10th Economic Königswinter Conference

Friday 4th June – Saturday 5th June, 2010

Conference Report

Paths to economic and industrial recovery in a global economy

1. The **10th German-British Economic Königswinter Conference** took place at Schloss Landsberg, near Essen (Germany), on 4th and 5th June, 2010, thanks to the generosity of Thyssen-Krupp and RWE and the organising support of the bank Sal.Oppenheim. Schloss Landsberg was the perfect site for such a small conference and created an excellent atmosphere for a frank discussion. Under the strong and informed chairmanship of Lord Simon of Highbury, former Chairman of BP and former British Minister for Trade and Competitiveness in Europe, the 30 participants discussed under the overall conference title **'Paths to economic and industrial recovery in a global economy'** the three subjects areas:

- **The Greek and the European rescue packages – will they save the EURO?**
- **Can innovative green technology be a catalyst for recovery and continued growth?**
- **The lasting impact of the financial crisis on the British, German and global economies?**

The conference programme and the list of participants are annexed.
The German Ambassador in London, Georg Boomgaarden, and the British Ambassador in Berlin, Sir Michael Arthur, honoured this conference – as previous ones – with their participation.

2. The conference took place only weeks after the unprecedented steps taken by the European governments to safeguard Greece and the EURO-zone financially. Some participants criticised the lack of political leadership, particularly regarding the German government, throughout the crisis. The views differed whether the steps taken sufficed to resolve the crisis, i.e. whether the glass was half full or half empty. A big challenge for both countries in the next five years will be to get control of public debts and to realise how budget deficits reshape the financial model and the social model. The financial situation in the UK was considered even more challenging than in Germany. Austerity measures will have to be taken by the British government. One British participant underscored the political will in the UK to master the debt through political coordination and to establish a new structure, but which one? If there is no common sense of purpose new structures will not help, it was argued.

3. The Greek and European rescue packages – will they save the EURO?
A majority considered the monetary rescue packages warranted. Views differed whether financial stability in the EURO-zone has already suffered or will suffer over time. But nobody saw the EURO fail. The EURO will remain in some form or the other, there may have to be a European fudge with some elements of a "transfer union". Particularly greater political union would support the case of the EURO. Some felt that the reform package for Greece was unrealistic and too heavy. It cannot be met by Greece, a country that already entered the EU with financial problems – now the markets presented the bill. The steps taken bought only two to three years time until some form of a Greek default would occur. They pointed to the dilemma that in order to qualify for rescue Greece had to go bankrupt. How to manage an orderly default of Greece was a big question. In the EU an orderly process for cases of default of

nation states is necessary. Others felt that a default would have negative market reactions and would be bad for the stability of the EURO as a whole. Some argued that Greece bore relatively little economic weight in the EURO context. Greece and the other countries of the South represented only 18% of the GDP of the EURO-zone. It was possible to re-establish confidence in the ability of the EURO-zone to manage the problems. One discussant felt, that a depreciating EURO would be advantageous for Germany as it would boost exports.

Several British speakers underscored that the UK-government is interested in a stable EURO-zone. British participants argued that the UK should support the EURO as the stability of the EURO is of great importance also to her. So far there was insufficient UK engagement. They considered a UK participation in a potential future European monetary fund as appropriate.

Both Germans and Brits saw a need for better economic coordination in the EU and for financial regulation. As the UK government would not agree to a treaty change in the foreseeable future any financial or monetary reform that required such a treaty change was off the table. One German participant underscored, we have the highest interest to work closely with the UK, but how far is the British government prepared to go on financial regulation and economic coordination? If there is no common sense of purpose, new structures will not help. Some argued in favour of a greater fiscal and/or political union to stabilise the Euro, others saw a two-speed EU evolving. The latter may be more in line with UK thinking, but not to Germany's. The UK's emphasis was expected to be on the effective functioning of the free market within the EU. Some saw the independence of the ECB - which is of great importance to Germany – negatively affected by the decision to buy EURO-zone government bonds; others questioned the involvement of the IMF and whether it brought non-Europeans into EURO-zone governance. They expressed concern that the IMF will now always be involved.

