Reviving Investment in Europe

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16 July 2015
Question 1

How much of your own money would you be prepared to put on Greece and/or one other member of the eurozone leaving within the next ten years?

Jyrki Katainen

We are doing lots of work in order to avoid Grexit. Right now it looks quite obvious that it will not happen. So I don't see any reason why the others would start leaving, because there have been more countries coming to the euro. What would lead to exit in some country would be total disaster. If you look at the situation in Greece, many people tend to think that now we are on the brink. But I don't see any political reasons why somebody would like to leave the euro.

In order to avoid anything like what has happened in Greece or in other countries, problem countries, we have to first of all make sure that all the member states are living according to the rules. We have to pay more attention to the structural side of the economies, not only the fiscal side. Maybe there's a need to further integrate the eurozone to some extent.

Question 2

First, one plea, which is to remember the Brexit referendum is for the British people, not the British government. They are two different entities on what they think is important about Europe. That's a discussion I'd love you to open out on, just how you see our emerging referendum. But I was thinking more about your good point, which is the world around Europe is changing. One that worries us when we look at Europe reform is we're lagging behind on some of our traditionally strong areas, particularly on environment and clean energy. Europe is the only place with falling renewables investment, because of the weakness of targets. In China, we're working with the Chinese State Council to green their financial reforms, but there's no mention of carbon risk and climate change risk in the capital markets union. The energy union seems to talk lots about gas pipelines outside Europe when in fact gas demand inside Europe is falling, and in fact, efficiency. So how do you see particularly the energy transformation we're facing, the amazing opportunities for technology coupled with the need to de-carbonize, as part of Europe's competitiveness? Because at the moment, and certainly for the industry we work with, it feels like Europe is falling off the pace just as China and the US and India are starting to get on the pace of those reforms.

Quentin Peel

Is that one of the big focuses for your fund?

Jyrki Katainen

Yes, it is, in the fund. But also I'd like to raise two other issues. I very much like that you said that we are lagging behind those trends, which are very important in the future market. We have two specific issues on the Commission’s agenda which tackles this issue. The first one is a circular economy. A circular economy is not only about recycling of waste, or waste recycling, but it's also, as we understand it, it will be a mega-trend in the world economy in the years to come. It’s a similar type of phenomenon as globalization has been. You cannot avoid it. So we try to find the right tools to encourage positive developments in this field.
Then we are talking about eco-design, for instance, how to design the products so that you can repair them. Or at least, put them in pieces and take value out of it. How to strengthen leasing culture, like some companies are not anymore selling pumps but they are selling [indiscernible], and the same company is paying the energy bill. So there is encouragement for them to create as efficient pumps as possible. The Commission is working with this circular economy type of idea and we try to devise, what are the areas in which we need European-wide regulation in order to incentivize new business models.

The second point is transport fuel protection. We are trying to find the right ways to create a level playing field for member states and for the companies to create biofuels, renewable use or reduce the consumption of use. Enhance electric car production.

But you mentioned Brexit. First of all, like everybody knows, this is an issue which only British people can decide. Second, I would like to see a strong UK in a strong EU instead of a marginalized UK in a weaker EU. Third, the UK has always been and will always be a global power, a global player. But EU membership is not an obstacle in this. You can be an EU member and at the same time an influential global player.

I have studied in Leicester University, so I must say that my European identity has been developed in the UK. I also did my master’s thesis on British conservatives’ EMU policy. Its title was ‘Saving Europe from Itself’. It was a famous phrase of John Brickwood in the Conservative Party platform in 1992. But I have to say that I disagree with many British conservatives in this matter.

Also, I have proposed to look at the issue from a very pragmatic point of view. If Britain wants to reform the EU, why not do it together? I don’t expect the British government to propose only privileges which would hurt the others, because it wouldn’t be fair. Let’s reform the EU, because it must be reformed, together. I am really interested to see the list of issues of what the government is willing to reform in the EU. Let’s try to do it so that it benefits all 28.

