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The situation in Europe in the era of coronavirus

Transcription of the video-conference debate organised by ELEC-France on 24 June 2020

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At this complicated time for everyone, ELEC's board felt it important to organise a discussion about the pandemic and the financial and economic crisis we are currently experiencing, in order to try to provide some analysis and perspective, insofar as possible at this stage, as we clearly have a long way to go.

- **The question of total lockdown**

The first question to be addressed – to which obviously no definitive answer exists at this stage, since we don't yet have sufficient perspective – is whether total lockdown has been positive or negative? While many countries tried to avoid lockdown, before later going back on their decision, in France the question did not arise in the same way, since we did not have either masks or tests. Hence, total lockdown was therefore probably inevitable.

The second question which arises is more "metaphysical" than economic – the price to put on life. This underwent a major revaluation compared with previous major health crises, without necessarily taking into account the potential resulting impacts on poverty, and perhaps even on health.

Despite being a slightly fallacious comparison, it is worth noting that in France we currently have around 30,000 deaths due to coronavirus, while each year 150,000 people die from cancer, and the Spanish flu caused 400,000 deaths in France. But how many deaths would there have been without lockdown?

- **Financial consequences of coronavirus**

The pandemic and lockdown in the most developed countries caused major disruption on financial markets in the second half of March. In the first fortnight, the financial crisis was more intense than that of 2008-2009. Stock market volatility, for example, was almost double that of 2008-2009. The debt market exploded, with a massive increase in spreads (i.e. risk premiums). Fortunately, central banks immediately took stock of the situation and reacted at once by injecting plenty of liquidity, which may cause problems later on, but without which the financial markets would have triggered a catastrophic crisis.

On this point, I believe that the reason financial markets came close to almost total meltdown was certainly due to the unprecedented and global nature of the crisis, but also because of the advanced stage reached in the financial cycle. Markets had previously seriously underestimated risks, while also seriously overestimating the value of many companies, making the crisis much more severe when it eventually occurred.

Central banks responded very quickly and effectively, by injecting large quantities of liquidity wherever it was needed. Interest rates were cut in the United States, which had a positive effect. The same could not be done in Europe since rates were already negative or zero. Central banks reined in both short-term and long-term rates, as well as many spreads. Bank financing was then very effectively secured by renewing or enhancing a range of special measures. Following a spectacular fall, the stock market eventually rebounded strongly. Governments, supported by their central banks, enabled companies to finance their losses.

- **Economic consequences of coronavirus**

The pandemic caused extremely violent economic turbulence simultaneously around the world. INSEE estimates that in France, one month's full lockdown resulted in a 35% decrease in GDP.

For information, a little calculation of my own indicates that the private sector actually saw its GDP slashed by practically 50% during the month of lockdown. This is because the one-third decrease in GDP also takes into account public bodies whose production is measured according to their cost. Yet since their cost did not decrease during lockdown, neither did their production. With 25% of jobs being in the public sector, a simple cross multiplication based on the principle that the number of jobs is proportional to production gives a result of just under 50% – an extraordinarily sharp and violent collapse.

Depending on the number of months of lockdown and the number of months of recovery, this naturally leads to the conclusion that we will not return to the levels of production seen in January and February 2020, but that we will return more gradually to previous levels. The Fed considers that we will not see previous levels of production again before 2022. This has led the OECD to forecast recessions in the UK, Italy, Spain and France of between 11% and 13%. The forecast for France is around 11%. The Netherlands and Germany are set to be between 7% and 8%, which is a big difference, even though the levels remain high. The OECD forecasts just under 3% for China and India, although care should obviously be taken to consider usual growth rates when making comparisons. The recession in the United States is set to see a decline of 7%, while Korea, for example, is set to decline by 1%. Sharp falls compared with previous levels are therefore being seen across the board, although not all countries will be affected in the same way.

- **Reactions from governments and central banks**

Central banks immediately responded very strongly in terms of supplying liquidity and buying up all kinds of debt, including government bonds, of course, as well as corporate debt. They also bought some speculative-grade debt, which is unusual for banks such as the Fed and the ECB. They purchased all kinds of private and public debt, to maintain rates and spreads at reasonable levels and to avoid a cascade of bankruptcies, as well as financial market contagion.
Governments also immediately responded, although this has led to major public deficits. In the United States, the government deficit for the year compared with GDP is currently estimated at

around 20%, which is very high. It is forecast to be around 8% in the eurozone and 11% in France. The estimate for Japan is 8% and an average of 14% in the OECD, bearing in mind the significant weighting of the United States. The effect on public debt will be an increase of between 10 and 20 percentage points compared with GDP. In France, for example, public debt is set to increase from 100% to 120% of GDP by the end of the year.

