



Exchange of views

Xavier Musca - Deputy Chief Executive Officer, Crédit Agricole

David Wright - President, EUROFI

David Wright

Good evening, everybody. I have the great pleasure of having with me here on the stage Xavier Musca who will be well known to you all. He is the Deputy Chief Executive Officer of Crédit Agricole. Xavier has had what can only be described as a stellar career: Director du Trésor, Director of Cabinet of Francis Mer. He became the Chair of the Economic and Finance Committee where I saw him many times during difficult times, and he became the Secretary General of the Élysée in 2011. Xavier, thank you so much for being with us and thank you to Crédit Agricole for your continued support of Eurofi, which is greatly appreciated.

We are going to talk about the more macro conditionality for a successful European transition towards the green economy and Crédit Agricole, if I am not mistaken, Xavier, is one of the pioneers in France from the banking perspective. My first question was to ask you about how you see the big and main conditions for this transition to work.

Xavier Musca

Thank you very much for your kind words and for this introduction. Just a couple of simple remarks to answer your question. The first one is that the real challenge is to invest into sustainable energies. I am saying that because when you listen to the debate today, from time to time you have the feeling that the main objective is to reduce our exposure to coal, gas and oil. This is indeed necessary, but I think that an important part is lacking, which is that we will have to invest massively in a new and more sustainable economy. I think the real debate should be about how we ensure that these investments are made, what

financial conditions and what social conditions. If we do not resolve all these issues on these problems, we will fail.

I have one well-known figure to remind you here: €500 billion of added investments in Europe are required during the next years if we want to reach our environmental transition objectives in 2050. The real question is how we realise it. It will be difficult. Why? When you look at public investment, considering the fact that we have accumulated a huge debt at the moment due to the Covid crisis and during the previous crisis, we will have to diminish the level of the public debt vis-à-vis GDP. We will have to finance these new investments for transition, and the states will have to reimburse the NextGenerationEU (NGEU) contribution. It will be a huge effort for the states, and notably a huge effort at the moment at which precisely interest rates will rise.

Conditions are extremely difficult. My view on that is that one of the first conditions will be to continue the support from the EU. For instance to postpone the reimbursement of the contributions of Member States to NGEU and to prolong this NGEU procedure, maybe limiting it to green investments. It would mean that 28% of public investment in green infrastructure would be covered by such a repayment deferral, so I think that is the first thing to be done. That is for the public sector.

Then for the private sector, the real issue, in my view, is all that has been debated today. Everyone knows the taxonomy is not yet clear and the problem of the availability of data. If we want to incentivise people to invest into sustainability, they have to get reliable data so that the financial institutions could send the right information to the investors. Banks should also not be discouraged to invest and to finance investments, and that is linked to the whole structure of financial regulation which may discourage the financing of

investments by heavy capital requirements.

The real question is also about the availability of investments. We have to be very cautious about incentivising our customers to channel money towards green funds if there are not enough green investments realised on the ground. Then there is also the conditions for social acceptance of this transformation of the economy. Something strikes me: no one says that if you invest more, it means that there will be less to be consumed.

All in all, through higher interest rates, higher taxes, etc., there will be less for consumption and more for investment. That is not easy to manage from a social point of view. On top of that, you will get all the problems raised by the transfer of people from one sector to another.

David Wright

Do you think that there is sufficient political recognition at the highest levels that the private sector has to provide the majority of this capital that is needed? I get the sense sometimes that, for example, if one looks at the Capital Markets Union, the Banking Union, these projects are pretty well essential for what we have to do here, yet it is stasis. We do not move forward. Do you think enough people understand that the capital markets have to function better in order to do this job?

Xavier Musca

First, there is not only the financial sector and the capital markets, but there are also the non-financial sectors. If it takes seven years in France to create a wind farm, you get bottlenecks at different places. You have to remove them if you want to foster sustainable investments. Second, the approach concerning the role of financial markets, banks, and investors is often negative, 'You should not invest in that company or finance it', rather than to reflect about how to facilitate the investments of corporates in sustainable projects, provided that obviously they are economically viable and financially profitable.

This leads to what you mentioned, the structure of financial markets, but also the availability of data and the clarity of the taxonomy. Indeed, uncertainties will prevent people from investing, or we could be in an even worse situation, in which people invest in something that is labelled as green and then criticised as being greenwashing. Then you have the backlash, which will hamper all our efforts.

