



THE ITALIAN CHAMBER
OF COMMERCE
AND INDUSTRY
FOR THE UK

"The Path to Recovery: Concerted Structural Changes and Investments in Infrastructure"



THIRTY-SECOND CONFERENCE DEBATE
Friday, 15th October 2010

Glaziers Hall, London SE1

EXTRACTS OF CONFERENCE PROCEEDINGS

"THE PATH TO RECOVERY: CONCERTED STRUCTURAL CHANGES AND INVESTMENTS IN INFRASTRUCTURE"

Glaziers Hall, London – 15th October 2010

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“THE PATH TO RECOVERY: CONCERTED STRUCTURAL CHANGES AND INVESTMENTS IN INFRASTRUCTURE”

Glaziers Hall, London – 15th October 2010



Leonardo Simonelli Santi

President of The Italian Chamber of Commerce and Industry for the UK

Ladies and Gentlemen, welcome to the 32nd Annual Conference. These are challenging times.

As President Obama himself recently said, we should be modest in realising there are no quick and simple solutions to today's problems, and we all must work hard to understand the complexities of sophisticated societies. Prime Minister Cameron, too, insists that the Big Society is the only way to move forward.

**“The Big Society is the only way
to move forward.”**

At the Italian Chamber of Commerce, we do our best to play our small part, answering the great demand for presence and economic cooperation in cross-border markets, made all the more difficult by declining and more competitive domestic markets. In our commitment to continuing our activities, we of course recognise the role of other important institutions and individuals in assisting international cooperation, and strive to forge alliances and partnerships.

This year, on the 14th of December for the first time we will hold our Keynes Sraffa Award Ceremony in Rome at the

British Embassy. It will also be the first time that we grant the award in collaboration with the British Chamber of Commerce in Italy. To demonstrate the importance of the real economy and job creation, the prize will be given to Helen Alexander, Chairman of CBI, and Emma Marcegaglia, President of Confindustria. This is a sign of the times: two women chairing two of the most important industrial organisations, and I'm really glad that this morning we have two ladies on our panel.

Before the end of the year, we will be presenting our fifth report on Italian investments in the UK, and, together with the British Chamber of Commerce for Italy, our report on British investments in Italy.

Next year marks the 150th anniversary of the unification of Italy. The Chamber, alongside its normal activities, is delighted to be organising and participating in celebrations of this great event, and indeed to be doing so in a country that welcomed Garibaldi and Mazzini.

While the scope of our duties is continually increasing, we consider the Annual Conference the oldest and most significant of our events. I think that its longevity proves that the conference is consistently useful, both in general terms and specifically to the relationship between Italy and the UK. The conference's success is due not just to the importance of the subjects of discussion, but mostly to the quality of our panels.

The title of the conference is 'The Path to Recovery: Concerted Structural Change and Investment in Infrastructure', and again I would like to thank the organising committee and the >>



members of the Board of the Chamber for their dedication and effort in identifying a title that so aptly indicates the subject of our meeting.

“Last year, we were fairly optimistic that the crisis was close to an end.”

Last year, we were fairly optimistic that the crisis was close to an end. The focus was on global problems, and the need to address the many imbalances in the North, South, East and West. This year, we have in fact seen a very patchy recovery, with great discrepancies between once-called ‘industrialised countries’ and ‘emerging economies.’ This year, therefore, we are focusing on the problems within the former, where the social cost of the economic crisis is perceived as greater, and could remain so for a while.

At the moment, growth levels are higher outside of Europe, the United States and Japan. To alleviate the effect of the financial crisis, an enormous amount of liquidity and stimulus has been provided, although in varying measure from country to country. As a result, the budget deficit has increased well above the regulated limit. Furthermore, in Europe there is discussion of reviewing the Stability Pact, providing greater financial supervision at the European level.

“It is claimed that the cuts should not slow down growth.”

Although different views exist, particularly between France and Germany, some agreement will be found. Furthermore, the revised Basel Agreement is encouraging greater credit control. There is now a need for rebalance which requires a measure of austerity, with higher taxes and/or cuts to economic and social support. It is claimed that the cuts should not slow down growth, but target and penalise inefficiencies and waste. However, it is difficult to be selective when a huge number of cuts are required. There is a real danger that together with the elimination of the bad, the good could also be lost.

The choice of the word ‘path’ in the title of this year’s conference suggests that we are gathered together in the shadow of what will surely be a long and steep struggle to a difficult recovery. Path – a small but powerful word

suggests the long uphill course along which we must travel in order to reach our ultimate goal. The word ‘concerted’ also implies that necessary structural changes can now only be made through a concerted communal effort, as no one single entity can conduct or coordinate the process.

Enough from me, as I certainly don’t want to take time away from our excellent speakers who I am sure will provide a much better insight into the difficult situation we are facing, and a more useful contribution about how to deal with it.

As usual we are delighted to have two Chairmen, Professor Robert Leonardi of LSE and Vincent Boland of the Lex Column in the Financial Times, who will introduce the speakers and lead and stimulate the discussion.

“We are extremely grateful to the people present.”

To show the uncertainty of times there have been changes in respect of the original programme Mr Sabatini will be replaced by Massimo Roccia, Mr Temple by Lee Hopley and Mr Ponzellini by Paolo Romiti. To cover the need of financing infrastructure change our speaker is Simone Urbani who kindly volunteered. We are extremely grateful to the people present.

At lunch we will be privileged to have the presence of Lord Wallace of Saltaire, the Government Spokesperson for the Department for Education, the Foreign and Commonwealth Office, the Department for Business, Innovation and Skills, the Ministry of Defence and Government Whip.

As always you will find biographical notes about the members of the panel and the Guest of Honour in the conference brochure.

So without further ado and before giving the floor to Professor Leonardi, it is my pleasure to introduce H.E. Alain Giorgio Maria Economides, the Italian Ambassador, who would like to say a few words of welcome. ■





Massimo Roccia

*ABI – Associazione Bancaria Italiana,
Central Director, Head of Business Area*

The role of the Italian Banks in Public Private Partnerships and Public Finances markets

Infrastructural investments can be crucial in order to support a rapid return to sustained economic growth, given their capacity to support income and employment and to add long-term value to economic systems.

The crisis has placed renewed pressure on public finances in many Member States and, at the same time, makes it more difficult to secure long term private investments in capital intensive projects. Therefore, it is necessary to focus on the forms of public private partnerships (PPP), and in particular on the project finance (PF) technique: it is the ideal solution, in this context, for the construction of infrastructures, counting on private funds and requesting the private sector to assume a central role also in developing and implementing long term strategies for infrastructure programmes.

In Italy, the share of tendered PPP initiatives in relation to the entire public works market, has increased over the years both in terms of number and value of transactions: in 2009 PPP initiatives accounted for 20% in value of total public works, from 9% in 2004.

***“Growth shows that the Italian
regulation is able to respond.”***

This growth shows that the Italian regulation is able to respond to Public Administration’s needs, in order to ensure

the involvement of the private sector. It also emphasizes that Public Administrations are gradually achieving the necessary skills to catch the opportunities of the PPP, optimizing the public financial resources available to them.

However, in relation to the potential demand and volume of private investments, and considering the well-known infrastructural gap of Italy in relation to other European countries – a gap that imposes huge costs for the society, in terms of low productivity and competitiveness of the economic system – our impression is that, in our country, the PPP still has difficulty in taking off.

In Italy, work concessions under Project Finance initiatives are the most widespread procedures both in terms of number and value of total PPP market. With approximately EUR 5,1 billion in 2007, EUR 5,7 billion in 2008 and over EUR 8 billion in 2009, PF tenders accounted for respectively 91%, 85% and 87% of the total PPP in terms of potential overall investments. In particular, in 2009, over 350 tenders have been launched for a turnover of over EUR 8 billion.

“In Italy there are a lot of initiatives.”

But the average size of these initiatives is small: in Italy there are a lot of initiatives regarding small-medium sized infrastructures, while there are few tenders regarding big infrastructures.

In the eight year period from 2002 to 2009 the PF tenders up to EUR 5 million represented 66% of total projects launched; considering the initiatives under EUR10 millions, the share is 80%. Moreover, these initiatives targeted infrastructures with low technical complexity, like cemeteries, parking and the sport facilities sector, which amount to 44% of the total.

In the UK, the benchmark at EU level, Project Finance is used only for initiatives of more than 20 million pounds, because this technique is not cost effective when relating to small-medium infrastructures. >>



The impact of the recent financial crisis on the PPP market can be summarised as follows:

- reduction of the maturities offered by banks on their debts;
- growth of the *Equity/Debt* Ratio required by banks;
- difficulties in loans' syndication both on domestic and international markets.

However, the main factors that hinder the full development of the Italian PPP market date back to before the crisis and are specific to the Italian context.

Despite the significant improvement in the launch of new project financing initiatives, only 50% of tenders were awarded during the period 2002-2009: a key indicator about the unfinished degree of development of PF in Italy.

The causes for this are various.

A main problem is the high regulatory and administrative risk, which increases the level of uncertainty on the funding of projects, thus not creating the conditions for private capital flows.

The administrative and regulatory risk consists of:

- the delay or lack in obtaining the necessary authorizations by the Public body, which has to complete every administrative task, including permits and authorizations, before calling the privates for bidding;
- request for additional – not foreseen – works, after the awarding. Often, the completion of the authorizations depends on the realization of further works, with extra costs, to meet the needs of different local Public Authorities involved in the procedure;
- law suits and legal proceedings over the awarding results, which can interrupt the works;
- relevant modifications to the original project during the realization;
- change in the political stance over the project, causing delays in the work;
- problems relating to the procedure for settling public works, due to imperfect coordination of diverse

government levels (national, regional, local), in association with social factors, such as the hostility of citizens, the so called nimby syndrome. All these can lead to relevant delays and even to the cancellation of the original project.

These elements could set a relevant negative changing of the initial conditions underlying the business plan. It will impact on the project capacity to ensure the debt service, making the initiative "not bankable" or not able to be financed at the same initial conditions.

"The project financing technique has to be used correctly."

