration, because economics and

finance are not everything for humanity or for society, although they certainly have a role of great importance for the common good. It is a joy for me to meet with you, because I appreciate your contribution to progress and the well being of our society. In the past, wealth was found above all in material goods: fields, horses, etc. Today, individuals constitute our principal resource. Wealth is created by intelligence, creativity, the ability to perceive needs and satisfy them, openness to innovation and the ability to work together in good faith, through dialogue and cooperation, not just by material resources. Great merit belongs to those who create, organise and plan work. Your activity requires competence, clear vision, initiative and courage, yet at the same time it also requires ethics and social responsibility. The Catholic Church and others are convinced that, together with the “laws” of economics and finance, the personal decisions of those in positions of responsibility orient the course of economic events, even if there are some aspects of economic and financial reality that individuals are unable to overcome, neutralise or orient.

Therefore, your sector requires skill and professional expertise, which you possess in abundance, but it also requires human, moral and social responsibility. The great challenge for those who work in the economic and financial sector is the synthesis of skill, professionalism and ethical principals. Ethical principals and moral values are vital for everyone in the interest of true, integral sustainable development. This is a difficult, yet vital challenge for the future of society, not only in Britain and Italy, but throughout the world. Today, economic relations have become international and global. Scientific and technical progress has determined the emergence of large productive entities with ever wider markets: national, continental and global.

The complementary nature of national economies has increased. They are ever more interconnected, each becoming an integral part of a single world economy. Therefore, today there is an interdependence which must be taken into consideration; the need to enter into a dialogue, the need for diplomacy, which is one of the two terms of today's conference, the need to take forward the dialogue if one wants to achieve results. Men who work in the economy are driven to establish collaborative relationships. In the past, those who worked in the economic sector may have been individualists seeking what was personally useful; in the complex and very complicated economic world of today, they must seek the greatest advantage with the minimum means working independently, yet they are driven to a dialogue with others, to collaborate, taking into consideration not only individual, but also collective advantage.

Economics and finance serve the good of humanity, for its development. Economics should be thought of as a social science which can render a service to humanity. Financial and economic matters are certainly of great importance in life, but they are not the be all and end all

for the lives and the destinies of men and women, individuals and peoples. Economics and finance need ethics, because their foundation and their reason for existing are found in human individuals. The reasons for production can not prevail over the dignity of workers; economic and financial interests can not come before the good of individuals and populations. In other words, profits and earnings are in themselves positive. Profit indicates the good functioning of a firm and we must recognize its important role in business life. However, it can not be the only element of judgement for taking decisions; it is just as necessary to take into consideration benefits to individuals and the collective good.

In his recent encyclical, *Centesimus Annus*, Pope John Paul II affirms the value of the economic system, recognising the “fundamental and positive role of business, the market, private property and the resulting responsibilities for production and free human creativity in the economic sector” (n. 24). However, economic efficiency must not become the only criteria in our choices. In the same encyclical, the Holy Father states: “Economics is only one aspect and one dimension of the complex human activity. If it becomes absolute, if production and the consumption of goods take centre stage and become the only value in society, the cause must be sought not only in the economic system itself, but also in the fact that the entire social-cultural system has been weakened and is limited to the production of goods and services, even if the ethical and religious dimension is ignored”. Seeking profits is important, but human costs must be considered. Indeed, the ethics of solidarity must prevail over utilitarian concepts. We need criteria for efficiency, but also for solidarity.

Today, more than ever before, we must commit to building a culture of solidarity. We live in times of immense progress in science and technology and increased awareness of personal human dignity. This has relevance in all sectors and it must be our guiding principle, because it is a fact of universal dimensions. In a global context, the rules of transparency, fair competition, economic democracy and trust are more important than ever before. Some may find it inappropriate that I have mentioned trust together with the internal rules of finance and the markets, but I am convinced that we must be inspired by trust. Above all else, we must trust in humanity. Man and woman are the only creatures that God created for themselves. God created all other creatures in reference to man and woman. Trust in dialogue. Human beings, in their deepest depths, have a need to open up, communicate and collaborate that can not be contained. Trust in truth and honesty. Truth has its own force and its own ability to make inroads in the human soul. Truth and honesty triumph in the end. It is never the fog that is able to darken the sun; it is always the sun that wins over the fog. With this triple faith, those working in the economic and financial sector do not impoverish their humanity as they grow in production and in the ownership of goods; they become more human.