4. Can innovative green technology be a catalyst for recovery and continued growth?

It can be a catalyst for economic growth but the question is which green technology? There was general agreement that we need in both countries an energy mix with a large share of renewable energy. The goal of the Labour government was to draw by 2020 25% of the energy from renewable energy sources. With an increasing energy demand in the world and with finite oil and gas resources all other potential alternative energy resources have to be exploited. At the same time smart systems have to be developed to reduce consumption. Energy saving has to become a factor everywhere. While governments invest a lot of money into the development of green technology and renewable energy projects in order to meet the challenges of climate change the business community saw a viable economic solution in the long term only if the renewable energy is market based and economically competitive with the necessary industrial scale. Many projects like the off-shore wind fields technology in the UK depend on large subsidies by the government for the next 20 years. They do not pay off on market terms. As governments tend to change the subsidy regime over time there is a big risk for an investor who engages in huge and costly developments. If an investor gets no return, it was argued by German and British participants, green technology cannot be successful and economically viable over time. Markets should prevail in order to get to sustainable supply. Will citizens be prepared to pay for the

higher costs? It needs also to be kept in mind that financial capital for the significant investment programmes is an increasingly scarce resource. Tidal energy was considered a promising project in the UK, while photovoltaic was seen as too expensive and economically not sustainable. Wind beats solar by far.
Others did not share this view and argued that oil and gas prices will go up and the energy calculation will be different in the future. The costs for renewable energy have already come down. And there was a considerable element of job creation involved. We are in a third industrial revolution as all political parties understood that our countries have to respond to climate change. All big industries are concentrating on green technology. The green issue was widely seen as the most researched and most internationally discussed issue which now needs concrete solutions. All responsible political leaders are in agreement that the environment is the single biggest global challenge.
British participants saw in nuclear energy an unavoidable part of the energy mix. France is going totally nuclear and there is a major shift to nuclear in the UK. Germany is buying energy from France. The British side therefore wanted to know, what will be the German approach to nuclear energy in the future? There will be no new nuclear energy plants in Germany in the future, only the extension of the life cycle of existing ones, was the clear German response.

5. The lasting impact of the financial crisis on the British, German and global economies?

The general view was that there will be a lasting impact on the economies and that there is a feeling of fragility. Economic growth was considered essential over time for reducing the level of public debt and for consolidating public budgets.
The German economy is on the path towards recovery, it was reported. It has been growing since the second quarter of 2009. 2010 might end with about 2% GDP growth. It should not be overlooked Germany is not only the second largest exporter in the world but also the second largest importer. German participants did not accept the criticism of Germany as having an “export oriented business model” that was akin to “beggar thy neighbour”. In fact, Germany had no “business model” at all. Decisions were taken freely amongst market participants. Attempts to actively foster domestic demand did not work in Germany, because German consumers traditionally felt that “today's public debts are tomorrow's taxes” and therefore tended to save as budget deficits rose. Instead, Germany must undertake structural reforms, e.g. make its labour and product markets more flexible and efficient.
Consolidating public budgets is the central task of fiscal policy over the coming years. The German government will reduce the structural budget deficit in equal steps by 2016 to under the threshold of 0.35% of GDP. Government stimulus measures will be phased out by the end of 2010 or shortly thereafter. The German government is also pushing for appropriate financial regulation to limit risks emanating from financial markets. Imbalances and divergences have been building up in the EURO area steadily since the launch of the EURO. The years of strong global economic expansion and the ongoing economic integration have masked the problems arising from the different developments in the EURO-zone. Losses in competitiveness are not the root of the problem but rather a symptom of underlying unsustainable structural developments in some member states. Some countries lived beyond their means.

In order to return to growth the UK needs to considerably reduce public spending. The former British government emasculated the private sector by overextending public services and public spending. During the crisis UK GDP sank by 6.2% from peak to trough. The private sector contracted by 10-11%. To generate growth through higher exports by a lower exchange rate would be a double-edged sword as import prizes would increase and might fuel inflation. The huge public debt is a very serious problem. To reduce it without affecting growth is a great challenge. There is a conflict of interest between generating economic growth and reducing the budget deficit. Very unpopular measures are to be expected.