The project financing technique has to be used correctly, in order to generate sufficient cash flow to repay the loans and to remunerate the private investors. In other words: it has to be bankable.

On the contrary, often Italian Public bodies seem to use it for tackling the problem of closing the infrastructure gap and answering the request of new infrastructures, considering the necessity to reduce public spending, without respecting the main basic conditions to promote the private capital participation to the various proposed initiatives.

Furthermore, it must also be considered that the involvement of private capital depends on the quality of the feasibility study, realized by the Public Administration. This study has to be correct and detailed in order to ensure private interests: ABI has cooperated with the Italian Authority on PF for the elaboration of guidelines to the correct production of a feasibility study.

For each project it is necessary to assess whether the private partnership really adds value to the specific service or public works in question, in comparison with every other option.

Finally, the main feature of project financing is the full involvement of the private parties in all stages of the works (conceiving, planning, construction, and works management) and the correct risk allocation to every party through the concession agreements. >>



In particular, the concession contract must be able to represent, in the form of legal obligations between the public and the private player, all the economic, financial, planning, and administrative elements of the initiative and it must be complete and bankable.

A PF initiative which respects these preliminary conditions, will arouse the interest of the private sector and of the banks.

The lack of coordination between Public Administration and private players within the concession contracts has often a negative impact on the success of the initiative, generating the arrest of the procedures.

From this point of view, the bankability of PF initiative could be facilitated by the introduction of standard concession agreements in the sector with the highest potential of application of project financing, shared among public and private players.

“The Italian banks play a central role in these operations.”

The Italian banks play a central role in these operations. The PPP techniques in general, and project finance in particular, represent a great business opportunity.

In response to the increasing demand, Italian banks have either set up internal units and teams dedicated to this financial technique or have created specialized banks. Today, in Italy, there are more than 40 Italian and foreign banks which play an active role in this market, contributing to improving the quality of project finance initiatives.

A specific mention is to be made about one sector with a relevant potential for PPP: it is the case of the Social Housing initiatives, which are assuming an increasing role in Italy.

The Italian Government has recently set up the “Housing Plan,” a complex and ambitious intervention programme aiming at satisfying the housing demand of those unable to access the housing market

For this purpose, the Government counts on the public private partnership in order to obtain different benefits: to boost the financial funds available, through private

partners; to ensure quality of the projects that will be implemented; to ensure the timetable of the plan.

Besides project financing, another important way to mobilise private investment considered by the “Housing Plan,” is the setting-up of real estate funds. Accordingly, the Italian regulation provides for an integrated system of real estate funds (so-called SIF) based on a central, national real estate fund which will co-finance local funds.

“Its aim is to increase the number of social houses all over Italy.”

In 2009, the Italian Deposits and Loans Fund, hereinafter “CDP,” together with ABI and the Association of Italian Banking Foundations and Savings Banks, hereinafter “ACRI,” established the “CDP Investimenti SGR SpA,” an Asset Management Company whose mission is managing the “Fondo Investimenti per l’Abitare” (FIA), the national real estate fund for social housing targeted to qualified investors. Its aim is to increase the number of social houses all over Italy besides Government and local authorities sector policies.

The capital of CDP Investimenti SGR is EUR 2 million (70% held by CDP and 15% held by ABI and ACRI each). The FIA’s capital subscribed to date is EUR 1,67 billion.

ABI’s activity in the PPP and PF field aims to construct an optimal regulatory framework in order to (i) promote a greater involvement of the banking industry in financing infrastructures, (ii) reduce the several regulatory burdens which might hinder the PPP market’s growth.

In particular, ABI together with ANCE (National Builders Association) proposed a new procedure for the awarding of concession contracts, called “one tender” (art. 153 Legislat. Decree 163/06) which reduces the procurement procedure from three stages to one.

It can be summarised as follows: the project is designed and presented by a private promoter on the basis of a feasibility study by the Public Administration. >>



The Public Administration evaluates the received proposals following criteria of the most economically advantageous tender and identifies the promoter. If the project does not need modification, the PA awards the concession contract to the promoter; otherwise, the PA invites the promoter to modify the project and if he does not agree, the PA awards the concession contract to the second best proposal.

In terms of risk administration mitigation, the new process contains substantial improvements: the promoter's proposal is in fact subject to a "conference" on the preliminary project, in which the Public bodies are called upon to give their approval, before awarding the concession contract. Thus, the risk that after the awarding, the Public Administration can ask the dealer for substantial changes to the project, which may impact on the bankability of the project, is avoided. ABI has also recently cooperated (i) with the Unità Tecnica Finanza di Progetto (Italian PPP task force),

to set up a standard concession contract for the hospital sector and (ii) with the Italian Vigilance Authority on public works, to set up guidelines to promote the implementation of the new Project Finance procedure.

"It is necessary to develop and launch bankable social housing projects."

ABI is now studying new proposals for the development of PF techniques in the social housing field. In this area, it is necessary to develop and launch bankable social housing projects, aimed at boosting the housing supply, to be built not only with public funds, but mainly through PPPs. PPP's development becomes critical to accelerate the exit from the crisis and to promote the competitiveness of our country.

Private players, and particularly banks, need clear rules, stable tariff mechanisms, well-made bids, where litigation and administrative risks are low: there is no other way to direct private capital towards long-term investments. ■



First Session Panel





Lee Hopley

Chief Economist, EEF

Manufacturing: a post-recession world

POWERPOINT PRESENTATION

A powerpoint presentation slide with a vibrant pink and purple background featuring a close-up, stylized image of a car wheel. The text is white and positioned in the upper left quadrant of the slide.

Manufacturing: a post-recession world

Lee Hopley
EEF Chief Economist

 **The
manufacturers'
organisation**

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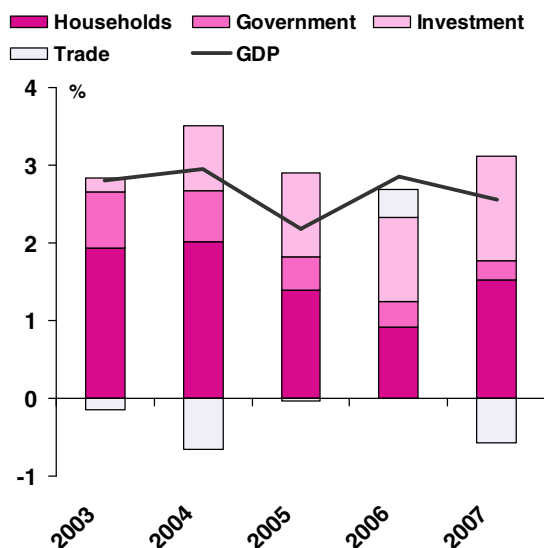


OVERVIEW

- Why manufacturing?
- From recession to recovery
 - *Responses to challenges and opportunities*
- What will be different in 2011?

Can we find a better balance?

contributions to GDP growth



- Focus from politicians and central bankers on economic rebalancing..
- ..including the global dimension.
- Addressing twin deficits.
- In practice – greater contribution from trade and investment needed.
- Preparing for future challenges.
- Manufacturing needs to be a key player.

Source: National Statistics

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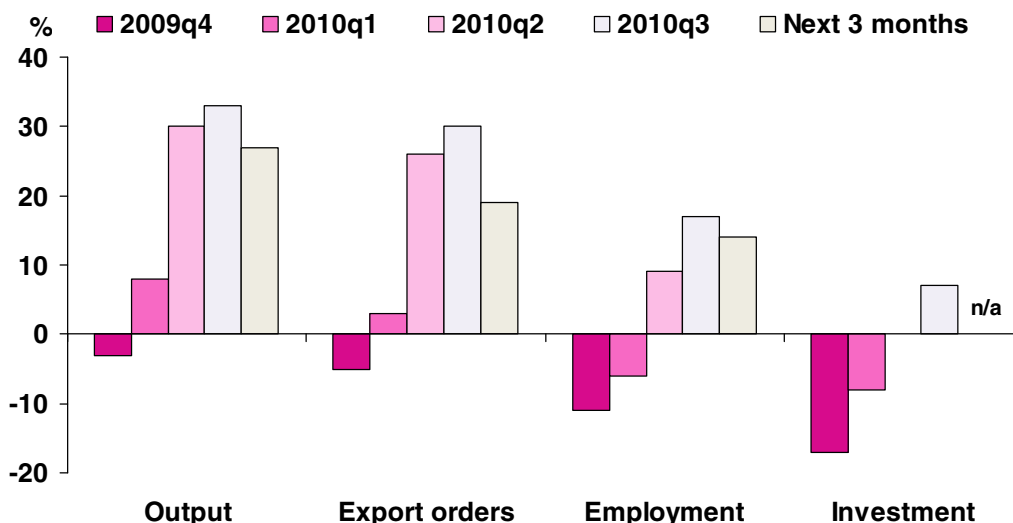
Manufacturing recovery underway

- Broad-based growth for three quarters.
- Q2 strongest in more than 10 years and outpacing GDP
- ..but output still well below pre-recession peak.
- EEF survey points to continued momentum in 2010H2.
- Export markets providing boost to output and orders.
- Europe surprisingly resilient, some slowing in the US, steady demand from Asia
- Tentative signs that employment and investment have turned a corner.