In conclusion, I would like to say that economic and financial choices should be made not only with economic and financial criteria, but also according to ethical principles for the development of individuals and the community. Finance and the markets build wealth, well being and progress, but they must also be guided ethically in the service of humanity. We must assist humanity to be more human, assist in human growth, assist in the discovery of values. A firm that does not respect ethical principles will never have a future, although it may enjoy temporary success. In the long term, we must always respect truth and ethical principles. For this reason, it is never a loss to turn one's back on illicit business. In the end, the ethical choice is always the right one. Anyone who acts with respect for legality and ethics always finds true success as well as joy in their heart. This joy comes from the knowledge of having contributed to the collective good, because true wealth is to have love, culture, friends, do good works, and make others happy. Only a tranquil conscience grants peace in our hearts.

Vittorio Merloni:

Your Eminence, you have spoken very eloquently about dialogue, solidarity and the common good. I said previously that Al Qaeda and other extremist groupings have declared war on us, on Jews, against the crusaders. What can the Holy See do to encourage Muslims, moderate Muslims I mean, to take up a clearer position against these extremists and promote the dialogue between religions that Your Eminence has so eloquently spoken out for?

H E Cardinal Giovanni Battista Re:

Yes, we must truly bear in mind that humanity is one. We all belong to the same humanity, and therefore we really need to see that there can be a dialogue. We must, at all costs, seek to eliminate the danger of a clash of civilisations, a clash in different concepts of the world. We belong to the same human family. Globalisation allows us to better understand that we are all in the same boat. What does a clash bring us? It leads to victims on both sides. Therefore, the true way forward is through dialogue. We must find common ground and, to this end, we must try to sustain moderate individuals. Extremists want everything for themselves and with extremists on both sides, the only result is war. Dialogue also offers economic and financial advantages because it helps to provide ideas which, as we all know, are the guiding force of humanity and history. Therefore, we need to create a dialogue mentality. Different positions can meet with one another in dialogue without being in conflict. For this reason, the starting point must be our common human nature. We must have respect for individuals and respect for others which, more than anything else, leads us to avoid conflict.

As we have seen in recent years, the Holy Father has even sought a dialogue with the Muslim world. He has established a dialogue with religious leaders and heads of government. However, it is still necessary to go deeper. There is a great deal yet to be done, but the true way forward is through dialogue and respect for individuals and their differences. The richness of the human family lies also in these differences, but we must seek dialogue and reciprocal respect.

Richard Gardner:

Thank you very much, Your Eminence. Now, the floor is open. If you raise your hand I will call on you, and please state your name and if you can, your business connections, so we may know about you. Kindly keep the questions short so we can accommodate the maximum number of persons.

Questioner:

The discussion about Iraq touched close to home, because I recently completed a Masters Degree at the School of Advanced International Studies. The former Dean was Paul Wolfowitz, the major proponent of regime change in Iraq and also the main ideologue behind the American's unilateral approach to international diplomacy. Since the official end to hostilities in Iraq, the main point of contention between European and American business has been the awarding of infrastructure contracts. As you mentioned with regard to the oil industry, this has been a problem, but it has also been a problem in the telecoms industry. Recently, however, the US has realised that it is unable to ensure security in Iraq by itself and it has turned to other countries and international bodies such as the UN. My question to you regards the internationalisation of security efforts in Iraq. How will they affect the reconstruction in Iraq and what will this mean for European business?