Looking at the matter which I said before, this free movement of labour, it seems to be quite problematic here. The Commission will propose something, I don’t know exactly what, in our mobility package at the beginning of next year. This is an issue which must be dealt with in a fair manner. Free movement of people is a core value for Europe but at the same time we have to accept that two issues are not acceptable: social dumping and social security shopping. So let’s try to find a solution together.

I’ve had to deal with this in a very pragmatic manner. Let’s reform the EU together.

**Quentin Peel**

It’s a fascinating dilemma that David Cameron has fundamentally, because the more that his European Union partners say, great, we can do this all together, we can do this – the less he’s going to have to bring back to those who really want big special deals for Britain. We don’t want you to help us do this, we want to say: give us our own deal.

**Question 3**

I used to teach international economics, two flagship courses: economics of the European Union, and international economic relations. I taught them at the University of Herefordshire. I always used to start off on the European one by telling the students that economics was the means to the end. The end itself was much greater, of European union itself. I suppose this is a generational thing, I was born in 1936. That tells you the answer to that one. What I really wanted to raise with you though is this. You
mentioned two principles. One, that you believe that public investment leads to private investment. Secondly, you indicated some sort of ratio of four to one, public investment might generate four times the amount of private investment. But presumably this is related merely to Europe-wide projects. Yet you started off your talk, talking about the general macroeconomic picture of the proportion of investment that was taking place. Then we went on to a discussion about Germany. What I wanted to ask was this: do you think that what you’re going to do is going to resolve the problem of underinvestment in the member countries? I think particularly of Germany, of Schäuble, his mentality, and I wonder whether he differentiates adequately between expenditure on consumption, which he wants to stop completely – zero balance on the fiscal account – and yet there are items like investment where you’re expected a return and you shouldn’t hamper them. I think he hampers them too much with his policy.

Quentin Peel

So a specific question about encouraging investment in a country like Germany, but equally getting the balance right between – is it going to all go to the richer countries, because there the investment projects are better, or can you make the poorer countries, where investment projects are more risky, actually what they need?

Jyrki Katainen

There are plenty of reasons why the private sector is not investing at the moment. Somebody said it’s because of lack of demand – this is true. Somebody is saying because of lack of supply – this is also true, but from different perspectives in different countries. Many governments are not investing because they simply can’t afford to do it. But Germany certainly would have room to invest more, and they should do it for the sake of their growth potential in the future, especially to R&D related issues but also the infrastructure. So they should do it more. We have advised them to do it.

Quentin Peel

Let me pick up on that. Infrastructure investment in Germany – yes, the autobahns are in a bad state; yes, the Kiel canal, the busiest canal I think in the world, its locks haven’t been refurbished, some of them, since the 19th century. But that’s public spending surely. How do you get the private spending into that?

Jyrki Katainen

Actually, yes, this is only one part of the investment side. Germany could do public investments more. For instance, you mentioned some infrastructure projects, but also by channelling some public resources to R&D related investment.

But then, private. There is plenty of liquidity everywhere. It just doesn’t go to the real economy, because of the reasons I mentioned. The structural reforms are needed in member states. But also because we have regulated the banking sector quite a lot during the last five years. It has had some negative indications. So the banking sector, what they are saying to us is that there is plenty of liquidity, they have the capacity to invest, but they don’t have risk-bearing capacity. That is why we wanted to establish the EFSI, which addresses this market failure which has come from the latest banking regulatory side. Not entirely, but partially from this side.

So by using public resources as a guarantee scheme, we try to mobilize private money. I’ll just give you one example, in the country which I know the best. There’s a pulp and paper company which has decided
to invest in a new pulp production line. It's full of new technology, they are taking everything out of wood. The pulp is just a side product actually in the investment. Its size is €900 million. They managed to raise funds worth €700 million but because they are using so much new technology, it's seen as a higher-risk project and the private financers couldn't cover all the risk. So there EFSI came into the picture and shared the risk. So by using a little bit of public risk-sharing capacity, they crowd in €700 million from the private sector. This is the way the fund is supposed to function.