What did governments and central banks actually do? They temporarily removed the monetary constraint, or payment constraint, which ordinarily means that a loss-making business cannot continue to be financed over the long term or that a household's outgoings cannot be more than its income over the long term. This monetary constraint, normally a legitimate part of banking operations, was suspended for completely understandable and vital reasons. Faced with this catastrophic situation, if the constraint had not been temporarily suspended, a significant number of companies could or would have gone bust, causing a lasting loss of production capacity in each country. This would be extremely damaging to countries' wealth.

If governments had not supported households and businesses at the same time, by taking on the salaries that companies were no longer able to pay employees, households would have severely suffered, leading to a social catastrophe, while companies would have suffered even greater losses. It was therefore useful, and even vital, to temporarily suspend the monetary constraint, for both companies and households. Governments did this, with support from central banks in relation to companies, by buying their corporate debt directly on the markets.

Obviously, the success of this measure depended on governments' own monetary constraint being temporarily suspended. The central banks therefore enabled this by buying up the additional government debt themselves, at least temporarily ignoring what is known as "debt monetisation", to prevent the markets from panicking in the face of unprecedented levels of public debt and triggering an insolvency crisis.

We therefore saw the suspension of monetary constraints on two levels. Bear in mind that such constraints are necessary in normal times for the proper functioning of the economy, as without them there would be nothing but zombie companies leading healthy companies to become zombies in turn. If a company makes a loss long term on a market and continues to survive, other companies will also start to lose money and all the economic efficiency that minimises human toil would cease to exist. It is therefore essential for this constraint to be re-established at a certain point, to ensure economic efficiency and confidence in the economy as well as the currency.

- **The recovery: what reconstruction will be needed?**

Markets' ability to be captivated by the prospect of a rapid recovery is worrying. Countries have suffered severe falls in GDP – almost 50% in the private sector in France. The United States, for example, shed 20 million jobs in a few months. It is therefore no surprise that two million were instantly restored when businesses and restaurants reopened there. It would be more surprising if the country managed to restore the 20 million lost jobs in the next 12 to 18 months. The artificial, sometimes even self-deceptive, enthusiasm shown by markets is therefore of concern.

The relaunch will necessarily be rapid at first, but then gradual. Firstly, since it takes a while for supply and value chains to gradually be rebuilt. Secondly, because of companies' excessive levels of debt. Depending on the sector and country, they were already heavily indebted previously. With the crisis caused by the pandemic, they have had to finance their losses, leading to an increase in their level of debt, which, without careful supervision, risks hindering employment, investment and growth.

Savings also increased sharply during lockdown, when households consumed significantly less than before. In France, they increased from around 15% to 20%. The question is: are households going to lower their savings rate quickly or will they keep some of the excess as a precaution, due to fears over their future remuneration or future employment?

There is certainly a close and reciprocal relationship between supply and demand. Many companies will wait to see if demand picks up enough to allow them to reinvest and recruit, while many households will wait to see if employment holds up before increasing their consumption again.
Economic policies will therefore play a central role in this interaction between supply and demand. Furthermore, all countries, around the world, are in a bad situation, from China, which is certainly starting to recover, although in a non-linear way, to the United States. This conjunction further adds to the negative effect on the economy, considering that international trade has obviously fallen dramatically during the period.

Economic policies will therefore be necessary following lockdown and will need to be different from those we have seen recently. Firstly, in order to boost supply, which needs to be rebuilt. Measures need to be taken to help increase companies' capital so that they reduce their debt without slowing down investment and employment. But how? Will the government at least partially guarantee companies' capital risk-taking? These are topical questions. It will also be necessary to revitalise employment and adopt measures to facilitate investment, on the one hand, and recruitment, on the other, especially among young people entering the job market, for whom the situation will be much more difficult.

Taxes should not be increased in any way, as supply would suffer. Now more than ever, we need entrepreneurs and innovators, as well as savers open to taking capital risks. Anything that might discourage them should therefore be completely avoided.

Certain strategic relocations will be necessary, which will not be easy. Strategically, however, everyone understands that having 90% of penicillin and paracetamol manufactured in China is an issue that needs to be dealt with quickly. And these relocations also present an opportunity to promote a low-carbon economy and thereby meet future climate challenges.

