SPEECH BY GRAHAM WARD, PRESIDENT, THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES AT THE COLLEGE D'EUROPE ON 21 MARCH 2001

CAN EUROPE WIN THE GLOBAL RACE?

Rector, Governor, Your Excellencies, Ladies and Gentlemen,

This is the second occasion on which a President of the Institute of Chartered Accountants in England & Wales has been invited to address the College d'Europe. So let me Say immediately both how delighted as well as honoured I feel to see so many of you here this evening on what my grandmother always told me is the first day of spring.

I am most grateful, Rector, for the opportunity to exchange views not only with those of you who have helped to create the European union but also those such as the Polish Ambassador, the several Members of the European Parliament or indeed Edith Kitzmantel and Jules Muis, as well as – or rather above all I should perhaps Say – the students of the College here in Bruges and in Natolin, who will help create the European Union of the future. It would also be remiss of me not to thank the newly arrived British Ambassador, Gavin Hewitt, who has made attendance at this event one of his very first engagements.

I am particularly pleased that so many of you have been able to come from Natolin. I have often visited Central and Eastern Europe, and especially Poland, in my role with my firm on the transformation of the energy sector and as a member of the Executive Assembly of the World Energy Council and I have always found a most warm and generous welcome.

Every speech these days seems to begin with the challenges of globalisation. But I think it is worth reminding ourselves, even in this august Company, that globalisation is challenging the roles of government and of the state. In a world of internationalisation, the role of the state was recognised, and the economic and political borders acknowledged.

But now, globalisation is breaking down borders, both economic and political, through technology, trade liberalisation and deregulation. Now there is tension between the role of government and the demands of the markets. One might indeed ask: is economics controlling politics?

For the European Union, the question has significant resonance. At a time when we read about downswings in stock markets and the danger of major economic slowdown, the corripetitiveness, stability and sustainability of the European Uriion economy, in a global context, is of vital importance.

It is in times such as these that dysfunctional relationships between nation states and their governing institutions could be niost harmful. The EU has rightly been called the most impressive achievement of social and political engineering in the 20th Century. Now it aims to become the most impressive feat of economic engineering in the 21st Century. Europe as a whole will become 'the most competitive and dynamic knowledge-based economy in the world'.

That is the stated vision. But, can Europe win the global race? More important perhaps, does Europe really, deeply want to win the global race?

I must Say here that my point of view takes much of its colour from my professional background. The accountancy profession consists of some 400,000 qualified accountants and auditors in Europe. And I am both bound and proud to point out that almost one quarter of them are members of my Institute. Indeed, the world's 15 international accountancy firms generate an annual revenue of some €90 billion – the annual budget of the European Union.

In the United Kingdom, Chartered Accountants are regarded as holders of the country's premier business qualificatioii. From business advisors of small companies to finance directors of multinationals, as well as contributing to both the private and the public sectors, Chartered Accountants are intiniately involved in every aspect of ensuring financial integrity and business success in many counti-ies in the world.

And so, as you might imagine, my view is business oriented. When I talk about prosperity and competitiveness, my view is that whilst they can, and must, be enhanced by forward-looking regulatory and political initiative, they rely on and are underpinned by businesses, both large and small, across the length and breadth of the European Union. A dynamic, innovative and benign operational environment is extremely important for business and hence, for Europe's prosperity as a whole.

It is in the light of these thoughts that I address my talk to you today.

The answer to 'Can Europe win the global race?' can be found by posing two further but simple questions:

What does it mean to be European, and how can we work as a single entity?

And:

What are the global pressures and what is Europe as a whole doing to address them?

What does it mean to be European and how can we work as a single entity?

This morning I flew over the Channel from the City of London, or the square mile as it is often called by Londoners.

There is a saying in the City of London that there are more American Banks in London than in New York and more Japanese Banks than in Tokyo. The British no longer own London. Most of it is, in fact, owned by continental European businesses.

For Britain as a whole, over 50 percent of all its trade in goods and services is with the rest of the European Union. Indeed, over 3 million British jobs and one seventh of all British income and production, are linked to trade with other EU member states.

Why, after 30 years of EU membership, do the British still not feel European? So often you hear the British Say 'Ah yes, my son (or my daughter) has gone off to Europe'. For the average person in a London street, Europe clearly is elsewhere! I hasten to Say here, that I myself am emphatically pro-Europe and know that Britain is part of it. Indeed, I have my own European Union – my wife is Italian.

