



Q&A session

Xavier Musca - Deputy Chief Executive Officer, Crédit Agricole

David Wright - President, EUROFI

David Wright

The Chair welcomed Xavier Musca and introduced him. He noted that all elements of the economic recovery package, including the Capital Markets Union (CMU) and sustainable financing have been discussed. Much of the large package and future EU budget – around 30% or more – is being devoted to so-called sustainable development. The Chair asked if this is right.

Xavier Musca

Xavier Musca agreed that it is the right thing to do, for environmental and also for political and financial reasons which support the choices being made at the European Council. The first is that energy has historically played a major role in the construction of the EU. It started with coal. Steel and coal were at the heart of the community, which meant energy at that time. The Euratom treaty followed. It is appropriate that Europe should remind itself that it is not only a common market, it is also common projects, and common projects in energy are essential. The recent shift in this direction is proof of the importance of common projects in the energy sector which are vital for economies.

It is also financially important. During the past five years, sustainable bonds emission has multiplied by seven, part of which – 60% – comes from European issuers. Europe has taken the lead in this type of finance and it is not often that it shows such a strong presence in the financial field. The choice made by the European Council is also an opportunity for finance in Europe to take advantage of the new situation to reinforce its presence in this segment of the market, which is exploding.

David Wright

The Chair asked whether EU strategies on sustainability are well-defined and if emerging rules on green finance and standards are clear enough. The question is whether

putting 30% of financing towards sustainability will generate sustainable economic projects and business opportunities.

Xavier Musca

Xavier Musca responded that it gives a direction or a signal, but there are issues to be clarified. One of the current debates which will take place at the European Parliament, as well as in society, is to know precisely what sustainability means. This must be clear because, to be consistent, the choices being made should align with the Paris Agreement strategy. Crédit Agricole took this approach and will ensure all policies are consistent with the objectives of the Paris Accord, which means taking a transitional approach.

Energy today comes mainly from fossil fuel energies and there needs to be a progressive shift. That implies that all sources of energy must be considered, and clear priorities set. Exiting from coal is the right priority and Crédit Agricole will follow the Paris Accord in this, with a full exit in 2030. This supposes continued support for nuclear energy and gas, as that is not a political choice. That is the scientific choice which has been made by the experts who have backed the programme. It also supposes an incentive and not a punitive approach is taken in defining objectives. A brown-penalising factor is not ideal, as every company's strategy and progress must be considered, even if it is not directly conducive to clean energy immediately. Switching from coal to gas is progress and companies and countries should not be penalised for choosing to do so.

David Wright

The Chair wondered whether the own resources aspect of the economic recovery programme would include increased revenues to the EU from the border adjustment tax or from a plastics tax. Incentives must be aligned throughout the whole economy towards these sustainable goals.

Xavier Musca

Xavier Musca agreed, while being realistic. Many companies and countries are moving from coal to gas and hurdles should not be placed in the road because, although the solution is not perfect, it is a transitional solution which improves the situation. In finance, not only is the value of green bonds important, but also that of transition bonds, which means that progress is made even though the energy used is not 100% green. It is a step-by-step approach, a progressive approach and a realistic one. The solution cannot be one which would be perfect from an intellectual point of view but would not function from an economic point of view. Supports are necessary, as is the idea that the tax regime and the price of energy would reflect choices being made, otherwise it would be quite painful to go in the direction assigned.

David Wright

The Chair asked if any points could be improved on in the sustainable finance framework and whether it is precise enough or too vague in allowing anything to be classified as green, when in fact, it is not.

Xavier Musca

Xavier Musca noted that a key issue is data. Banks and financial institutions are supposed to make judgements to provide loans to companies and to report what they

do in this regard, but they lack data. To function properly and smoothly, incentives must be aligned, and companies encouraged to publish the right set of data. Otherwise, banks are in a world of ambiguity and uncertainty which will make their lives difficult.

Another issue is ratings. When talking about environmental, social and corporate governance (ESG), allowances are clearer and more precise in the energy sector than in others but remain uncertain and fluid in the world of governance, for example. Creating a real asset class requires efforts at the European level to better define ESG criteria, to make them clear enough and sufficiently in accordance with European model priorities. There is a governance issue, rightly reflected in ESG.

David Wright

The Chair raised the issue of millennials and younger people, and their future investments. Research suggests that younger people's investment thinking is different from that of earlier generations. He asked whether the ESG concept could be a way to attract retail investment into equity markets if properly designed.

Xavier Musca

Xavier Musca pointed out that the Crédit Agricole has seen a positive effect on the commitment of employees and people working with the company from having a clear commitment towards ESG criteria and principles. They are more positive about the company and more prepared to engage themselves in their role. It is important because millennials are often portrayed as not putting all their lives or main interest in their work. They are looking for something outside their work to give a meaning to their lives. ESG issues are a way to reconcile young people with companies and the work of enterprises.

For investment, there is an increasing customer demand to be reassured in this regard, but here projects and investment opportunities are lacking. The issue is not about the financial products themselves, but that the underlying economy does not yet provide all the necessary and desirable investment opportunities.

David Wright

The Chair noted out that for ESG it is easy to be clear about what the E stands for and also the G. S is much less clear. He asked what Xavier Musca considers the S part of ESG stands for.

Xavier Musca

Xavier Musca queried whether everyone is clear about what G means. Rating agencies consider that if employees sit on the board, that is not in accordance with G, because the board should express the interest of shareholders and the fact that others than shareholders could be represented is a problem. Even on this ground, there are things to clarify about what G is for countries like Germany in which the presence of employees in the board is mandatory and France where companies often have them on the board.

Social is even more difficult to give a sense to. It supposes respect for the social laws of the country, for the rules of the game, for the role of trade unions and not accepting that the difference of salaries between certain categories is too high, in particular between top management and other employees.

It also supposes that gender equality is fully respected at all levels. That is one approach to S. Amundi has mechanisms which state that the difference between the best-paid people in the company and the lowest should not exceed a certain level. That is a way to reflect some kind of social cohesion.

David Wright

The Chair asked Xavier Musca what he would say about macroeconomic risks if he were back in his previous role as the Chair of the Economic and Finance Committee and speaking to ministers later.

Xavier Musca

Xavier Musca remarked that the over-evaluation of certain assets and the risk of a likely bubble is a concern. It reflects the choices made on monetary policy. Without criticising, it is important to be aware of the potential risk of this situation. Ministers should be alerted to the fact that the situation is not sustainable and there are risks on the financial markets. They should look at banks, obviously, but also to other financial actors of significant size, which are not as well regulated and supplied as banks and in which precisely this over-evaluation of assets could lead to an unsustainable situation. ■