Paul Bristol:

One of the major contracts given over the last three weeks was to a consortium of JP Morgan, Chase, and I think Credit Lyonnais as a trade bank. It covers the Gulf Bank and seeks to develop a bank in Baghdad for letters of credit. Now, that contract is highly international. This was approved by Mr McPherson, who might be described as the head, the Chancellor of the Exchequer, I suppose, in Baghdad at this moment. Sadly, he's going back to Indiana State University at the end of the month. Very few contracts are being given at this moment, but the numbers will grow. I spoke to somebody from Denmark in Baghdad who told me that they were

receiving superb contracts. So, it is a problematical situation because the oil industry, the area that I particularly know – in this country does not have a Halliburton, a Schlumberger, a Fleur, a Bechtel. We don't have it. The Russians don't have it. So one has to look for where the professionalism is in the giving of contracts. You mentioned Wolfowitz and you could say he is a hawk, like John Bolton and I suppose Donald Rumsfeld and George Bush himself. They have an idea of what they want to achieve and I have to agree with them, because Iraq needs an economy that will develop. Contracts can not be given to people without relevant professional expertise, as much as it would be nice to have a whole international spread. I think this question of contracts is going to be with us for a long time, but I would say that gigantic contracts will be given down the road. I see this happening in telecoms, or oil or construction over the next few years and I don't believe it will be just the Americans. Take as an example the conference, where I am advising (Bahr Al-Uloum and Thamir Al-Ghadhban). They are very definite about the fact that the conference should be international. They want to see the (Pertamina, the Petronas) from the East as much as the Japanese and the Chinese, and I think this is a strong indication of the way that the ministry of oil is thinking. I went back in August to meet Mr Vogler who was No. 2 to Phil Carroll, as American advisor on oil, and both he and McPherson and Ambassador Horam, previously American ambassador in Saudi Arabia and chief advisor to Paul Bremmer, have welcomed the idea. I spoke to someone from Slovakia at the reception last night and he asked, how does one enter this process? I said, go along and talk to the Danes, because they've done very well out of it. I see enormous opportunities for everyone. Does that answer your question?

Richard Gardner:

Was your question also addressed to me? Well, the problem is that what I'm going to say is not representative of official US policy, because, you see, I'm a member of the government in exile. So you have to then take account of that fact. Frankly, I was not in favour of the war. I think it was a mistake and I think history will judge it to be a mistake that we went in without approval of the UN Security Council. I would have preferred to leave Hans Blix and his team in there, perhaps substantially increased in number and authority, and kept them in their indefinitely, and I think that would have boxed Saddam in, leading eventually to his downfall. I don't believe international law permits, nor does good foreign policy doctrine accept, the idea that the United States should invade other countries, even if they're badly governed. The whole premise was that they had weapons of mass destruction prepared for use against their neighbours. Hans Blix, the Chief Weapons Inspector, has concluded, especially since none have been found, that this was wrong. However, Mr Wolfowitz was determined to overthrow

Saddam, quite apart from the weapons of mass destruction. We know that historically they made a decision to overthrow the Iraqi regime, but anyway, that's the past. Now, we're there, and I feel strongly that having done this, we have a responsibility now to do it right. We have to stay. We can't just run out. I would like to see it internationalised. The United States wants to have other countries share in the cost, the financial cost, and in the burdens, and the risks, and the casualties. But to do that, there has to be not just burden sharing, but decision sharing. And the only way we're going to have an agreed resolution in the Security Council is to have the security force put under the security council and have the political transition arrangements given as a UN responsibility as was done in Afghanistan, and have the economic decision making done by UN bodies such as the World Bank. Now I don't know if our administration is prepared to do that, but frankly, since you asked me, that's what I would favour.

Richard Gardner:

Thank you very much. Vittorio, would you like to deal with either the question that was asked in the back of the room or with the Minister's?