But, as a nation the British tend to fluctuate in their attitude towards their participation in, and views on, Europe. I have no doubt you have seen or read yourselves, how unsympathetic the populist British media can be towards the EU. But I know that this feeling that 'Europe is elsewhere' is not confined to Britain alone.

One might expect this nationalistic attitude from the general population of any individual nation state – after all, they do not have the benefit of being close to the decision-making processes of the EU. The question is, do we expect it of those who are at the very forefront of, and therefore intimately involved in, those processes? Furthermore, do those decision-makers not have a distinct responsibility to ensure that the very people they are representing understand and buy-in to the policies they are creating?

We know we have a problem when Romano Prodi himself has cause to criticise inter-governmentalism within the Union as undermining the Union's democratic nature. We can be certain that if this behaviour continues, we will have an even bigger problem when the accession countries join and their voices are also added to the general clamour for individual consideration.

The reality is that in terms of sovereignty, law and government, we are all to some extent European. From the Treaty of Rome through to the Treaty of Amsterdam, and now to the Treaty of Nice, national sovereignties have been shared and qualified. In the practice of government, the intimacy of co-operation with partners in the EU has no parallel anywhere else in the world and has no historical precedent.

Given these facts, plainly, the question that remains for all of us is: do we wish to subscribe to a set of European standards in all things? The answer is currently a qualified yes – that is, yes we do, but only where it suits us.

We wish to see the economic and social benefits of a single market but (and you will understand why I use this example because it is a tradition of ordinary British people) we wish to be able to buy beer in pints! The British are very fond of the pint, their traditional measure of drink. They don't want half a litre. The fact that their pint of beer is often Belgian beer does not generally occur to them. Furthermore, though it is not currently on the metric agenda, I fear there is no way that City of London corrimodity traders could be persuaded to call the 'Square mile' the 'Square 2.8 kilometres'!

So what we need to let people know is that one of the major purposes of the EU is promoting the prosperity of peoples by promoting the prosperity of business.

Then, whether you buy half a litre of beer in Bruges or a full pint of beer in London, it really does not matter. The fact is that people like their traditions from place to place. It gives them identity and a grasp on their lives. National differences are what anchors their pride.

At the risk of being somewhat heretical, some part of me says that what we need is a US-style approach to Our problem. Consider President Bush's inaugural speech, when he said:

'America has never been united by blood or birth or soil. We are bound by ideals that move us beyond Our backgrounds, lift us above Our interests and teach us what it means to be citizens. Every child must be taught these principles. Every citizen must uphold them.'

These ideals are seen to make Americans more American. They promote an emotional attachment at the same time as embracing a diversity of culture.

I do not suggest that we become American. I merely Say, are these not precisely the kind of sentiments that Europe needs to inspire in her citizens - to make them proud to be European – whatever member state they come from?

There must be some emotional identification with the common cause – artificial, invented political structures cannot survive without a bond of emotional identification, without some shared myth, some mystique, some 'magic'. As it currently stands, we now face, as Rector von der Gablentz has so rightly pointed out, 'the consequences of building Europe without educating Europeans'.

How can we work as a single entity?

The translation of that emotional identification on an institutional basis is therefore critical. Institutional separateness in econorriic affairs has the power to destroy many of the potential advantages of a single market. That identification has two focuses.

One comes from public acceptance of the legitimacy of those institutions and their decision-making processes, coupled with recognition that they are working for the common good.

The other comes from the identification of those institutions, one with another. In the European context, this applies as much to the relationships between national governments and regulatory authorities and their relationship with the European Union, as it does to the relationships between the European Institutions per se.

Public acceptance

I have said that we need to let people know that one of the major purposes of the Union is promoting the prosperity of peoples by promoting the prosperity of business.

But what is it that people currently see? Unfortunately, the popular perception is one of more and more regulatory output for its own sake. Somehow, we need to create an atmosphere where European corripanies look at the Commission as helping them to compete in world markets so that the Commission is perceived as an aid to prosperity, not as a handicap.

But a barrier to this view is the public perception, and let us be honest here, of extremes of bureaucracy leading to financial incompetence.

What is the public to make of the Court of Auditors saying year after year that the commission's accounts are imprecise and that it has identified 5% of EU payments as irregularities? What are they to think when Michaele Schreyer, the Commissioner for Budgets, herself says that it could be 2003 before the Commission can produce a budget that reveals a clear picture of where the money has gone? In some respects, worse still, what do the world's other markets Say when they hear of these things?

"Surely," Say the markets, "sonie of the 17,000 officials of the European Conimission who manage the €90 billion budget must know what is going on?" The answer is, of course, that without a highly effective system of financial control, it is very difficult to keep track of the output of such a vast number of people.