These policies should also make it possible to support demand. We need a policy that facilitates employment. We need to support poorer households while ensuring that they are encouraged to seek employment.

Finally, we will need to strike a careful balance in restoring monetary constraints, vital payment constraints, neither too quickly nor too slowly. Too quickly would be catastrophic, as it would require government austerity policies or budget cuts. At the moment, however, spending and investments are needed to support the lack of private demand. And if interest rates were to rise too quickly, the mountain of debt would become explosive. Steps need to be taken fairly slowly. But not too slowly either. We need a clear and transparent programme for a return to normal. Without this, we could enter a voodoo economy since if, as some continue to argue, we were to do away with all constraints in the future and allow the central bank to swallow any increase in future debts indefinitely without repayment, we would see a catastrophic situation with a series of severe financial crises and, ultimately, a catastrophic loss of confidence in money.

Finally, the whole of economic history demonstrates that whenever monetary constraints have been ignored or disregarded, there has been a flight from money triggering catastrophic financial and economic crises. The value of debts is essential. The debts of households, companies and governments must inspire confidence, and money represents banks' debt in respect of non-banking agents. So if money lost its value, it would be because debts no longer had any value, since they would no longer be repayable. The fact of not having a monetary constraint would lead to a loss of confidence in money, in other words a massive economic catastrophe. It is therefore vital to find a slow, but nevertheless realistic and credible, way forward to return to a certain normality.

Discussion

Edmond Alphandéry: One subject seems very important to me in our country: the problem of the negligence of the French administration revealed by the pandemic. Until now we have heard absolutely nothing at governmental level about the real reform in France, that of the administration. There are around a million civil servants too many compared with a country like Germany, at an extra cost of between €84 and €100 billion. If we take the most recent example, concerning subsidies for green vehicles, it is clear once again that the administration set up an absurdly complicated system rather than adopting the most elegant solution, chosen by Germany, namely a reduction in VAT, which affects all vehicles without any means testing. Another important point to mention in a comparison with Germany is the experience of the pandemic: how the pandemic was managed and how Germany is emerging from it. Aside from the outbreaks we may see appearing, there are 600,000 people currently in lockdown in Germany, but in the automotive sector and the largest sectors, Germany has still bounced back much more quickly than us.

Olivier Klein: On the first point: yes, for a long time the French government had not prepared for the possibility of a pandemic, since we had neither masks nor tests, which set us back a long way.

Furthermore, I completely agree that this is not the time to slow down or abandon structural reforms. Structural reforms, contrary to what some may think, are not about wanting austerity for a country, but making the economy as a whole more efficient and increasing the potential growth rate. They are about increasing productivity gains by all well-known means and increasing the capacity to mobilise labour. It is therefore vital at this time to implement structural policies. But it is important to choose them well to ensure they do not lead to a worse situation in the short term. And obviously a lot of political courage is required to carry them through.

In Germany, there were around 8,000 deaths for 83 million inhabitants, while in France there were 30,000 deaths for 67 million inhabitants. Growth in France is estimated at -11% for this year, and -7% in Germany. The public deficit will fall to 11 in France and 5.5 in Germany. It is also worth noting there was a decrease in workplace attendance of 43% in France at the end of April and only 18% in Germany. So it is unsurprising that growth has fallen by much less and now the recovery can be much stronger. Finally, the number of short-time workers during lockdown was around 10 million in France out of the 20 million people in work, i.e. around 50%, while in Germany the percentage was only 22%.

Valérie Plagnol: I think we cannot avoid or be afraid of the term austerity, which will clearly be with us after 2022. The question is: how will we organise it in France? Today, the term is taboo. Indeed, in France we have arrived at this point with heavy baggage and baggage that has been packed badly. Today the reforms and the responses are structural in nature and I am worried about the increased government intervention. You mentioned the need for it, but this economic interventionism is accompanied by extremely restrictive directives, including economically. I fear that in the end we will be in a situation of give-and-take. And on the other hand, protectionist behaviour is also emerging. It has been discussed at European level, with predatory behaviour, but it is more a question of protectionism in relation to posted workers, airlines, etc. So the reconstitution or reinforcement of a monopoly which, in the short term, risks leading us into greater inflation. And therefore the accentuation of that famous French drift towards "Club Med".