Short-term expectations positive,

% balance of change



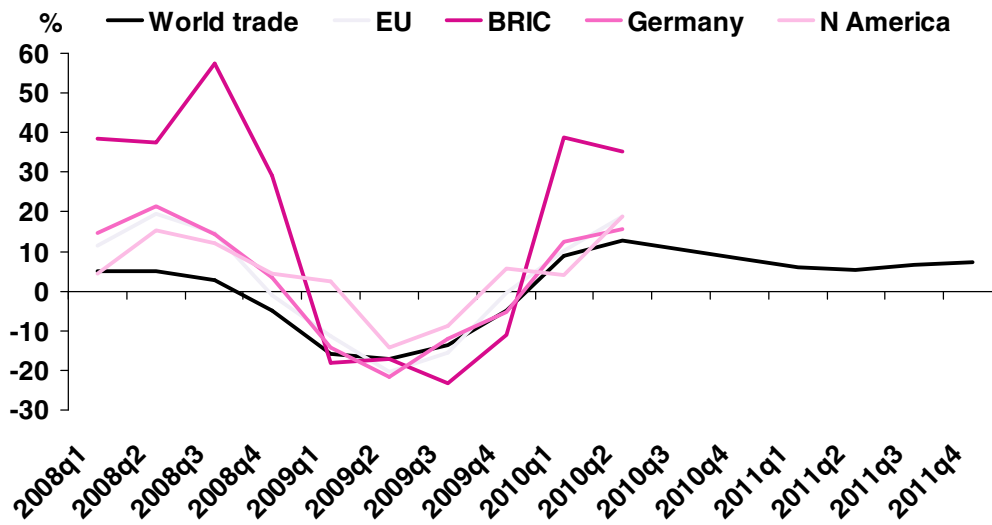
Source: EEF Business Trends Survey

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Exports rebound with world trade,

% change on a year ago

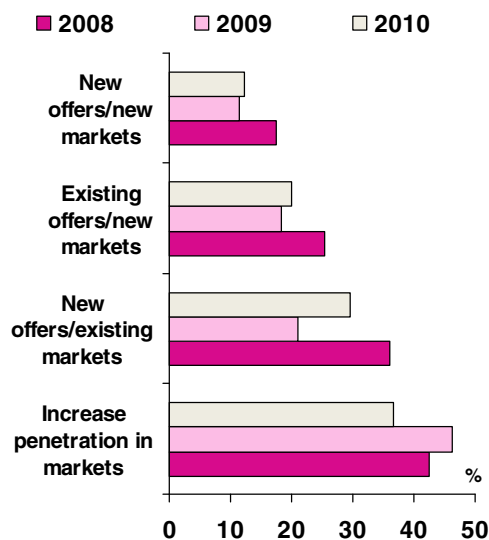


eef The manufacturers' organisation

Source: National Statistics and Oxford Economics

Innovation for export success,

% citing primary competitive focus, next 3 years



- Manufacturers engaging in wider range of innovations.
- Focus on customers and export markets driving innovation activity.
- And companies investing and innovating in the UK for new opportunities.
- Hurdles remains – finance, technical barriers
- But doing more with less by collaborating

eef The manufacturers' organisation

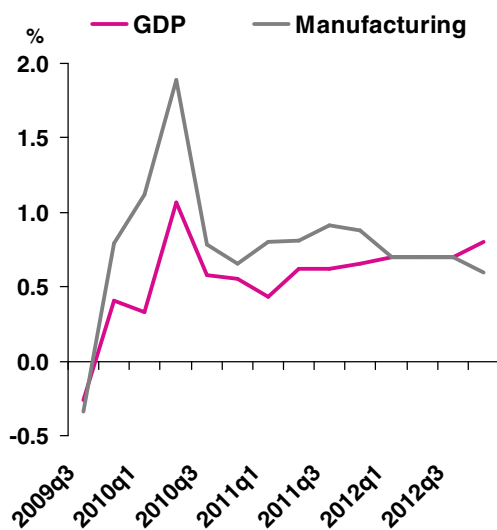
Source: EEF Innovation Monitor

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Outlook for 2011

% quarter on quarter change



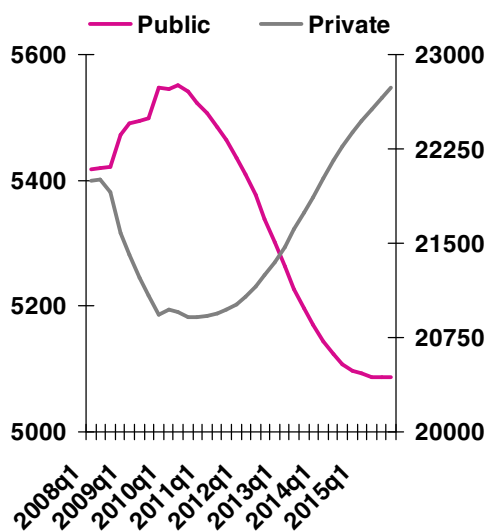
- Central forecast for continued growth.
- But risks to recovery remain:
 - public spending cuts
 - uneven global outlook
 - volatile exchange rates
 - difficult credit conditions
 - skills shortages
 - supply chain pressures

eeef The manufacturers' organisation

Source: EEF and Oxford Economics

Black Wednesday?

employment, millions



- Approach to fiscal consolidation welcomed, but reality looming.
- Direct and indirect impact of forthcoming spending cuts.
- Biggest battles over defence, welfare and education.
- Orders implications for some sectors e.g. aerospace/medical
- Job losses in the pipeline .. can the private sector pick up the slack?

eeef The manufacturers' organisation

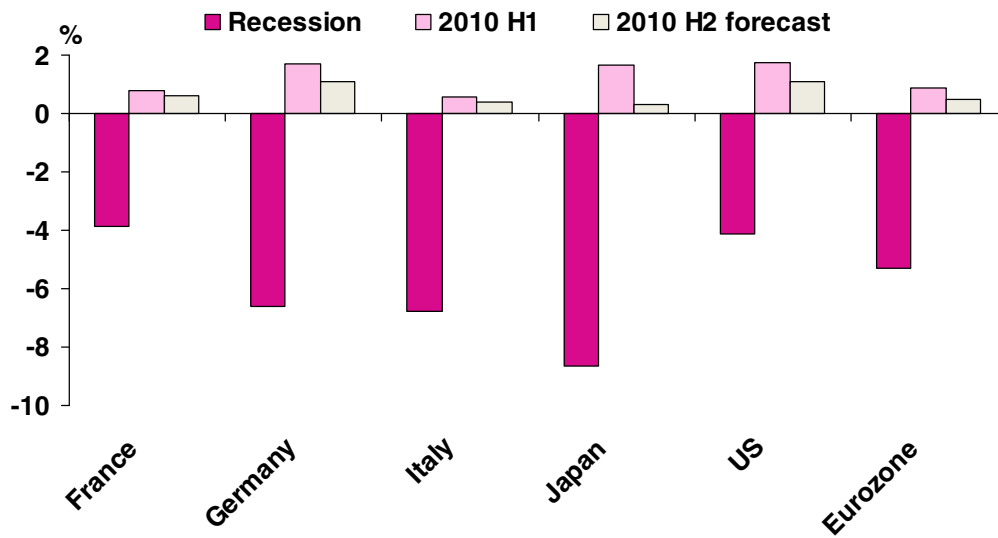
Source: EEF and Oxford Economics

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Pace of growth to moderate,

% change over period

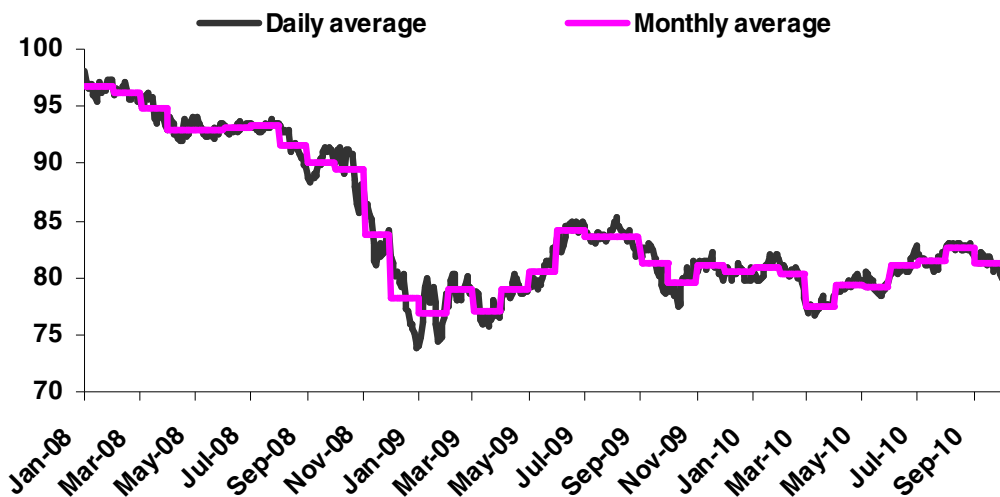


eef The manufacturers' organisation

Source: Oxford Economics

.. prospect of currency market and trade tensions

average effective sterling exchange rate



eef The manufacturers' organisation

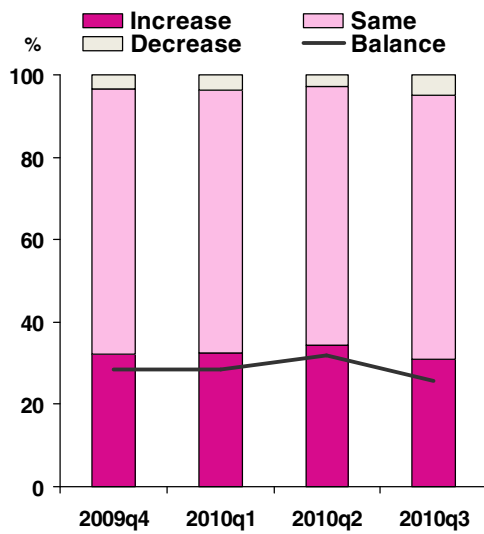
Source: Bank of England

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Credit conditions stable,

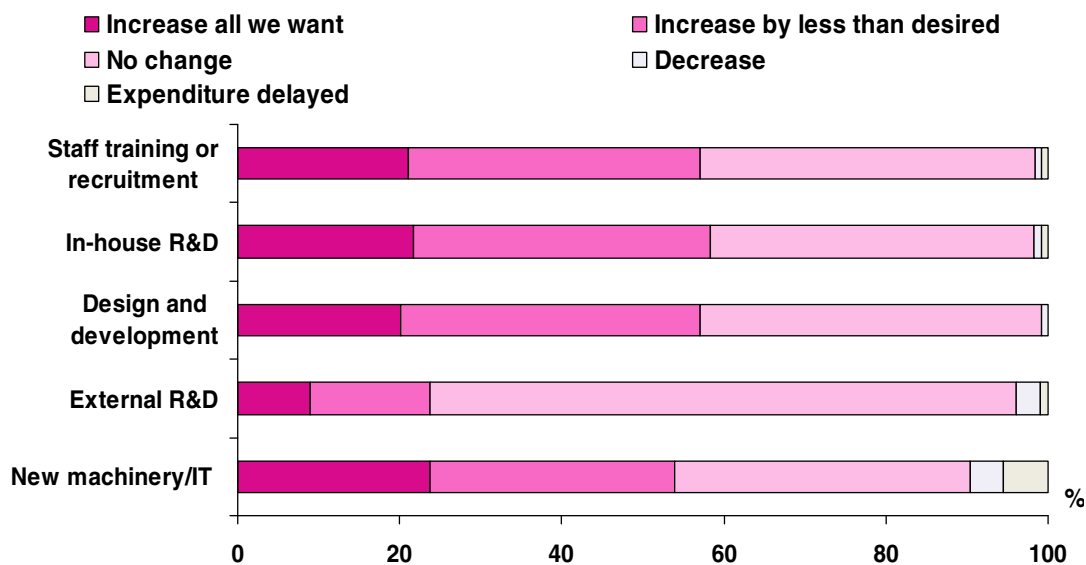
% of companies report change in cost of credit in past two month



- Concerns over finance for private sector recovery.
- Cost of credit stable.
- Some improvement in availability for mid-size and large manufacturers.
- Government/industry/banks want solutions.
- Taskforce report shares much common ground with industry views.