Moreover, the significant fact is, of course, that more than 80% of the EU budget is handed back to its members to manage for various projects. My own view is that the transparent reporting of where subsidies are going and the outcomes in the use of those subsidies must be a matter for public record. Surely, if one member state is found to waste EU money, the Commission must have a duty to act on behalf of the other 15 and ensure that such abuse is stopped. This is the kind of action that would enhance public confidence in, and respect for, the Institutions that are seen to be in control.

As President of the Institute of Chartered Accountants in England and Wales, the profession that gave the world its first corporate governance code in 1992, i support the efforts that Vice President Neil Kinnock is making in building a culture of accountability throughout the whole of the European Institutions – and indeed I have told him so.

Corporate governance, the system by which you ensure operiness, transparency and accountability in an organisation, came about initially following major financial corporate collapses in the UK during the late 80s and early 90s. My Institute created a code for ensuring that sound financial governance could be built throughout an organisation. This was adopted by the London Stock Exchange for listed companies and today, these principles have become accepted and adopted worldwide as being as critical for public organisations as they are for pi-ivate corripanies.

Thus the empowerment of the European Court of Auditors, the creation of a new Internal Audit Service in the European Commission and devolution of responsibility to the Directorates General for approval of budgets, are all serving to entrench sound financial management and accountability at every level.

Nothing is ever that simple of course. The understanding of overarching financial matters by existing European decision-makers has not been a deep one. Nor has this been counterbalanced by the influence and economic knowledge of the accountancy profession, who have been overlooked by policy makers. If accountants had been allowed to assume a more important role in the development of Europe's Institutions, those Institutions would now be much stronger – and subject to less challenge.

The widely-held European view of accountants as bookkeepers has contributed to this lack of financial know-how at the top of the tree. Policy-makers in the EU are not often accountants. They are principally lawyers or economists or philosophers.

The reason for this can be put down to history. Historically, the ruling classes in Continental Europe and in Britain looked down on business: the creation of wealth was mere 'trade'.

In Brussels, the glamour goes with making policy or negotiating treaties, and it is management that is 'trade'. It is ironic then, that I find myself making these remarks here in Bruges, in one of Europe's historic centres of culture and commerce and one which was the precursor to Our modern stock exchanges, to an audience most of whom have either already made major policy decisions for their countries or will do so in future.

In my own profession, Chartered Accountancy, we are trained to take the holistic view – we not only know how finance underpins a business, we know how to manage the business, grow the business and sustain the business. This is not rocket science, this is commercial common sense. And we are as different from bookkeepers as are architects from building workers.

The great achievements that Europe has so far attained will all be at risk if sound financial practices are not rooted in its management and if transparency and accountability in national governments and agencies are not a prerequisite of membership. Our aim in this must be two-fold: to build confidence amongst the members of the internal market and to build confidence in the international markets.

How are we working as a single entity?

This necessity for confidence building also has its roots in something I mentioned before: that institutional separateness in economic affairs has the power to destroy many of the potential advantages of a single market. And nowhere, in my opinion, is this power more evident than in the critical need to build a single securities and financial services market.

Those global pressures that I spoke of – driven by technology, trade liberalisation and deregulation – apply in equal measure to the financial services market as they do to the capital market. If anything, I predict that competition in the financial services market will explode the minute the internet can be used wholesale to sell pensions, insurance and mortgages across borders directly to the consumer.

So it is here that my point about the relationships between institutions across Europe, one with another, comes into play. In regulatory terms, the relationships between the authorities of member states are far too complex and diverse. This is a case in point of where we are most definitely not working as a single entity.

Baron Lamfalussy, Chairman of the Committee of Wise Men, who will be joining us shortly, recently called Europe's 40 regulatory regimes of differing powers and competencies: 'a remarkable cocktail of Kafkaesque inefficiency that serves no-one'. I agree, it is a regulatory nightmare for companies.

The Committee of Wise Men, which was set up to look at the obstacles and opportunities in building an integrated European financial market, recently published its final report. The report stresses the need for openness, consultation and transparency to strengthen European financial policy making, a breaking down of what Baron Lamfalussy calls the 'secrecy shibboleths of the past'.

His Committee has had a tough time. It has had to walk a tightrope between finding a way to ease the critical path to consensus between the European Institutions and facilitating the critical path towards greater integration in regulation.

It is plain that 40 regulatory regimes are hindering market unity and efficiency.