Olivier Klein: As I was saying, I believe that structural reform policies are needed, very modestly. If we do not implement them, we will save the short term by considerably worsening our situation in the medium term. So we must implement them. Is the country ready for them? That is another matter. We need to present them properly and explain why they are necessary. Austerity policies, as such, are not the same as structural reforms. In reality, countries that have not adopted structural policies will sooner or later be forced to implement drastic austerity policies. This was the case to some extent in Spain, Portugal, Italy and Greece after 2010, during the eurozone crisis. Countries that had not adopted structural reforms were suddenly forced to implement austerity policies to try to restore their current account balances as quickly as possible, causing considerable social and political harm. Structural policies are therefore not austerity insofar as they increase the potential growth rate, while austerity policies lead directly to lowering the effective growth rate in order to restore balances. I think and I hope that there is a way to create structural policies that do not encourage deflation or austerity, even if there will naturally be difficulties here and there, since certain parts of the population will unavoidably have to make efforts in terms of the quantity of work, level of efficiency, etc. Close attention will therefore need to be paid to the vocabulary used and the use of concepts in order to have a small chance of convincing the population of the need for these reforms, which otherwise will be immediately criticised as contrary to the interests of the population, which is absolutely false.

Patrick Lefas: A question about the role of banks. The situation now is radically different from that of 2008: banks increased their equity and were therefore in a position to finance the economy, obviously with support from government through government-backed loans. My question is: how will the banks manage the increased cost of risk? Because there may be a number of companies unable to continue and which will therefore go out of business. What tools should be developed now? Should we focus on equity loans?

Olivier Klein: As the head of a bank, my impression was that all banks did their job remarkably well during the period, since during the two months of lockdown they provided "essential services". At BRED, 100% of branches were open and 85% to 90% of employees were physically present. They responded on the basis that they were useful to the nation and that it was absolutely necessary to be present.

To answer the question more precisely, the banks particularly granted government-backed loans, which was vital, but which will inevitably lead to an increase in indebtedness at a time when French companies' debt level is already fairly high, which will cause problems. I know a lot of business leaders who don't know how they will repay those loans. Admittedly, they can be spread over five years after the first year, but it will sometimes be very difficult to ensure repayment as it will be necessary to find additional cash flow and margin during the subsequent period, without at the same time hindering investment and jobs. That is really the issue – it is difficult to successfully square the circle. We have therefore all begun to consider, with the public authorities, what solutions could be adopted. There are equity loans. Banks cannot carry out unlimited lending of their deposits as equity loans, as obviously that type of loan is riskier. Fairly substantial guarantees, at least partial, are therefore required from the government.

There is private equity. The difficulty, for insurers as well as for banks, is that since Basel III the capital cost of capital invested in companies is enormous. Three and a half to four times more equity needs to be raised than for a loan to invest in companies' capital. Reflection is therefore needed at European level: should the cost of capital be considered, for both insurers and banks, when investing in companies' capital? This is an important debate to have. Should French banks become more business partners to companies, by holding more of their capital, a little like in Germany, with the associated long-term risks and advantages? Advantages for German medium-sized companies: they receive much more support and have more capital. And disadvantages: sometimes too much proximity. And some German banks are not necessarily doing well. Should we create convertible bonds? Many subjects are on the table and will need to be discussed.

Philippe Jurgensen

Honorary President of ELEC-France

I am going to talk to you about how Europe is trying to tackle the economic situation and prepare for recovery, and particularly about the European recovery plan, Next Generation EU, which is a major innovation. A financial innovation, adding to a colossal rescue package including ECB funding (€1 trillion for the PEPP alone, in addition to existing measures and government and corporate bond purchasing), €200 billion from the EIB, with a pan-European guarantee fund, and €100 billion from the SURE instrument for short-time working. The European Next Generation recovery plan is therefore in addition to all of those measures. The Commission's proposal is very recent, since it was announced on 27 May. France and Germany had proposed €500 billion, the Commission is proposing €750 billion, or 6% of European GDP! If we take into account all the other funding, which is not always clear and is partially duplicated, we arrive at a figure of almost 15% of European GDP, which is considerable.

Today we will try to answer three simple questions: where does the money come from? Who is it going to? And who will pay?

- **Where does the money come from?**

€500 billion of the recovery plan comes or will come from the EU budget and €250 billion from EU loans. But in reality, the €500 billion is also being borrowed. So €750 billion is being borrowed, €500 billion of which comes from the budget and €250 billion in actual loans. The budget money is being financed by the usual budget keys, including the rebates originally negotiated by Mrs Thatcher, but expanded to many other countries; and naturally the so-called “frugal” countries are keen on this.