Investing.. but not as much as needed,

% change in investment in the next 12 months



Conclusion

- UK manufacturing through the worst, but risks remain and new ones have emerged.
- Our central forecast is continued growth – but external factors will have a big impact on how fast.
- Healthy manufacturing base needed for better balanced growth and meeting future challenges.
- Rebalancing is not a given, but business as usual is not an option.
- The UK has many sectoral strengths, which we must build through recovery.
- ...and the coalition's next moves will be closely watched.



Giampaolo Galli

Director General, Confindustria

*The Path to Recovery Structural Changes
and Investments in Infrastructures*

POWERPOINT PRESENTATION

A powerpoint presentation slide with a world map background. The text is centered and reads: "The Path to Recovery Structural Changes and Investments in Infrastructures" in bold blue font. Below it, "Prof. Giampaolo Galli" in bold blue font, followed by "Director General" and "Confindustria" in bold blue font. At the bottom, "London, 15th of October 2010" in blue font. In the bottom left corner, there is a logo for CONFININDUSTRIA featuring a stylized eagle and the text "CONFININDUSTRIA". A red double arrow ">>" is in the bottom right corner of the slide frame.

**The Path to Recovery
Structural Changes
and Investments in Infrastructures**

Prof. Giampaolo Galli
Director General
Confindustria

London, 15th of October 2010

CONFININDUSTRIA

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The slow path to recovery

(GDP, % variations)

	2000-2009	The crisis effect	Forecasts	
	Cumulative	2009-2007	2010	2011
United States	15.7	-2.0	2.6	2.3
Japan	4.3	-6.4	2.8	1.5
EU 27	12.1	-3.5	1.7	1.7
United Kingdom	14.1	-4.4	1.7	2.0
EA 16	10.0	-3.5	1.7	1.5
Germany	5.8	-3.7	3.3	2.0
France	10.9	-2.4	1.6	1.6
Italy	1.4	-6.3	1.0	1.0
Spain	22.9	-2.8	-0.3	0.7

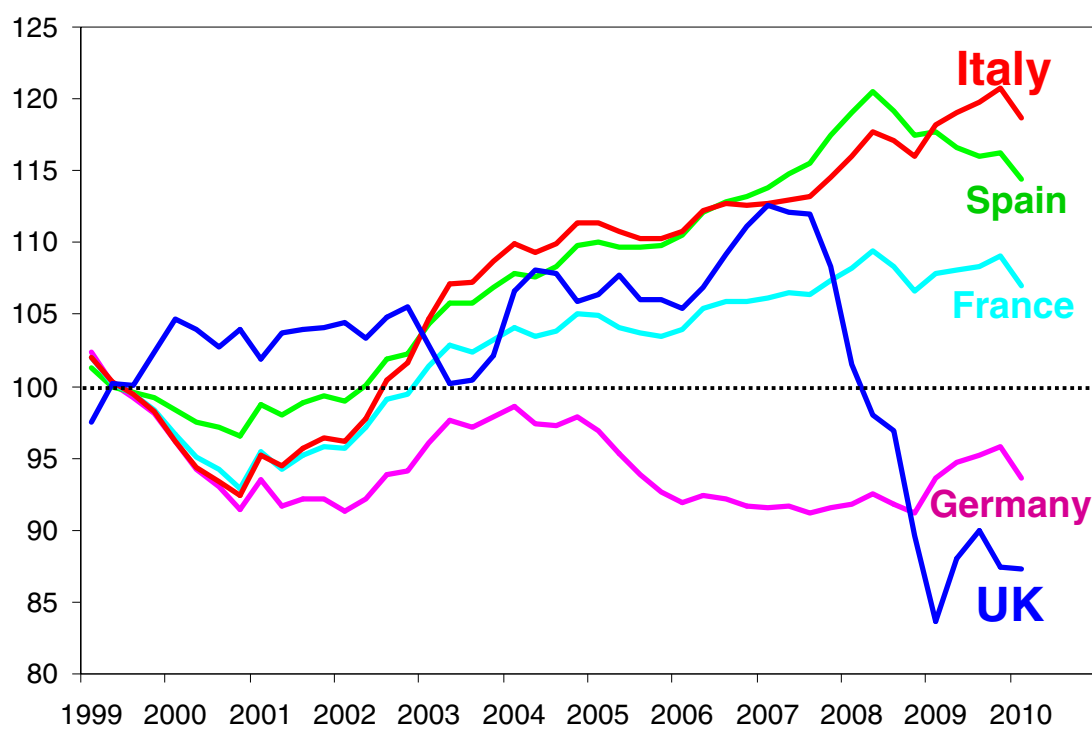


Source: CSC calculations based on Eurostat data, 2010-2011 IMF.

1

Real effective exchange rates

(Based on unit labor cost; 1999=100)



Source: CSC calculations based on Eurostat data.

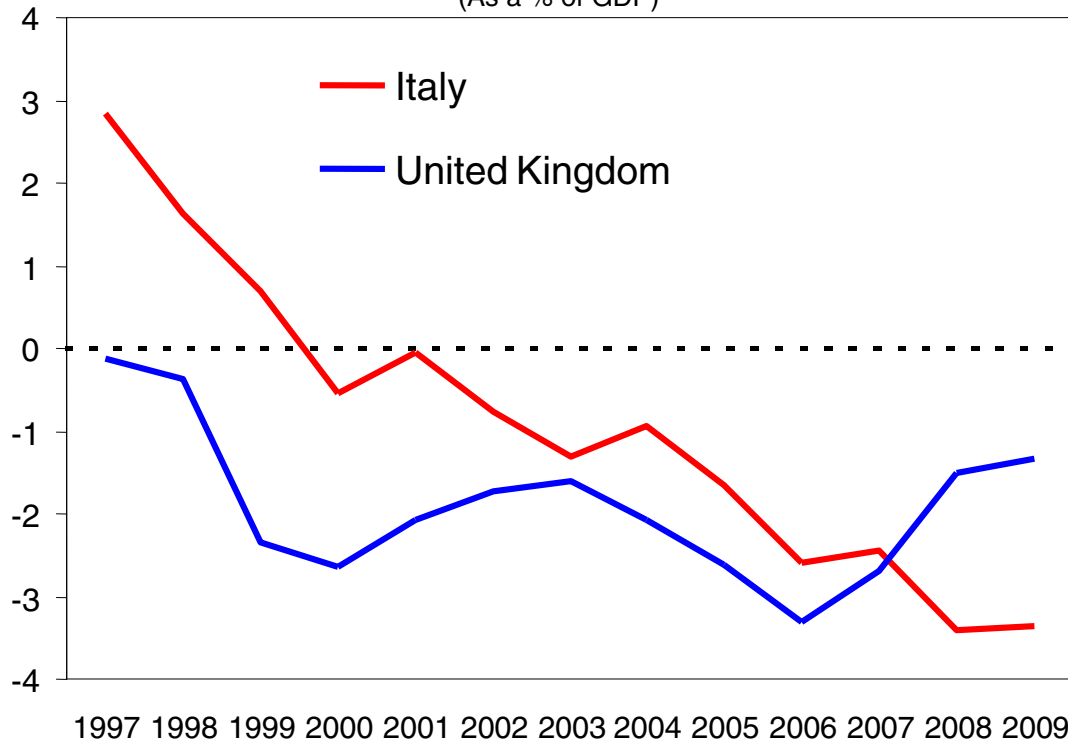
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Current account balance

(As a % of GDP)

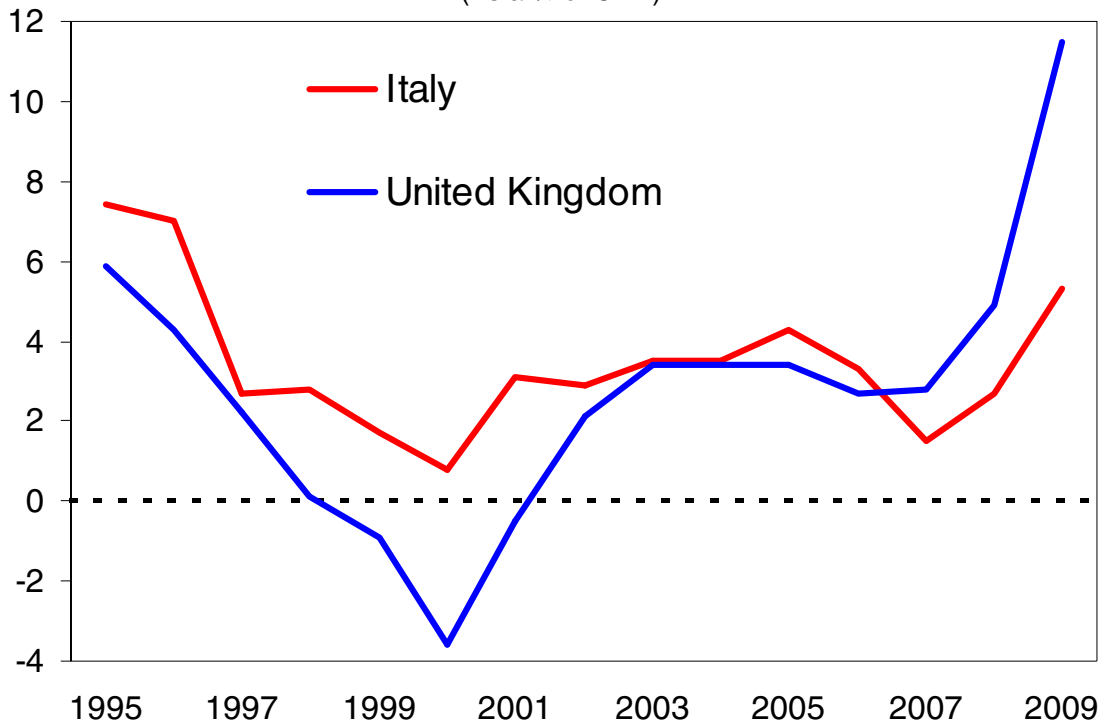


Source: CSC calculations based on IMF data.