Vittorio Merloni:

The first question was about ethics and knowledge. I believe that knowledge is becoming much more important every year because the human capacity belongs to the capacity of the team managers and you are right when you say it is the social responsibility of companies to develop the education of all staff. I think that, if we want to do something for the poor, we shouldn't just give money. I think we have to focus on schools. Think of what they're doing in Turkey, for example, where they have a business called Open Day School. The Dean of the Business School spends his time travelling around the world teaching other professors how they can improve. You are right; knowledge is the most important point to develop for the economy and for people's lifestyle. That is my answer. I am a Catholic and I think there is a link between the money that the company makes and the money it gives to staff, suppliers and the State. They must have social responsibility, because the environment is very important for the company.

Richard Gardner:

Well, Your Eminence, would you like to respond to the Minister's question? I have been involved in the United Nations for most of my professional career, and I can make a long catalogue of what's wrong. It needs reform in many ways. But let's be clear that the real power

today is not in the general assembly of 190 countries which can only make recommendations. The real power is in the Security Council of fifteen countries. And again, who are those countries? The majority are democracies. You have countries like Germany, Mexico and others sitting as non-permanent members who share our basic values. The real power is held by five permanent members and I think that France, Britain and the United States share many common values. The Russians are moving, imperfectly of course, towards democracy. However, right now they aren't making trouble for us and the Chinese aren't using their veto to block things that are generally agreed, so I would argue that the Security Council is could actually be a very potentially useful forum. This doesn't mean that the United States can always get its way. We have to show what one of our great founding fathers, Thomas Jefferson, once said: "a decent respect for the opinion of mankind".

HE Cardinal Giovanni Battista Re:

In questions which regard the entire world, it is unfair for a small group to decide, imposing their own will. A wide consensus is necessary. I agree that the application of principles to concrete situations is always very difficult. However, affirming our principles brings illumination, which assists in finding solutions. Thus, by studying economic and development problems, we must also to bear in mind the human, social and ethical aspects. There is no ready solution for all problems; there is no magic formula. Moreover, we always need a wide vision, which includes the various situations of the world. I saw a statistic some time ago regarding with the 400 individuals with the highest net worth. It said that 400 individuals in the world had the same total net worth as 170 million Africans. Clearly, we need wealthy people, industrialists with vast resources, because otherwise no work would be created. Clearly, those who create work must be interested in profits. Therefore, profit is fair, because profit allows greater progress and the creation of more wealth and well being. Large firms must also be guided by solidarity for others and a common commitment is necessary in all things. Today's problems are enormous. If they are only dealt with by a minority, they can not be resolved. However, if many people try their utmost, if everyone tries to be considerate, then it is possible to achieve great results.

Vittorio Merloni:

It's a rather difficult question, but since I'm a business man and you are a man of religion, I offer you another position. What you say is right – a few rich people hold as much wealth as millions of ordinary people, but I say that the Church should also start to move with the times. I hope I'm not breathing a heresy here, but when it says in the Creed that I believe in a Catholic,

Apostolic Church, I'd prefer to say I believe in a Christian Church, because that would widen my horizon. It's a rather difficult step to take. I don't understand why there are so many churches in Christianity. Why can't an effort be made to start uniting these churches in a single prayer? It's a problem that goes somewhat beyond this world. But you provoked my reply by saying that a few rich people are so rich while there are so many poor people. What difference is there between a Christian and a Protestant?

HE Cardinal Giovanni Battista Re:

Christians feel this need for unity between the various churches and communities. Ecumenism is a true commitment which exists, but the route that leads to union is still very long. We must establish a dialogue with other religions in order to resolve the problem of the division of Christians. We must all make an effort. Good results will be achieved from the efforts of many people. To this end, the world of today offers possibilities which did not exist in the past. Methods of communication also serve to exchange good ideas, which then create a mentality. Certainly, these ideas exist on a theoretical level, but later they will be applied. The ideas which arise from this conference shall also assist progress and the good of all humanity.

Richard Gardner:

Well I hope you'll agree with me that we've had six wonderful speakers. The Lord Mayor, Evelyn de Rothschild, Rainer Masera, Vittorio Merloni, Paul Bristol and His Eminence Cardinal Re. Please join in giving them a round of applause to thank them for their splendid contributions.