Quentin Peel

I think the question, if I'm right, might be based on a slight misapprehension because it isn't just for cross-border Europe projects now. The FSI can do –

Jyrki Katainen

Can do also national.

Question 3

I could see that your programme was going to work for cross-Europe projects like networks, road and railway networks and so forth. But I couldn't see that it was going to stimulate investment in individual states. I'm worried that in Germany, that Schäuble, who is a lawyer, is interpreting the whole notion of a balanced budget in a way that economists would not necessarily.

Quentin Peel

Okay. Let me take two or three questions in a row.

Question 4

I'm sorry to bring the debate back to Greece. There have been some leaks in the press suggesting that there is a report by the Commission on how to leave the euro, so to speak. 'All you need to know to leave the euro', something like that. Maybe even Mr Juncker seems to have confirmed that this report exists, in the press conference after the euro summit. I just want to ask you whether you can confirm that this report does exist and whether it will be published at some point in the future, and whether you see any problem in the fact that there is acknowledgment that there is a possibility to leave the monetary union.

Question 5

I have a question concerning the capital markets union that was mentioned a couple times here, which I saw as a main project by Mr Juncker. Because of the lack of trust right now – and the capital markets union, of course, would allow us to give means for the small companies to get the funding that you're mentioning, non-public funding. So will allow them to actually raise it. But it's really long-run projects, and with the current lack of trust in the European Union, do you see it as a barrier on [indiscernible] project? Are we able to implement it in some foreseeable future or we have to put it back right now?

Question 6

The vice-presidency structure is clearly a new one, with this new Commission. Reflecting upon siloed mentality in the previous Commission – in my sector, for example, competition and digital not being
viewed together was causing issues – what is your view now that you have more than six months under your belt? Has your role evolved as you expected? Is the Commission happy that the vice-presidency structure is really adding value and there is a holistic view coming through?

Jyrki Katainen

President Juncker said in the press conference that he has at his disposal all the possible plans, all the possible scenarios. He and other people in the Commission had prepared, according to what he said, all the scenarios in order to see how things could go or what the Commission should do if different scenarios appeared. I haven’t seen those papers so I just quote what Juncker has said.

Quentin Peel

Could you have written one of those papers?

Jyrki Katainen

No. It’s so challenging.

Quentin Peel

But actually, I think when you were prime minister, you did talk about the need for having exit scenarios worked out.

Jyrki Katainen

Actually, we did not have – I don’t remember we had any time this kind of discussions, because we didn’t think that any country could go as far as Greece has gone. Just seven months ago, Greece was on a path where growth was second-highest in the eurozone after Ireland. Everybody was just talking about a precautionary credit line which could have helped Greece to come out of the crisis, or the package. The unemployment rate was coming down and the banks managed to raise equity from the market worth €10 billion. So things were moving in the right direction. The primary surplus was the highest in Europe. So exit has never been an issue before now people have started to talk about it. But obviously the president of the Commission needed to be in a position to assess what we have to do as a Commission if something bad happens.

About capital markets union, there will be – [indiscernible] has said capital markets union is not an issue which can be created by one law. Instead, it’s a series of proposals or changes. It will obviously take some time but our aim is to deliver as fast as possible with those proposals which could change, as you mentioned, the SME financing opportunities. That’s why [indiscernible] is working with a securitization model which could diversify the source of funding to SMEs.

Another issue is the prospectus directive. Hopefully those could be pushed through the parliament at the Council as soon as we did with EFSI, only six months. Then we are considering whether we should change the solvency tool framework in order to allow the insurance sector to invest more in infrastructure, because the capital requirement is quite stringent at the moment.