We might ask ourselves: do the Institutions and the member states really want to have an efficient capital market?

Economics is driving politics and business and the markets will not wait. A single financial market needs to be built swiftly. For business to succeed, it requires institutions and the regulatory environment to change quickly to deal with changes in business circumstances and market developments. Over-emphasis on institutional process means that you can miss the opportunities altogether. We must not imprison European business behind an impenetrable wall of bureaucracy and institutional in-fighting.

So, this brings me to my second question: what are the global pressures and what is Europe as a whole doing to address them?

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What lies at the heart of it all is the cost of capital, the utimate determinant of competitiveness. The lack of a developed 'equity culture' (a culture readily and easily trading in stocks and shares) has been one of the key barriers to Europe matching America's growth record, so it is encouraging to know that the forthcoming Belgian presidency plans to make venture capital a priority for the latter half of this year.

For the international markets, the current slow-down in the US economy is a pressing concern. The reverberations are being felt around the world. We have seen that the Australian econoniy, one of the developed world's strongest and most consistent performers in the past decade, shrank in 2000 for the first time since 1991. And the reportedly imminent resignation of the Japanese Prime Minister, Yoshiro Mori, coincides with a sharp drop 'in Japan's stock market and further signs of a deceleration in that country's econoniy.

Against that background, the effects of the Lisbon Summit's con-iprehensive and ambitious agenda -under the broad themes of irinovation, liberalisation, enterprise and social inclusion – have acted as an incentive towards economic growth for Europe that is on target – close on 3 percent this year. Europe is buoyant. It is, as people are saying, becoming the 'locomotive for the world economy'.

But still we look to the US as the barometer of world economic stability.

Why is that? I believe that the lack of a single cohesive European capital market means the dollar remains king. We are forever chasing the dollar's tail while it swings whichever way the American economy dictates. So the failure last week of Europe's

.finance ministers to reach agreement on whether and how to implement the reform of the Union's capital markets, makes discussions at this week's Stockholm Summit even more important.

If Stockholm does not give a positive response to integration of the financial market, it will set back the market's development by many years and thereby seriously damage Europe's future competitiveness. As a measure of the urgency in this, the British government is in favour of bringing forward the implementation of the Commission's Financial Services Action Plan to 2004 or even 2003.

While the US economy slows down, its Federal Reserve has, as you will have heard yesterday, begun cutting interest rates. And now, the European Central Bank is under pressure to do the same. One way in which Europe could counter this kind of pressure, is to foster closer monetary and fiscal economic policy co-ordination between the Bank and government policy makers. It would enhance the credibility of the euro and European economic stability. It would also have the added benefit of giving a boost of confidence to the accession countries. For them in particular, the danger is that if confidence erodes, the financial markets could become 'risk averse' and seize up. Investors would be less likely to invest in new or emerging markets making access to capital difficult and expensive for accession couritries.

And here, no doubt, many of you would like to know whether or not Britain will join the euro. The simple answer is 'i don't know': the country is divided on this issue. But Our government is coming under pressure from business to ensure a decision is made soon. A recent survey suggests that nearly two-thirds of Britain's biggest corripariies are in favour of joining the euro, even though they do not expect it to make much difference to their sales or profits. What they believe it will do is improve their market valuation by virtue of joining a much larger market.

My own Institute will shortly be undertaking a survey across Our membership of 120,000 Chartered Accountants to gather their views, though, of course, we have been advising businesses on how to prepare for the euro for some years.

So where are we succeeding? The recent acceptance by member-states, to benchmark their progress with economic and structural reform will, I believe, be a positive step in encouraging high standards and best practice. Chartered Accountants on the whole tend to believe that comparing your performance against your peers or your competitors, is a critical exercise in ensuring that you remain competitive. And ensuring the competitiveness within Europe – that is, across all member states – is a vital step towards building the competitiveness of Europe as a whole.

I very much welcomed the recent decision by Parliament to simplify and improve the regulatory environment in the Union overall and to release an action plan by the end of the year. In particular, the Comrriission's decision to exarriine alternatives and complementary approaches to legislation, such as self-regulation and co-regulation, shows a solid move in the right direction.

With the programme of enlargement, we are building a market with far greater potential. Larger markets are in themselves a virtue because they spread the cost of innovation: of research and development. That is one of the economic advantages the US has exploited so well and is something we should aim to replicate and to beat. European laws on intellectual property rights are key components of Europe's long term competitiveness and absolutely critical to get right in today's knowledge-based economy.