I see my friend Pervenche Berès sitting here and I will pronounce words which are very surprising for someone who is considered a conservative like me: I think that some degree of planning is necessary. What I mean is, since you have a situation in which what you have to manage is long-term investment without appropriate price incentives – because we do not yet have adequate carbon tax at the European or international level –, you enter into something in which you have to direct investment through a convergence of interests and vision between social partners, governments, Europe and the private sector, including banks,

investors, and producers.

If you do not have this sort of collective approach, which existed in France years ago, you run the risk of being inconsistent in managing this transition, because, again, you have to align the interests and the policies of different stakeholders.

David Wright

You would see this as a long-term European plan to drive investment through both the public and private sector for decades ahead.

Xavier Musca

Yes, I think so. I think that it does not have to be at the national level; it has to be a deep-rooted European consensus on the way to manage the transition, to invest and to take care of the social consequences. In this regard, the 'Fit for 55' proposal from the Commission is going in the right direction. However, it has to be also encapsulated in all the member states' policies, both on the investment side, the fiscal policy, and a revamping of our welfare system. Indeed, part of the population will need reskilling to move from one sector of the old economy to another belonging to the sustainable economy.

Let us take, for example, carmakers. You can expect that the number of people working in this sector will decrease, but that other jobs will be created in the new economy. An interesting study shows that, depending on the policy you follow, you can either have a decrease in GDP and jobs by 0.4%, because of the transition, or you can create 1 million jobs. The difference comes from the consistency, or the inconsistency of the policy followed.

David Wright

I think you are absolutely right to underline the social dimension of this transition and, frankly, I have not seen very much attention paid to it. There is another condition too Xavier, which is that we can do all this in Europe but how do we deal with our trading partners if they do not do the same? Do you think the idea of carbon border adjustment taxes is the way forward, assuming we cannot agree to global standards that are fairly applied around the world? Would you agree with that?

Xavier Musca

I think that the carbon border adjustment mechanism is necessary because a simple way to decarbonise an economy is to get rid of its industry and to import massively. But this would be a simple transfer of carbon emission from one place to another. The question is, if we want to green our economy and not just only green the balance sheet of the banks, you have to ensure that the decisions you take at the European level are not pushing jobs outside Europe. It is absolutely necessary for social cohesion reasons. You have to demonstrate that you are not creating mechanisms which, at the end of the day, will suppress jobs, but rather something which transform these jobs

into more sustainable ones and improve the future of the economy. I recognise that is all very difficult to do.

David Wright

Listening to you, Xavier, it strikes me that the social dimension and the programmes here are going to have to be massive. Is it reorienting the European social and regional funds, maybe even making them bigger using the extended NGEU programmes? If this transformation really takes hold it is so large, effectively.

Xavier Musca

Yes. It is very difficult for me to design what should be done precisely, but my conviction is that, at a national level, the welfare system should be revamped to support the categories of people hit by the transition. I think that, as you mentioned, Europe will have its role to play. I think that the banks will also have their role to play. Let us take a few examples. You will have less people buying their cars, because buying a car will become more and more expensive. Usually electric cars, notably small cars, are more expensive than petrol cars. We bankers have to move towards financing reuse, reconditioning, and leasing, incorporating that in a global programme rather than simply financing the purchase of a car. It is also our role as bankers to frame the new products, the new approaches of the customers, adapting to the change of needs and the new constraints on customers.

David Wright

Finally, very briefly, Xavier, if I may, are you optimistic we can do this in Europe? Do you think it is doable?

Xavier Musca

Well, I am extremely optimistic. First of all, because I trust the people who are now in charge of Europe. Second, I am optimistic because today in Eurofi the fact that this issue of sustainability is one of the most important and the most discussed one shows that there is a shared consensus on the importance of the subject and on the need to address it. Third, I am optimistic because when you see what has been done on the taxonomy, on NGEU, etc., the panorama has changed quite dramatically during the last years.

The real question is about consensus and about speed. There is an anecdote I like very much about general Marshall, who was a famous American general of the Second World War. After he left, he was touring conferences and once he was asked, 'Could you explain to us how you win a battle?' He said, 'That is very difficult. I do not know, really, but I can explain to you how you lose a battle. Two words: too late.' Thank you.

David Wright

Thank you very much.