So I think there will be lots of work for the next four years. But at the same time, I do hope that the [indiscernible] could push those proposals as soon as possible.
The vice-presidency structure – thank you very much for asking this. This is an interesting topic, many people are asking how it functions. First, when looking at the current Commission, we have six portfolios less than previously. It means that the remaining portfolios are wider and more meaningful. If you are a minister or commissioner, you are usually in this position because you want to change the world. If you are given very little and tiny portfolios, it doesn't make a change. You still want to change the world but then you are producing huge amounts of little nonsense proposals. That's why they reduced the number of portfolios. It was a very wise thing to do. So six portfolios less.

Then there are seven vice-presidents. Federica Mogherini, as the High Representative of the EU, her role is very unique. Then my dear colleague Kristalina Georgieva is like the host of the house, responsible for the budget but also administration. Of course, she is closely working with the other commissioners but she is the hostess of the house.

**Quentin Peel**

It makes it sound very nice, doesn’t it? She's got a really nasty job.

**Jyrki Katainen**

She is the best person to take care of economics. Ansip, Sefcovic and Dombrovskis, who are working very closely with the commissioner who has a similar type of portfolio. They are working, Sefcovic and Ansip, in the fields of internal market, deepening the internal market, with a fellow commissioner. Dombrovskis is working very closely with Moscovici.

My role differs from probably the other vice-presidents' portfolios in the sense that there is not one single commissioner who would have the same kind of portfolio as I have. Instead, I am working very closely with nine or ten commissioners. I am coordinating the work of the capital markets union, the circular economy, investment plan. I'm co-chairing the trade policy group. It functions extremely well. I am so happy to have this kind of coordinating role because looking at, for instance, capital markets union, [indiscernible] is leading the process but it's not only about financial services. It's about insolvency. That's why it makes sense that the justice commissioner belongs to our working group. Also it's about taxation, that's why it makes sense that Moscovici is part of our working group. So there are several commissioners who touch the same issue from different angles.

**Quentin Peel**

But if one of them isn't doing what you want, do you have the power to say 'jump'?

**Jyrki Katainen**

Of course, everybody wants to avoid conflicts, but basically it goes so that if some commissioner wants to start some legislative proposal and he or she belongs to my coordination group, they usually come to me and say, I have been planning to do this. I say, okay, it sounds good, go ahead. If there is something which I don’t think is right, I say: let's consider this a bit more. How about if you changed the focus to this direction? Or basically I could say 'no' completely.
Quentin Peel

But do you not have the problem, or has this been resolved, that none of the vice-presidents really have a chunk of the bureaucracy to do? So all your lower-down commissioners have actually the civil service to support them.

Jyrki Katainen

That's right, but we have the secretariat-general, which is kind of our DG. Of course the secretariat is helping all the –

Quentin Peel

[indiscernible] new one? Who's replacing –

Jyrki Katainen

[indiscernible], a Dutch director-general will replace Kathy. So the secretariat is our DG. But also we are working very closely with the services. I have very close personal contact to many director-generals in various DGs, because we need to work closely in order to get results. So it has been a smaller problem than I personally feared before I started.

Question 7

I'm very interested about how you see the viewpoint from the IMF, that the Greek debt needs to be restructured and is not sustainable. Do you think the IMF really play a positive way in the process of bailing out Greece?

Question 8

You were discussing earlier professional qualification reform. We also mentioned free movement. In this country, anyone from the EU is free to set up a business with just a pound. They're free to own an architectural firm without being an architect necessarily. They're free to access the NHS and claim benefits without having contributed. They're free to be a pastry chef without having done two years of qualification. You're not always free to do all of those things elsewhere, so I was just wondering to what extent you saw those two issues of freedom of movement in a purse sense, and freedom of movement to do stuff that people actually want to do, as linked, and how you saw that working out.

Question 9

How much of the €350 billion has been committed so far, and has any been committed to Greece at all?