The burning question is whether this €500 billion budget is indeed in addition to the 2021-2027 Multiannual Financial Framework. The tendency would be to think so, but it is not so obvious, since that multiannual framework is itself under discussion. As such, there will be possibilities for interference. In the February 2020 council meeting, there were 27 hours of discussion without reaching any agreement on this multi-year financial programme, since the four “frugal” countries – the Netherlands, Austria, Sweden and Denmark – backed by Germany at the time, did not want to exceed the cap of 1% of GDP. No multiannual framework was therefore adopted. The question of whether the €500 billion is actually additional is therefore unclear.

As for the €250 billion in EU loans, on the other hand, this is a real breakthrough since it was an addition adopted by the Commission at a Franco-German level, and it is above all a first, since it represents the creation of a European Treasury.

This innovation was rejected by Germany for a long time and is still challenged by a number of participants. It is true that this EU loan is presented as unique and exceptional, a “one-off”, which may therefore allow those who are against the measure to say that it is not final. It is nevertheless a great innovation and extremely important, I believe, and federal in nature despite everything.

Is there too much debt in Europe? The total debt of eurozone countries is currently equivalent to 86% of GDP. It will reach 103% by the end of 2020 according to European Central Bank forecasts. For France, we were at 98% at the end of last year, 102% last April, and we are set to reach 121% by the end of the year. The fact that there is a European federal community debt alongside national debts is an important innovation.

- **Where is all this money going and who are the beneficiaries?**

Three pillars will be paid in successive instalments. A main pillar, alone accounting for €655 billion, a second of €56 billion and a third of €38 billion.

- The first pillar is composed mainly of what is called the Recovery and Resilience Facility, equivalent to €560 billion. It is supplemented by REACT-EU, a €56 billion transitional assistance programme for the most affected regions, which strengthens current cohesion policies, and which largely goes to the most backward EU countries, especially in Eastern Europe. Finally, €40 billion goes into funding the Just Transition Mechanism.
- The second pillar is support for companies and private investment. The aim is to provide them with as much capital as possible, in the hope of generating much more private investment. Of that amount, €15 billion is intended for strategic investments.
- The third component mainly concerns research, with a budget of €13.5 billion. It also concerns health systems. Finally, €15 billion in development aid is allocated for non-EU countries, since emerging countries are more affected by the crisis than ours.

Who are the recipients? The biggest beneficiary would be Italy, at almost a quarter of the overall amount – roughly half in subsidies and half in loans: €173 billion in total. Spain takes second place with €140 billion in total, accounting for 18.5% of the total amount, with more subsidies than loans. Then comes France, which has no loans but a significant share of subsidies, with an amount of €38.8 billion or 5% of the total. If we count the sum of subsidies and loans, Poland comes above France, with €64 billion budgeted, or 8.5% of the total amount. Next come Germany, Greece, Romania, etc. The rescue package is obviously intended to be spread between all countries, including those which have suffered the least, which will therefore receive much less than the others.

- **Who will repay?**

Firstly, out of the €500 billion in budgetary appropriation, only €433 billion is actually in subsidies. The remaining €67 billion corresponds to loan guarantees, a very effective mechanism but not a definitive expense, as normally a high proportion of those loans will be repaid and the guarantees will not have to be invoked. It would be unfortunate if all of the €67 billion was spent, since that would mean that the loans had not been repaid.

As for the €250 billion in loans – EU loans – the question is whether or not they will be repaid:

- According to the budget keys, with the European Commission proposing repayment over 30 years from 2027, extending until 2058;
- Or according to what each country has received;
- Or else according to an ad hoc key: since it is an EU expenditure, it should be financed other than by ordinary budget keys.

This raises two very difficult questions: firstly, the four previously mentioned "frugal" states feel that there are too many subsidies and not enough loans. They therefore want to increase the share of loans in the €750 billion amount. Those same countries, and a few others, also want additional conditionalities, rejected by countries such as Spain, Italy and particularly Eastern European countries. What would these additional conditionalities be? Respect for the main objectives of the plan and the fight against fraud, for example the fight against the black economy in Italy or respect for the rule of law in Eastern European countries. These conditionalities will be managed by an intergovernmental committee, which will have to agree annually to the plan's expenditure, but which fortunately will decide by qualified majority rather than unanimously.