3

Government deficit

(As a % of GDP)



Source: CSC calculations based on European Commission data.

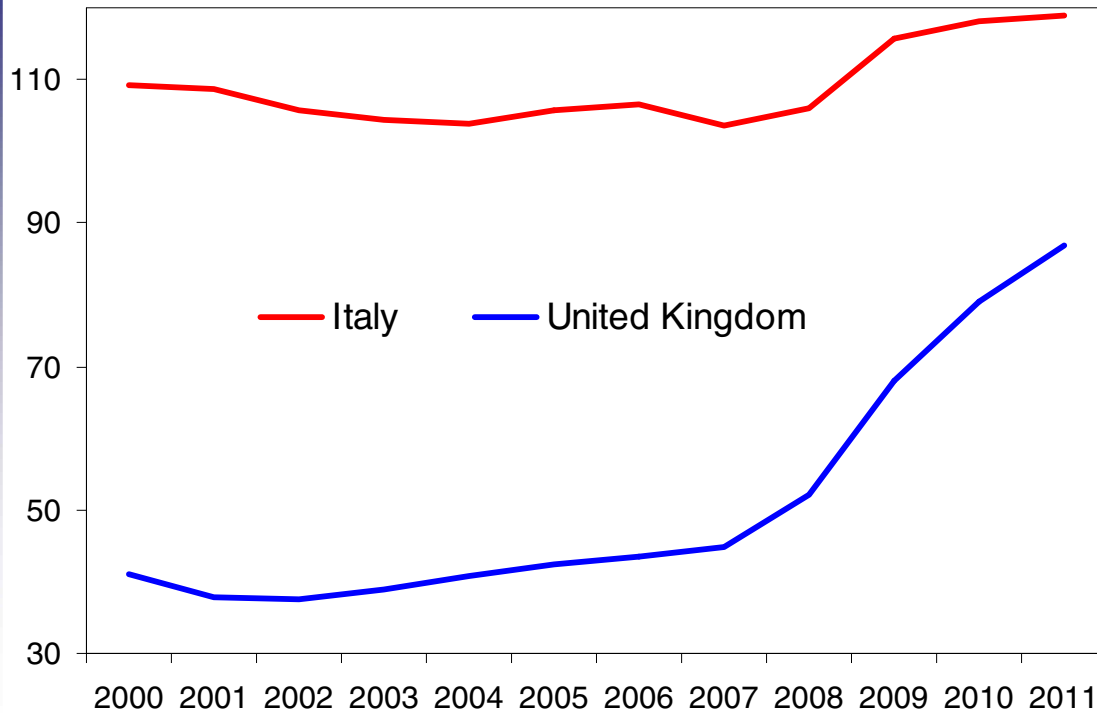
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Government debt

(As a % of GDP)



Source: CSC calculations based on European Commission data and forecasts.

5

Public and private debts

(As a percentage of GDP, 2009)

	Italy	United Kingdom	France	Spain	Germany	EU15*
Public debt	115.8	68.1	77.6	53.2	73.2	71.1
Private debt	221.1	462.6	274.1	318.0	217.0	371.7
Public + private debts	336.9	530.7	351.7	371.2	290.2	442.9
<i>Households</i>	<i>42.2</i>	<i>103.2</i>	<i>50.7</i>	<i>84.0</i>	<i>63.1</i>	<i>80.5</i>
<i>Non financial firms</i>	<i>82.8</i>	<i>116.0</i>	<i>104.6</i>	<i>136.1</i>	<i>70.7</i>	<i>118.2</i>
<i>Financial firms</i>	<i>96.1</i>	<i>243.4</i>	<i>118.8</i>	<i>97.9</i>	<i>83.2</i>	<i>173.1</i>

* It excludes Luxembourg.

Source: CSC calculations based on Eurostat and Bank of Italy data.

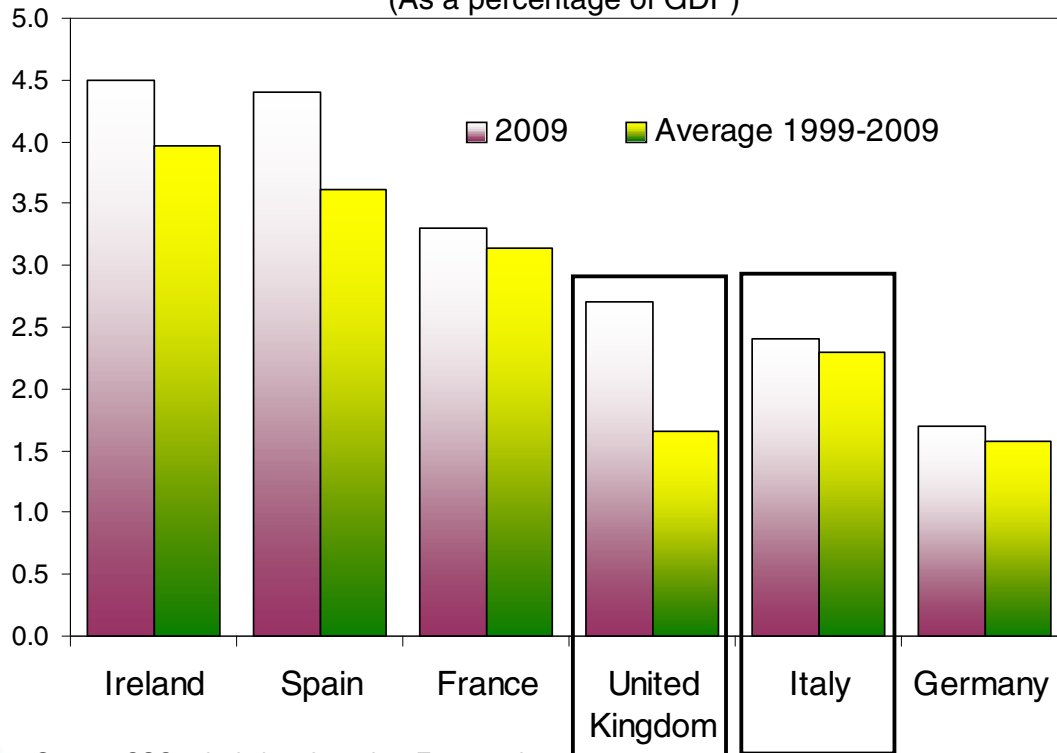
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Government expenditure on fixed investments

(As a percentage of GDP)



Source: CSC calculations based on Eurostat data.

8

Endowment of road and railways for 100,000 inhabitants

(Kilometers of lines)

	Motorways		Railways	
	1995	2008	1995	2008
Germany	13.7	15.4	51.2	46.0
Spain	17.7	29.8	31.2	29.5
France	14.0	17.2	53.8	48.9
Italy	11.3	11.1	28.2	27.7
United Kingdom	5.6	5.8	29.3	25.8



Source: CSC calculations based on Eurostat data.

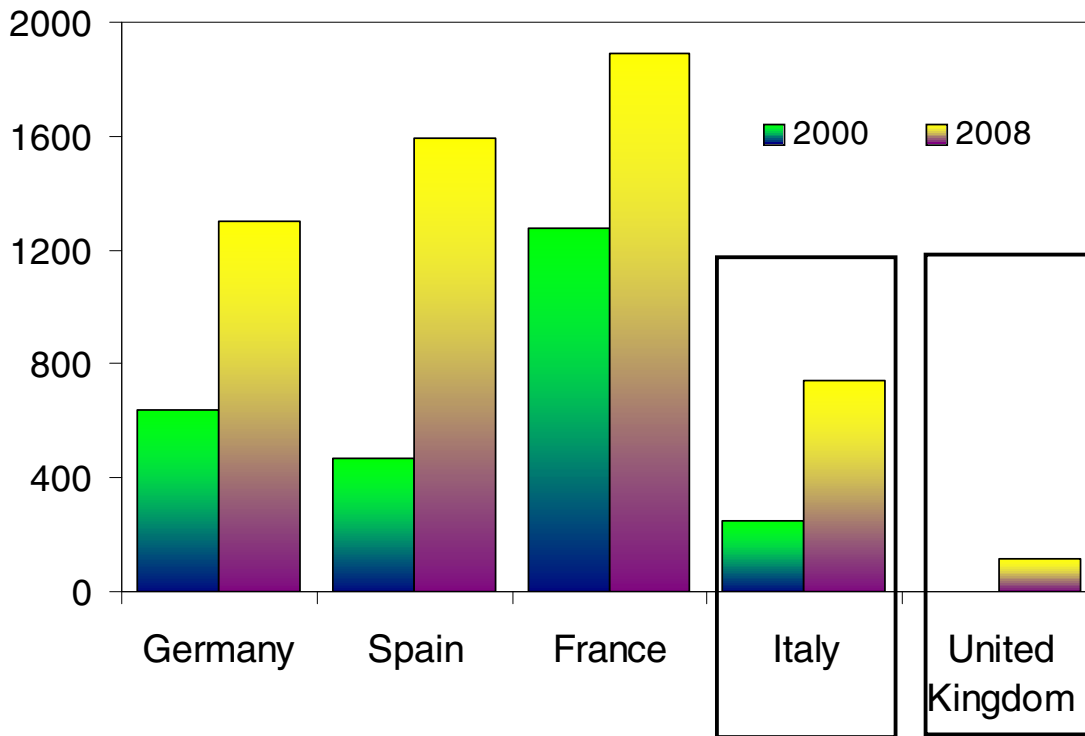
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Length of high speed railways

(Kilometers)



Source: CSC calculations based on Eurostat data.