Jyrki Katainen

The IMF has been in a key role in the Greek crisis. Many of our member states would like to see the IMF also in the future on board, not only because they would share the financial burden but also because it's been very good collaboration and partner to other institutions involved. The IMF is not the only organization who has proposed restructuring the debt. I mentioned that sometimes – I don't know if it's
part of the third package, if this really exists, or later on I could imagine that some sort of re-profiling could take place. But I’m not participating in the negotiations so I cannot say more about the issue.

**Quentin Peel**

Do you think it's essential that the IMF should be part of the process? When I was in Berlin, there was a huge battle between the chancellor's office and the finance ministry as to whether to bring them in. In the end, one of the reasons that Angela Merkel insisted they came in was because she didn’t trust the Commission.

**Jyrki Katainen**

The Commission doesn’t have any official line on whether the IMF should be on board or not. But I know that many member states are in favour of this. I was very much in favour when I was in my previous job, because I think it was very good to use the IMF’s [indiscernible].

**Quentin Peel**

Wolfgang Schäuble wasn’t in favour of it but he's come around to it.

**Jyrki Katainen**

I don’t know the purposes for this, but as I said, I’m not involved in those negotiations. But many people have raised this issue to restructure the debt in some time, but of course the most important thing is to do reforms and implement everything before starting to negotiate on this issue.

I didn’t get your point – could you repeat shortly what was yours?

**Question 8**

I think it was more an observation that the reality is that people want to move to a different EU member state to do something, and the UK has a relatively liberal economic regime when it comes to professions. It has a different benefits regime, but I’m less interested in that. I was just wondering, a lot of countries will assert that freedom of movement is very important but they have, for example, labour market or professional regulations which mean that the relevance of freedom of movement to come there is much less so in their economies, because people can't come there to join the workforce in the way that they want to. So I was just wondering whether you saw a link between those two issues and if so, what exactly that link, you would want it to be. How does that influence your thinking about reforming professional requirements and qualifications?

**Jyrki Katainen**

Thank you. It's quite obvious that there is a link between the flexibility of the labour market and free movement, the inflows of people. 'Work creates work' is a principle which I believe very firmly. That’s why we have to take care of labour supply in all the member states. One of the reasons why the British economy has grown quite fast is because of the labour market. Its labour supply helps the UK to keep up a good economic growth. We have seen a similar type of phenomenon earlier in Germany, because they did labour market reforms which strengthened the labour supply. In Sweden they did the same. They concentrated on labour supply and it has helped them to post economic growth.
That’s why labour market-related issues, including liberalizing some closed professions, could be reasonable. It depends on the country and the size of workers who are involved in those areas, how big an impact it has on the work supply.

The €350 billion – I think there are not any decisions done to Greece. The FSI will be officially up and running in September but EIB has promised to start pre-financing some of the projects. They have warehoused some of the projects which will be put under the FSI once it’s up and running. So there are less than 20 projects. They are either infrastructure projects or SME financing, fund-to-fund investments, one of which came to the UK. But I don’t remember – I think there is nothing to Greece so far, because there should be a private sector player who is investing in something or a bank applying risk financing from FSI. As we know, this is not the situation which could – it’s not possible from their side to apply any risk financing. But in the future, if we manage to stabilize the situation, it’s possible for Greek entrepreneurs and industry to use those facilities too.

Quentin Peel

But are you not worried you’re going to get completely inundated? Didn’t the EU task force identify at least 2,000 projects for €1 trillion?

Jyrki Katainen

It was an indicative list of investment ideas, not even needs. It was a wish list. Some of them will end up with real EIB assessment but there were also some projects which didn’t look that good. Many of them were pure public sector projects which will never qualify under FSI principles.

Quentin Peel

Right. Commissioner, thank you very much indeed. Thank you for your time. Thank the audience very much for being here. I hope you’re going to go on and share some of your thoughts about the right reform agenda with the British government before you leave.

Jyrki Katainen

Thank you very much.