Guest of Honour

Prof. Mario Baldassarri: Minister for the Economy and Finance

Luncheon speech

“How to Revive Europe... without Waiting for Godot the Prince”

How to Revive Europe... without Waiting for Godot the Prince

A theoretical error and an empirical misconception have in large part stalled European economic policy since the birth of Monetary Union.

The **theoretical error** lies in defining the re-establishment of financial equilibrium in the budget solely as the reduction and eventual elimination of national deficits. The imposed limits on budget deficits and national debt, as well as the transfer of monetary sovereignty to the European Central Bank and the European system of central banks, have led some to talk of the “death” of national economic policy. Indeed, monetary policy decisions are made in Frankfurt, and budget policy is blocked by the zero deficit rule.

In reality, the constraints set by the Maastricht Treaty and the current zero deficit requirement of the Stability Pact do not kill national budget policy at all. On the contrary, they lead to an interpretation and an implementation of budget policy in its truer sense: deciding what to spend on and how much, and what to tax and how much, instead of resorting to the budget deficit and national debt scam that temporarily allows limitless spending, but leaves to the future and later generations the burden of covering that expense. Therefore, this means that when an increase in spending is needed, it is necessary at the same time to decide how and where new taxes will come from. The converse also holds true: when there’s a need to reduce taxes, it must be decided how and where new spending reductions will be made.

The **empirical misconception** over the three years since the introduction of the Euro lies in the idea that a recovery in the international economy and a simultaneous devaluation of the Euro would alone spur a strong export-led economic rebound in Europe as well as Italy. That in turn would create full employment without having ever having initiated the process of structural reforms in government spending, the social welfare state, the labor market in terms of more flexibility or the goods market in terms of privatization and liberalization to produce greater efficiency and competitiveness. The idea is resources would even be generated automatically, allowing for a reduction in fiscal pressure without containing spending in the meantime. The deficit would be covered later with the greater tax proceeds that accompany an economic upturn, which comes like a godsend from the heavens activated “externally” by the positive developments from the rest of the global economy. This empirical misconception has recently been proved to be the wrong path to take for Europe, since the U.S recovery together with a strong euro are leaving the European economies not only lagging far behind the U.S. in performance, but also stuck in a stagnant profile. And this stagnation, in turn, is hurting the balance sheets of the biggest European economies, with both France and Germany missing by a great margin the parameters set by the Growth and Stability Pact. Thus, if it continues to pursue

this path, Europe will not only fail to achieve a sustained growth, but will also not move any closer to reaching the goal of financial equilibrium set by the GSP.

Adding to the theoretical error and the empirical misconception, the three biggest countries of continental Europe (Germany, France and Italy) are involved in a tricky conceptual dilemma. In fact, the theme of so-called **fiscal coordination** circulated around Europe for a long time. The idea was that along with a single monetary policy and a single currency, there should also be a coordinated fiscal policy or, in other words, a “common” policy, so called not because it would be decided by a single, nonexistent European Government, but would be agreed upon together by individual national governments. In reality, the trouble arises from the fact that behind the term fiscal coordination is hidden a will to not reduce fiscal pressures in Europe, practically creating a “*cartel of governments*” aiming to avoid fiscal competition. In opposition to this are those European countries, such as UK, Ireland and Spain, that had already lessened fiscal pressures and achieved improved performances from their economies as well as more solidly balanced national budgets.

Based on Oxford Economic Forecasting’s highly regarded econometric model, we have attempted to measure the *inertial trend* from 2002 over the next four years for all the member countries of the European Monetary Union. The econometric exercises presented herein regarding the impact of alternative economic policies refer to the 2002-2006 period. Considering structural information about the sensitivity of economic systems, it can be presumed that largely the same effects would be reproduced if the simulation were to be deferred to a later time period.