10

Transport infrastructures: an international comparison

	General index	Motorways	Railways	Seaports	Airports
France	4	2	4	12	9
Germany	9	5	5	5	3
Japan	15	22	3	37	54
United States	23	19	18	22	32
United Kingdom	33	35	19	23	34
Ireland	69	52	42	45	52
Italy	73	54	39	81	84

Number of countries: 139.

Source: World Economic Forum.

11

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University graduates

(Age group; as a % of the population, 2008)

	25-64	25-34	35-44	45-54	55-64
Japan	43	55	48	43	26
United States	41	42	43	40	40
United Kingdom	33	38	33	30	27
Spain	29	39	33	24	16
France	27	41	31	20	17
Germany	25	24	27	26	24
Italy	14	20	15	12	10

Source: OECD.

12

PC's availability and utilization

(2009)

	All firms	Large firms	Manufacturing firms
% of firms where at least one pc is available			
Germany	98	100	98
Spain	98	100	98
France	98	100	97
EU 15	97	100	98
Italy	96	100	97
United Kingdom	93	98	98
% of workers using a PC			
Germany	61	66	58
United Kingdom	58	58	57
EU 15	55	59	53
France	55	60	56
Spain	51	57	46
Italy	41	44	40

Source: CSC calculations based on Eurostat data.

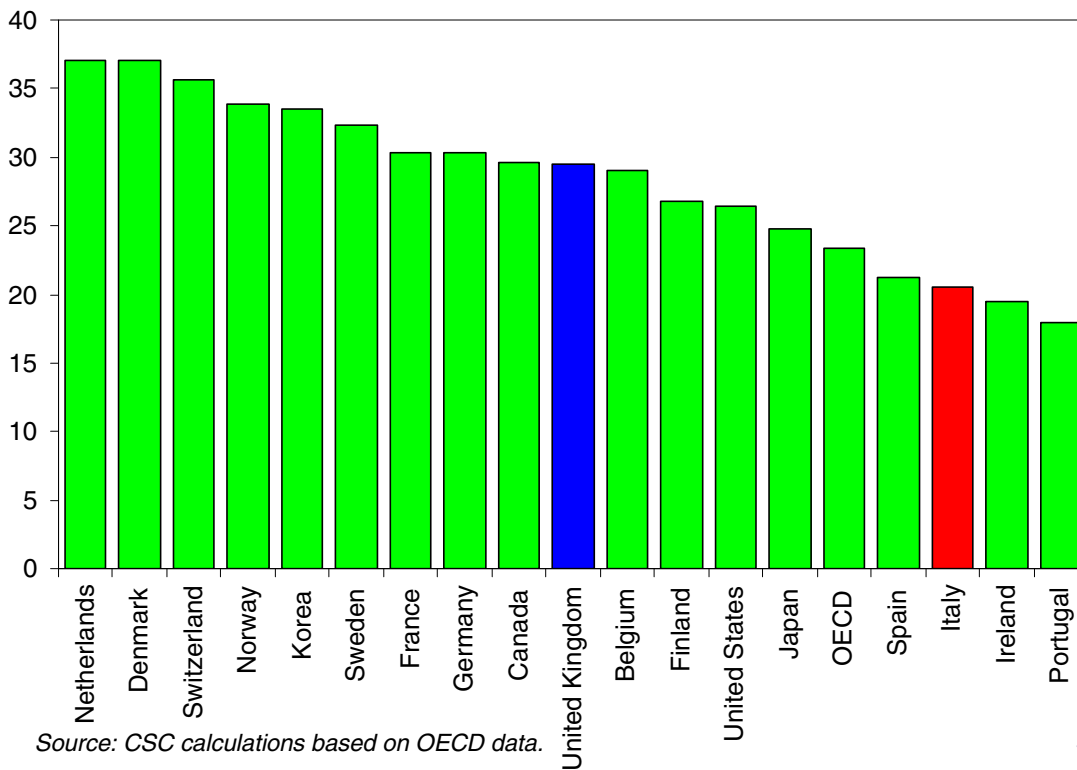
13

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OECD broadband penetration

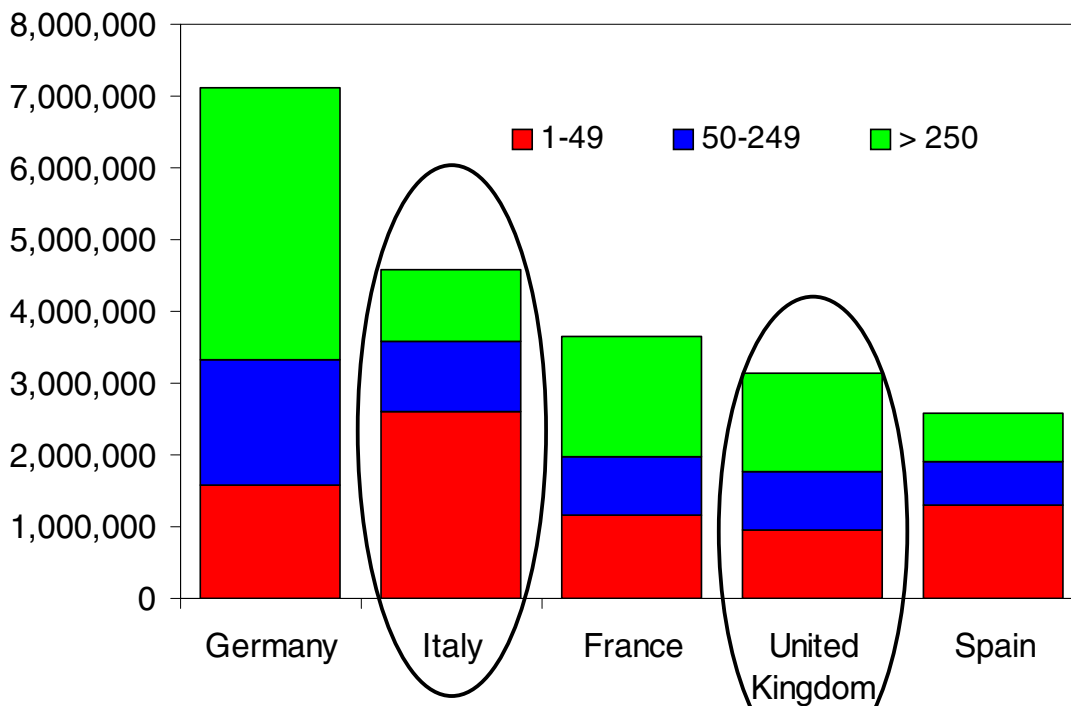
(Subscribers per 100 inhabitants, Dec. 2009)



Source: CSC calculations based on OECD data.

14

Manufacturing sector: number of employees by firm size



Source: CSC calculations based on Eurostat data.

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Sir Win Bischoff

Chairman, Lloyds Banking Group plc

Introduction

Sono onorato di essere qui oggi ad intervenire alla vostra conferenza annuale e condividere il palco con persone eminenti come Simone e Giampaolo e Paolo.

(Many thanks for your kind introduction. I am delighted to be here today to speak at your annual conference and share the platform with eminent figures such as Simone and Giampaolo.)

I am tempted to give my speech in Italian not because I can speak it but because I love the language and like Vincent I continue to spend part of my time there. But in order to avoid any jokes at my expense about Englishmen and foreign languages, I will address you in English.

Italy is an important partner of the United Kingdom, both in the bilateral context and in our work together as members of the European Union, NATO, G8 and other international organisations. This relationship is strengthened by frequent contacts at ministerial level. Co-operation in other areas includes the annual British-Italian Conference "Pontignano," which brings together opinion formers from both countries to debate topical economic and political issues.

"A Italian literature influenced Chaucer."

Italy's influence on Britain's cultural and social development has been profound. The Renaissance, probably the most significant cultural explosion to affect the UK, began in

Italy. Italian literature influenced Chaucer, Milton and the Romantic poets. Many of Shakespeare's plays are set in Italy and Italian architects, painters, musicians and composers have all made a great impact in the UK.

"A more recent trend has been football managers."

Italian brands such as Ferrari, Gucci, Peroni and Vespa, to name a few, are household names in the UK. A more recent trend has been football managers. The current England national team and three of the top six teams in the English Football Premier League are managed by Italians – this is but one clear reflection of Italian's contribution to the UK. And who can forget that to the great Shires of England such as Gloucestershire, Hampshire, Warwickshire and others has in the last forty years been annexed that part of Tuscany known as Chiantishire.

Banking Crisis and the Wider Economy

Before I address the main theme of the conference, let me put my comments in the context of the recent financial crisis.

The Path to Recovery

Clearly, the path to recovery is going to be a challenging and at times painful one. In the UK, the Coalition Government has acknowledged that deficit reduction and economic recovery are the most urgent issues facing this country, with the main burden of deficit reduction borne by reduced spending rather than increased taxes.

Next week, the Chancellor of the Exchequer will outline his proposals to reduce the structural deficit, on which the UK is currently paying £120 million in interest every single day. Reductions in the welfare state and public sector have already been outlined. However, more significant changes will have to be undertaken to put this country back on the road to recovery. >>



It may be the right thing to do but it is both politically challenging and requires fine economic judgement on the pace and nature of the reductions. Many private companies depend significantly on the public sector for parts of their order book; an order book they will need rapidly to re-balance.