And of course a larger market is also one which will give investors more confidence. One of the problems that has been facing accession countries is that overseas businesses and investors have treated them as a homogenous market. They suffered in particular during the Russian financial crisis, which negatively affected overseas investors' perception of the whole region as a potential investment location. So entry into the single market, the larger market, will help overcome this kind of perception. It may also mean the development of alliances with the established markets in cities such as London and Frankfurt. After all, who is to Say that the Baltic nations, whose growth rate together with Poland will soon hit 6-8%, might not become a new economic hotspot for Europe?

One of the major steps Europe has taken to enhance international confidence in its markets is through the Commission's decision that, by 2005, companies who wish to list on European Stock

Exchanges will have to prepare their group accounts in accordance with a single international financial language. That is International Accounting Standards. By using one common set of standards to prepare accounts, investors will be able to compare the performance of companies from all over the EU on a like-for-like basis. It gives investors confidence in the truth of the Financial figures.

My profession warmly welcomed the decision to go ahead with this. It is good for business, good for investors and good for the market.

CONCLUSION

So what are my conclusions? I asked the question: What does it mean to be European and how can we work as a single entity?

I have mentioned that in many member states, not least in Britain, people are ambivalent towards Europe. It is not necessarily a part of their lives. And I have talked about how institutional differences – inter-governmentalism – slow down decision-making and so destroy potential advantages of a single market.

I have come to realise that we so often talk of institutions yet we forget that we need people – people to create policies, people who believe in them, people willing to implement them. The troubles in the Middle East have shown that promises of economic prosperity are not enough to get people to put aside their historical differences.

The arguments of economics are not sufficient to ensure buy-in and belief. I believe that the political, cultural and moral case for any change, one that resonates with the average citizen, can only be put forward through leadership. Strong leadership, that promotes uriity of purpose while respecting individual traditions, is the answer to ensuring cohesion.

And the College d'Europe, both here in Bruges and at Natolin, has been and will continue to be a critical resource for Europe in ensuring that the new generation of committed European leaders has the knowledge and ability to take up that leadership challenge and make a difference.

For these reasons, and in recognition of the critical work of the College in preparing students as potential future leaders of the European Union, it gives me great pleasure to announce that the Institute of Chartered Accountants in England and Wales would like to award a prize of €1500.

Since we are currently undertaking the most impressive feat of economic engineering in the 21st Century, I would like to award the prize to the student of the College who produces the best essay on *The economic benefifs of European integration.* Monsieur Monforti, your Academic Secretary, will provide you with full details over the next couple of weeks. The prize itself will be awarded at the closing ceremony of the academic year.

Last week, the Director of my Institute's Centre for Business Performance visited Natolin where he was warmly received by Vice-Rector, Piotr Nowina-Konopka. I hope very much that we will find ways of working together with the College d'Europe, both in Bruges and in Natolin, on projects of mutual benefit.

I return now to my second question which was: what are the global pressures and what is Europe doing to address them?

Europe has achieved so much already. But people are looking to the Stockholm summit at the weekend as one to transform Europe within a decade into the world's most competitive and dynamic knowledge-based economy. I reserve the right to make my judgement after the Summit. We will judge its success on whether the heads of government can push forward concrete and practical steps to reduce the economic barriers within, and between, member states. Barriers still remain in critical areas such as those of financial services, energy, or postal services.

So personally what I am looking for, a year on from the Lisbon Summit, is some evidence that the rhetoric of the past has been replaced with a realistic plan for action and thoroughgoing commitment to achieve it. In the conduct of business you need goals, targets and deadlines. This must also be true in the business of the Summit. And clearly, overall, I would particularly like to see the implementation of a single securities and financial services market as a matter of priority. The pressure for lowering the barriers to such a market has never been greater. After all, as I have said, one of the major purposes of the European Union is promoting the prosperity of peoples by promoting the prosperity of business.

As to the final question: can Europe win the global race?

We know what happens to people who stay in the middle of the road: they get run down. There is no middle way for Europe to compete in the global race. We must give wholehearted commitment to its success and sustainability in a way that shakes off the ties of national considerations.

Our global race must be put into the frame of global stability and sustainability. Europe is on its way to becoming the 'locomotive for the world economy'. We must ensure that we give wholehearted commitment to building Our own European economic stability and sustainability before we can begin to realise the true potential of Europe's place in the global markets.

We, Europe, can win the global race but only if – through and through – we really, deeply want to.

Rector, Excellencies, Ladies and Gentlemen, it has been an enormous privilege and pleasure to have been your guest in Bruges. Thank you so much for giving me this unique opportunity.