One German participant held the view that it would not be possible to generate growth if all countries in Europe reduced their deficits simultaneously. Private demand and investment was not strong enough to generate growth. Do we not need high, sustainable public investment in order to generate growth which will allow us to reduce the budget deficit thereafter, he questioned.

We live in a crisis of capitalism and our peoples are deeply worried, a British participant stated. The former US/UK economic model has been overtaken by the developments. In a global economy state managed economies seem to perform better.

The public confidence in banks has considerably suffered. If there are new problems with banking the public will turn against them. Both sides saw a need for banking regulations. But the British government will not agree to any further transfer of power to the EU.

There is no viable alternative to the G20 as a forum for global economic cooperation. There are flaws due to its heterogeneity. The US and China, will have great weight in handling big international issues but neither wants a “G2”. The Doha – Round was seen by some participants as dead or just muddling through and regarding the WTO talks no conclusion can be expected until 2013.

CONFERENCE PROGRAMME

Schloss Landsberg

Conference Chairman: Lord Simon of Highbury CBE, Director GDF Suez, former Chairman of BP and Minister for Trade and Competitiveness in Europe

FRIDAY 4th JUNE 2010

From 13.00 Participants' arrival and check-in at Schloss Landsberg

15.30 Registration

15.45 Conference Opening

Welcome ***The Lord Watson of Richmond,*** *CBE*, Chairman Königswinter; ***Gebhardt von Moltke,*** Ambassador ret., Chairman Deutsch-Britische Gesellschaft, Berlin; ***Peter Brock***, Director Sal. Oppenheim, Chairman Deutsch-Britische Gesellschaft, Düsseldorf

16.00 Session I: ***The Greek and European Rescue Packages – will they save the EURO?***

- The role of the ECB – has it sacrificed its stability principles?
- How and when can the UK and German governments reduce the debt burdens?
- Will the EURO outlast the crisis?
- After the British Elections - How will the Pound develop and what impact will this have on British industry?
- Changes on monetary policy: how will interest rate policy affect industrial recovery and do we risk deflation or inflation?

Introductory Speakers:

- **German perspective: Henning Krumrey, Deputy Editor in Chief, Wirtschaftswoche**
- **British perspective: Quentin Peel, International Affairs Editor, Financial Times**

17.00 Short coffee break

18.30 Optional Tour of the Castle: History of Schloss Landsberg

19.15 Break for Dinner

From 19.30 Apéritiv in the Entrance Hall of the Castle

20.00 Dinner in the Rittersaal

Dinner Speaker:

- **Dr. h. c. Fritz Pleitgen, Chairman RUHR.2010**

21.45 Drinks available in the Bar downstairs at Schloss Landsberg

<u>SATURDAY 5th JUNE 2010</u>

7.30 **Breakfast** at Schloss Landsberg

8.30 **Session II*: Can Innovative Green Technology be a catalyst for recovery and continued growth?***

- German and British energy industry as innovator for renewable energy and green technology
- After the Copenhagen summit: moving from theory to implementation regarding climate change
- How can global environmental protection be financed?

Introductory Speakers:

- **German perspective: Dr.-Ing. Leonhard Birnbaum, RWE AG, Board Member for Strategy**
- **British perspective: Prof. Lord Alec Broers, Member and former Chairman House of Lords Science and Technology Select Committee**

9.45 **Morning Coffee and tea** in the Entrance Hall of the Castle

10.15 **Session III:** ***The lasting impact of the financial crisis on the British, German and Global Economies:***

- What does society now expect from industry / the Governments to restore industrial growth and how are the perspectives for economic growth in 2010 and beyond?
- How much has competition been distorted by government rescue packages during the financial crisis?
- British / German industrial recovery versus the continued growth in the BRIC countries
- Who are the new players: G-2 or a multi polar future?
- Can globalisation survive a resurgence of protectionism?
- What is the new framework of international financial regulation and what is its lasting effect on the economy?

Introductory Speakers:

- **German perspective: Dr. Berend Diekmann, Head of Division, Foreign Economic Policy, Federal Ministry of Economics and Technology**
- **British perspective: Warwick Lightfoot, Economist**

11.45 **Winding Up Address**

12.00 **Lunch**

13.00/13.30 **End of Conference**

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