“It acknowledges that economic recovery is underway.”

The IMF’s Report on the UK published on 27 September states that “the UK is on the mend.” It acknowledges that economic recovery is underway, unemployment has stabilized, and the financial sector health has improved. It goes on to say that the “Government’s strong and credible multi-year fiscal deficit reduction plan is essential to ensure debt sustainability.”

The Report also highlights three key issues, which I believe are fundamental to the UK’s sustained recovery:

1. **Households** – are likely to remain thriftier than before the crisis but will be in a position to gradually raise their consumption as labour markets recover.
2. **Corporates** – are beginning to draw on their strong financial positions and increase investment as the demand outlook strengthens
3. **Sterling depreciation** – has so far mainly boosted exporter margins rather than volumes. Over time, higher profits should encourage increased production in export and import-competing sectors.

“The economic recovery is underway.”

The Report envisages GDP growth of 2 per cent in 2011, rising gradually to 2.5 per cent in the medium term. However, although the economic recovery is underway, it will proceed at a moderate pace as the economy, and I quote: “undergoes a difficult but necessary rebalancing.”

Structural Changes and Infrastructure

I want now to turn to the issue of economic rebalancing, conscious of the fact that I am sharing the platform with the

Director General of Confindustria, and previous speakers have included Lee Hopley from the EEF, and indeed Angela Knight, who before entering the world of politics and financial services was heavily involved in manufacturing.

The previous UK government as well as the current one have indeed called for a re-balanced economy – less dependence on financial services and stronger export-led sectors.

“Don’t put all your eggs in one basket.”

I would argue that it makes good business sense for any government to ensure that the nation’s prosperity and economic success is based amongst many key indicators on a strong and varied private sector that is able to thrive, innovate and export. It is not a good business proposition, as Italians would say: “non puntare tutto su una carta sola” (don’t put all your eggs in one basket).

We in financial services should cherish the fact that in the UK we have sectors such as biotechnology, nanotechnology, defence and associated manufacturing, and pharmaceuticals which are world leaders. The City of London has prospered because of the relationship between commerce and banking.

Our respective countries have a long and proud tradition in engineering and manufacturing.

I am aware that there are important debates taking place in areas such as apprenticeships and skills, academic versus vocational education, innovation and Research and Development. As a former Board Member of IFIL, the holding company of FIAT, I am fully conscious that skills in the workforce can have a significant impact on a company’s productivity, investment and ultimately profit, as well as deciding where to invest.

Ten years ago, so called rich countries dominated the world economy, contributing around two-thirds of global GDP after allowing for differences in purchasing power. >>



Since then that share has fallen to just over half. In another decade it could be down to around 40 per cent. The bulk of global output will be produced in the emerging world.

Thanks to globalisation and some innovative policies, virtually all developing countries are catching up with their richer peers. In 2002-08 more than 85% of developing economies grew faster than America's, compared with less than a third between 1960 and 2000, and virtually none in the century before that.

Some commentators have argued that the next few years could be defined as much by the stagnation of the West as by the emergence of the rest for two main reasons.

“Across the rich world, the supply of workers is about to slow.”

The reason to worry about stagnation has to do with slowing supply. The level of demand determines whether economies run above or below their trend rate of growth, but that trend rate itself depends on the supply of workers and their productivity. That productivity in turn depends on the rate of capital investment and the pace of innovation. Across the rich world, the supply of workers is about to slow as the numbers of pensioners rise. Over the coming decade, Europe's working-age population, which until now has been rising slowly, will shrink by some 0.3 per cent a year. In Japan, where the pool of potential workers is already shrinking, the pace of decline will more than double to around 0.7 per cent a year.

The Role of the Banks – Economic Recovery

Within the context of economic recovery, I want to say a few words on the role of the banks.

The current economic recovery both in the UK and globally is proving to be stubborn. Modest output is sluggish and credit is growing weakly or indeed shrinking. But is this because over-leveraged households and firms have become less willing to borrow, or because banks have become less

willing to lend? In other words, is the credit problem one of demand – or supply?

“Banks in the eurozone continue to tighten credit standards.”

In practice, both supply and demand play a role. There is plenty of evidence that consumers and firms have become less willing to borrow. Companies, particularly big ones, have been piling up cash. Firms' cash stockpiles are at, or near, record levels, and bond investors are actually clamouring for more corporate debt. At the same time, the supply of credit is clearly constrained. Banks in the eurozone continue to tighten credit standards, and in America, they have only just begun to ease standards after several years of tightening.

Banks fully understand their role in society. They are actively as one of the drivers to get credit flowing and help to a sustained economic recovery. Based on research conducted at the University of California and Duke University, early-stage entrepreneurs are generally thought to rely on bank loans rather than any other source of finance – on average, new firms borrow seven times as much from banks as from anywhere else.

“But the issues of credit cannot be viewed in isolation.”

But the issues of credit cannot be viewed in isolation – it is part of the big regulatory picture. On 12 September, the Basel Committee of international bank regulators agreed on a new set of higher requirements for banks' liquidity and capital. Experience shows that higher capital and liquidity requirements dent credit growth, at least in the short-term. The first Basel agreement on bank capital contributed significantly to a steep decline in loan growth in America and in some European countries in the early 1990s, according to a 2000 study by the Bank for International Settlements.

Notwithstanding the new requirements, I stress that banks have an important >>



role to play in the economic recovery and need to lend to viable new and growing businesses. In relation to my bank, the biggest retail bank in the UK, we are lending more than last year and are continuing to approve over 80 per cent of loan applications, 5 in 6 in number.

As an industry, UK banks, backed by the Government, have also set up a task-force to look at SME financing, which reported on Wednesday. The Taskforce banks have committed to 17 actions in three broad areas:

1. Improving customer relationships, which includes support for a network of business mentors; improve service levels to micro enterprises; publish lending principles; and establish transparent appeals processes for declined applications.

2. Ensuring better access to finance by establishing and investing in a new £1.5 billion Business Growth Fund to fill a crucial gap in the market and provide capital for viable businesses which want to invest and grow.

3. Providing better information and promote understanding. The Taskforce demonstrates the banks' real commitment to helping their business customers. The private sector will play a key role in the economic recovery and it's our job to help viable firms to be successful.

“It has been the most difficult and challenging period.”

Conclusion

The last three years have proved to be a turbulent period for the banking sector as well for the global economy. It has been the most difficult and challenging period since the Great Depression in the 1930s. As with every recession, there is additionally a significant personal and human tragedy with individuals losing jobs, businesses and homes.

But as we move forward to an economic recovery, albeit challenging, and learning from past mistakes, I am optimistic

that we can make significant progress towards a global economy that offers developing nations the opportunity to compete on an equal-footing with the more developed economies. And at the same time, provides the richer nations the stimulus and drive to be more competitive and innovative. But to do so, it is important that we continue to cherish those sectors, such as financial services in the UK, which make a significant contribution. It is not for Government to pick sectoral or industrial winners but it is for the Government to ensure that the right economic and regulatory framework is in place to help those successful companies to be more successful and compete on the global stage.

“Banks must and can play their full role.”

That is why I do not believe in an artificial rebalancing of the economy but rather an economy which helps and supports thriving, competitive and innovative companies. And in that banks must and can play their full role. ■

Grazie.





Simon Urbani Grecchi

**Banca Infrastrutture Innovazione e Sviluppo
London Representative Office**

As the Financial Times has recently put it, *“when a patient is recovering from a serious illness, there comes a point at which the doctors sound the all-clear. Though the effects of the disease are still visible, medics know it will not be terminal and the recovery will be complete. Unfortunately, no one can yet give the world economy that happy prognosis.”*

“Forecasts for growth in 2011 are being cut.”

In fact, surveys of manufacturing and services have highlighted an overall worldwide slowdown, and for the first time since the beginning of 2009, forecasts for growth in 2011 are being cut. In addition to this, other indicators can hardly be considered as positive, such as the unemployment rate in the US and in some European countries.

So, can the path of recovery be predicated on new investments in infrastructure? The answer is yes, provided that a strong, wide ranging infrastructure development programme is implemented.

To begin with, such a programme may provide a spark for the creation of new jobs, regardless of the nature of the current unemployment, be it structural or cyclical. Just to give you an example, the worldwide wind energy sector has seen employment increase from five hundred thousand in 2008 to nearly seven hundred thousand in 2009, and it is projected to go up to 1mln by 2012.

At a more local level, as a case in point, the UK energy sector alone has experienced a remarkable growth in employment

rates (+14.7% in the past five years) as opposed to a 0.1 overall growth, according to the Office of National Statistics.

Italy, in this respect, saw some 80,000 additional jobs created in the energy sector alone in the last ten years, mainly due to:

- new wind farms (up 25% in terms of installed capacity from 2008) and to
- waste-to-energy schemes, which also helped improve environmental standards by avoiding the recourse to new landfills.

Not much if you like, but still enough to

- expand the employment base, mostly through qualified jobs; chip away at the consumption of fossil fuels.

The effectiveness of such investment plans will be put to the test in the near future. Nonetheless, it is interesting to note that the Organization of Petroleum Exporting Countries, in a report which will be made public this week at their meeting in Vienna, has warned that alternative sources of energy could actually erode their turnover by as much as 10trn dollars in the next 40 years (representing 40% of their cumulative turnover).

“Many countries are facing tough decisions”

Infrastructure investment may therefore trigger a more sustainable, long term development of our economies. Many countries are facing tough decisions to cut public spending. To name one, net investment in capital spending is set to fall from 49bln pounds to 21bln pounds this year in the UK. Public healthcare structures, schools, public transport schemes will all experience some painful restrictions. In some cases, governments have gone as far as announcing that subsidies to regulated tariffs will be scratched (as in the thermosolar energy sector).

We want to be optimistic though, and see the glass half-full. In fact, practitioners do not expect infrastructure to be as >>



badly hit by spending cuts as other areas, such as for example public sector workforce. More precisely, in the UK

- railway projects are still being funded, such as the high speed London-Birmingham line or the Crossrail projects, just to name a few;
- some £3bn pounds will be poured into the transport sector (namely roads and motorways) for maintenance as well as construction works over the next 5 years;
- UK is aiming at producing 5% of its energy from renewable resources by 2020 and creating some 70,000 jobs in the process;
- school programme will be reduced but not halted, with more than 40% of the BSF programme already cleared to proceed.