Briefly, these are the **results** we obtained:

1. without structural changes in government expenditures and government revenues, unemployment in all of the countries remains high and they have difficulty in maintaining financial equilibrium;
2. with lower taxes and lower current spending, there is more growth, full employment and zero deficit. However, inflationary risks begin to appear owing to the restrictions and to the existing rigidity in the labor market and therefore on the supply side;
3. adding flexibility to the labor market appears to bring inflation under control, even with a high growth rate and a strong increase in employment;
4. coordination does not seem to improve significantly the results obtainable for each single country independently. A very large part of the impact on growth and the reduction in unemployment appears to be due to the domestic effects of structural reforms decided by each single country, and only one-fifth of the synergetic effects inspired by the measures effected in all of the other countries;

5. combining this fiscal intervention with an easier monetary policy improves economic growth, reduces further unemployment, and improves government finance scenarios, without negative feedback on the inflation side;
6. *there's no room for sneaks*: whoever attempts to not make structural reforms in hopes for positive effects induced by others' reforms would be left behind in competitiveness, would expand little, and would maintain high unemployment and run risks on the budget deficit front.

So, in these conditions, the results obtained indicate that the impact of structural reforms is still important and their realization still necessary. Greater possible difficulties in the world economy should consequently inspire Europe to realize its own internal structural reforms “better and before” without falling back into the illusory wait for an “external” recovery in the world economy to make more resources available, and thus make the realization of those same structural reforms easier, less painful or maybe even possible to postpone.

In reality, it's a matter of streamlining the economic burden of the State and reforming the Welfare State to render the first more efficient and more effective, and the second more just and inspired to a real solidarity. Both are prevented from weighing excessively on the economic system, producing privileges and social inequities within and between generations, and holding back the present and future potential for growth, employment and the welfare of the entire continent. It's therefore a matter of reducing quantitatively the redistributing effect the government budget has on the economy, making it qualitatively more efficient by allowing a larger share of income for families and businesses in order to accelerate accruals, development, and growth in employment. Now, the processes of economic and financial integration also entail parallel processes of institutional integration and reform. On the other hand, however, economic phases also often require assuming responsibility even when political and institutional phases seem necessarily longer and more extended.

In addition, after September 11th, the World is changed, and it is possible that previous equilibria are not efficient anymore. European integration is becoming tighter and tighter, and Europe wants and deserves a leading role in this modified worldwide scenario. Needless to say, significant resources are necessary to play this role.

By a long-lasting low growth profile, totally dependent and lagging behind North American cycle, Europe faces a very difficult choice: either to accept its secondary role in defense and global security, or to drastically cut its social expenditure and welfare state.

Only shifting upward the current depressed growth path, the European countries will have the opportunity to generate new resource making possible to invest into these new activities, without disinvesting them from current budget chapters, like the social and the health expenditures. Once the new resources becomes available, that choice could be better affordable.

Both *social standards* can be maintained, while security and defense can be faced. There exist, however, many other possible uses, which analysis does not belong to our goals. For what concerns our perspective, it is important to create more resources, by reaching full employment and sustainable high growth, which use belongs to each government decision set.

In summary, it is important to underline how this new equilibrium would give Europe the opportunity of having a new and a leading role in the World Economy. Indeed, an improvement of economic performances has a clear impact in strategic positioning over the political and international scenario.

The recent events on the world political and economic scene impel Europe to grow on the front of both economic and political responsibility. In other words, Europe should avoid the temptation that has presented itself here and there over the last years to seem too indulgent with the economic conquests obtained over the past decades through its model of social and civil development.

Sometimes Europe appears on the world scene like a sleeping beauty waiting for a foreign prince capable of rousing her from her long sleep.

Unfortunately, it is also necessary to remember that the foreign prince capable of leading a reawakening today doesn't always assume the characteristics of a chivalrous prince, but rather the more ominous features of international terrorism. Also for this reason, structural reforms should be introduced in the short term, because waiting the long term required for the coming of the European prince is a luxury that can't be afforded.