“We are all in the same boat!”

The path to recovery may therefore pass through a comprehensive program of infrastructure investment. While it is true that some projects need strong subsidies or regulated tariffs to be financially viable, let's not forget that better infrastructure mean better public services, higher standards of living, new employment opportunities and, eventually, a better shot at being re-elected for the politicians. So, as someone might put it, we are all in the same boat!

Going forward, three key factors could then make a difference:

- the right combination between private and public capital, working closely together on public-private partnerships schemes;
- a reliable, long-term regulatory framework to give investors (commercial as well as investment banks, investment funds, private equity) the necessary “peace of mind” to commit;

- And last but not least, a financial system closer to the 'real economy,' meaning households, businesses and the most far-reaching public policies.

“The cost of inaction can be huge.”

Infrastructure financing is no “magic wand.” Much remains to be done, and the cost of inaction can be huge.

According to the latest news, Italy needs to embark on a staggering one hundred ten billion euro investment plan to bridge the infrastructure gap both at national and local level. And yet, only 39 billion euro are currently available in the state coffers.

There are therefore a number of challenges facing the banking sector. Financial institutions need to

- deepen their knowledge of specific markets and
- support their customers in their international activities, especially in times when not only the big conglomerates, but even the most dynamic SMEs are willing to take on the challenge of expanding overseas.

“It is now time for the financial system to give back.”

According to calculations by the Bank of England, the total support offered by the public sector to the financial systems in the UK and US amounted to 74% and 73% of GDP, respectively. Even in the eurozone, it was 18%. In actual facts, the balance sheet of the state was put at the disposal of the financial system: it is now time for the financial system to give back. >>



XXXII Conferenza Annuale

“The Path to Recovery: Concerted Structural Changes and Investments in Infrastructure”

Simone Urbani Grecchi



Bank of the Group  

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Is the path of recovery going through investment in infrastructure?

Creation of jobs

- **Worldwide wind energy sector: from 500,000 to over 700,000 employees last year**
- **Up to 1,000,000 jobs in 2010**
- **UK energy sector: employment rate up by 14.7% in the past five years**
- **Italian energy sector: 80,000 additional jobs in the last ten years**

Source: *Global Wind Energy Council
Office of National Statistics
Consiglio Nazionale dell'Economia e del Lavoro*



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Looking ahead

- ⇒ **The right combination of private and public funds in both PPP and PFI schemes**
- ⇒ **A reliable, long-term regulatory framework for the investors/financiers**
- ⇒ **To address the 'real' economy needs and expectations**



Second Session Panel





Paolo Romiti
Impregilo SpA
Domestic and International Business
Development Director

Ladies and Gentlemen, good morning.

The revival of the infrastructure system, either in the major works sector or in the energy sector, is considered of great relevance in connection with the current economic/financial crisis. The global economy is undergoing a recession, and to reverse the situation, governments around the world have expressed, with more or less relevant emphasis, their intention to activate the leverage of public demand for infrastructure investments.

There is no doubt that the actual adoption of such a development policy would have the dual effect of fighting the crisis (by quickly creating new jobs, directly and indirectly) and allowing the recovery from serious infrastructure deficit that affects the competitiveness of many countries, including Italy. We recall, in particular, the large trans-European networks, the development of road and rail networks, the logistics industry, the modernization of metropolitan centers.

“We have been trying to make up our mind”

We have been trying to make up our mind on the current situation, and we found it useful to step back and think about the possible reasons of the economic/financial crisis we are experiencing, and, if possible, to try to identify any similarities with the past.

Some experts associate the current crisis to the 1929 crisis that devastated Wall Street. We have then tried to gather a brief history of some elements that appear to have influenced the U.S. Stock Exchange since 1896 (when it was created by Dow Jones), until today.

Tragic events in the United States as the death of American Presidents, the invention of the refrigerator, the invention of a vaccine against the flu, everything seems to be part of the perception that people had of the finance and of the stock market.

“The invention of the automatic bread slicing machine.”

There was the time of the “roaring twenties,” of the Great Gatsby, and among the elements during the first years of the '900s that made the U.S. Stock Exchange index climb from 100 index points up to 350 points we recall, as an example, the first public demonstration of the television, that kept millions of people in front of a video for the first time, the invention of the automatic bread slicing machine, and the first color movie that gave to the Stock Exchange the extraordinary boost that brought the index up to 381,17 points.

It seemed that the inventions and technology developments involving immediate effects on the daily life of the people were elements putting the wings to Wall Street and to the U.S. economical and financial system.

Then, suddenly there was the crash; we are in 1929, with the fall, October 29, of the stock index on Wall Street. It was a most acute moment, and a true symbol of one of the most serious economic and financial crises that have characterized the economic history of the United States of America and of the whole world.

A severe disproportion between the real growth and the stock market euphoria, with the collapse of consumer credit and sky-rising unemployment. >>



What kind of measures was taken by the Authority at that time? In the beginning, they did something similar to what has been done by the Authorities today, with the adoption of urgent measures aimed at saving the big banks and insurances, with costly interventions. But the money invested in the beginning to mitigate the severe liquidity crisis finished soon, and the index of Wall Street came down to touch the threshold of 41 points in about two years, in free fall.

“The New Deal.”

The then U.S. president, Herbert Hoover left, in 1932, to Franklin Delano Roosevelt, who adopted a series of revolutionary measures such as closure of banks for four days, suspension of the convertibility of the dollar, and he rushed to Parliament asking the Congress to approve a package of social and economic laws known as ‘the New Deal.’ The Dow Jones index in a few years jumped from 41 points up to over 700 points.

Measures of great social importance were implemented, including a huge public works plan that absorbed, in those years, about 3 million workers.

The plan of public works launched by the U.S. president in the thirties allow us to observe a potential similarity to the current situation, and make us look with attention to the various programs to revitalize the infrastructure sector that the governments of various countries, including Italy, say they intend to activate.

“It might be time to get back to work.”

The focus is based on a concept rarely used by economists: that is, when an economic/financial crisis reaches a point of no-return, it might be time to get back to work, to do, to build something useful for the community, for the people.

We should move back, at least to some extent, from an economy of paper to a real economy, an economy made up of concrete things that meets the needs and expectations

of the people, and that could ideally be recognized as one of the fundamentals of the economy and of the society.

We recall some estimates about the potential impact of infrastructure investments on employment: according to some calculations, it is estimated that, on average, in our country each €100,000 invested in infrastructure create 1 new employee, therefore every €100 million invested create 1000 new employees, every €1 billion invested create 10,000 new employees. We all should take the shovels to dig and get to make roads, highways and railways. In this way we would give new breath to the system and would boost the competitiveness of our Countries, promote employment, and this would also have a tremendous impact on the energy problem solving.

“Ensuring competitiveness and enhance the quality of life.”

And on this energy issue I would like to spend a few brief thoughts, observing that many countries, including ours, would need an energy policy more and more adequate to the needs of environmental protection and sustainable development, but at the same time capable of ensuring competitiveness and enhance the quality of life for citizens, for the people.

In this respect, we deem that, sometimes, the expectations put on alternative energy sources might represent only a fashion and a hope, little supported by the numbers. We note also the fashion of little tricks to save money that we get that periodically from the media and that, despite their usefulness, are little things.

Perhaps it would be more useful to think and to make appropriate calculations on the possibility that – and I come back to the issue of infrastructures – the real savings can be easily achieved by new roads and easing traffic congestion in urban centers with new subways, without thinking too much about taking the elevator once less or one more time. Just to give you an idea, it was estimated >>



(source: AGIC corporate finance) that the cost of not-doing some necessary upgrade of infrastructures in Italy in the railways, highway and energy sector has resulted, only in the period 2005/2007, in an additional burden of 14 billion euro. Infrastructure appear to be a key issue, even in a perspective of energy saving.

“We heard about numbers that make us think.”

If we consider that banks, insurance, real estate that have been saved or at least put into Chapter 11 in the U.S., we heard about numbers that make us think; some experts estimated that such institutions may have about 8.7 trillion of assets to dispose. We are remind that the Italian gross domestic product could be estimated in the order of magnitude of 1.6 trillion dollars, and America’s debt around 4.4 trillion dollars.

“Modern highways where we could travel without accidents.”

Perhaps, with the lost value of the assets of institutions saved by public money in the United States, we all could have created new infrastructures, modern highways where we could travel without accidents, the goods could cross the mountains within Europe no longer by truck, with the inevitable pollution, but by railway through the new European rail networks.

“We would have also saved an incredible amount of fuel.”

It would have been a better world. The hardships and the consequent damage to the entire community arising from the lack of adequate infrastructure are a daily common experience of many citizens of the world, even without going to the excesses of the recent 100 km long queue in a highway outside Beijing in China. We would have also saved an incredible amount of fuel, pollution, CO₂, Kyoto, green certificates.

If I may summarize this brief speech then, I would find it very useful if in the future it would be opened a debate in which, beside the large and important issues of corporate governance, transparency of banking system, analysis of large financial institutions and so on, there would be a convergence of interests on addressing and solving issues more concrete for the life of all citizens as well as for the economy, such as, for example, the fact that the lack of infrastructure means lower competitiveness of the economy with respect to competitors, higher transportation costs of commodities and therefore higher costs for the end consumers, and lower quality of life for all citizens (including privileged groups), that can also bring reduced efficiency of workers and again a lower competitiveness.

Let me conclude with a paradox: we are not thinking to put, for example, a construction worker in the government of the Bank of Italy, but it seems interesting to think about the fact that, unless we put serious consideration on implementing adequate infrastructures in the location where we stand with our feet, i.e. in our territory, infrastructures that will allow us to stand on our feet more comfortably, then we will be increasingly disadvantaged in finding a place to rest our heads with equal comfort.

I thank you very much for your kind attention, and I wish you a good day. ■





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