So could the plan be financed with new own resources as the Commission is proposing? This would be a federal approach which would require increasing the ceiling for own resources, currently at 1.2%, to 2% of European GDP. This is an essential prerequisite for making the loans provided for under the programme. What additional resources could be found? Four are mentioned:

- Extend the ETS (Emissions Trading System) market, the carbon market on which the price per tonne of CO_2 is fixed, which could be expanded to maritime and air transport, for example;
- Consider the border carbon tax, which would make it possible to have a sufficiently high carbon price within Europe without damaging our companies' competitive position;
- Introduce a tax on GAFA, on digital platforms;
- Introduce a tax on European companies.

So what can we conclude from this? Firstly, this is a real rebound for the European Union. The most optimistic are even talking about a "Hamilton moment", meaning the beginning of debt federalisation, which Hamilton obtained in the United States in 1790. This rebound introduces solidarity, a step towards the transfer union that the Germans dread so much. There is also the creation of a European Treasury. If the Council manages to take the proposed decisions – it will still need to have them approved by the European Parliament and ratified, unanimously – Europe will have made great progress.

Discussion

Laurent Diot: How do we interpret the decision by the Karlsruhe Constitutional Court and the very bad signal it sends out in terms of European construction?

Philippe Jurgensen: This is an obvious legal problem. The Karlsruhe Constitutional Court bases its decisions on rulings by the European Court of Justice, which has said that the ECB's policy is legitimate. This manner of denying the jurisdiction of the Federal Court is extremely questionable and dangerous for Europe. However, the Bundesverfassungsgericht stated that its position did not apply to the exceptional plan linked to Covid-19 and that furthermore it could be provided with explanations justifying the policy adopted.

Olivier Klein: It would not be impossible, according to my own interpretation, for it to allow part of Germany to set out its future position by saying: "We can have a moment, a one-off, when we will pool debt, but be careful that the ECB does not finance any indefinite increase in debt in the future, because then we would have a means of saying that it has exceeded its mandate." In a way, there is probably part of Germany, if not all, which is setting out its position or adopting a stance for negotiations.

Valérie Plagnol: Two questions: what are your feelings about the success of this plan and particularly its direct financing component via revenue that would go directly to the European Commission? How can we imagine that we would revise the treaties to move towards the federalism initiated by these first steps?

Olivier Giscard d'Estaing: And have you mentioned the issue of Brexit? Because that is a permanent problem and one which has a major influence on the future of Europe.

Philippe Jurgensen: With regard to Brexit, the problem has moved into the background in recent months, but it is still there and is unresolved. The British strongly refuse to extend the transition period until the end of the year and as negotiations are not progressing, we are heading straight for a no-deal Brexit, which would be considered very bad on both sides.

On the first question, it is really very important to know whether we will be able to free up federal own resources, as the United States did in 1790. Perhaps the fact that four are mentioned proves that none are certain or even very close to succeeding. Each of these options is interesting, however, particularly the border carbon tax, which it is difficult to do without, but there are obstacles and objections for each of these four possible sources.

Olivier Klein: From a general perspective, is losing the UK from Europe such a very bad sign? At times like these when we are discussing a possible step towards slightly more federalism and the construction of an additional budget, wouldn't London's presence hinder the possibility of reaching agreements?

Olivier Giscard d'Estaing: In fact, I think it would actually be a relief if the problem were resolved, as it would enable us to consolidate our federalist efforts on the continent. What I deplore is this indefinite postponement of the solution, with England playing its hand and then the European Union playing its own.

Philippe Creppy: On the other hand, we may see a harder stance adopted by Northern countries, which feel that they have a different position to take following the UK's departure.

Philippe Jurgensen: If England were still here, those countries would obviously have relied on its support and it would have been among the frugal countries. Unfortunately for them, they are now all alone and abandoned by Germany.

Jacques Lebhar: We have not discussed the international trade dimension, and particularly trade between the European Union and the rest of the world. Firstly, because it is an important aspect of the economic recovery and growth. Secondly, because when it is addressed, it is via taxation, even if that is justified from a protectionist perspective. And finally because all the discussions about economic sovereignty and relocations tend towards a renunciation of traditional EU policies, of its trade policy, and could lead to a lower proportion of international trade in economic activity within the EU. So how do you see this dimension being taken into account within the Commission or the Council? What do we do about international treaties? We are seeing changes to the policy towards China. This is an element that is fairly central to EU countries' macroeconomic outlook and which is directly or indirectly linked to the search for own resources.

Philippe Jurgensen: I think that we need to continue to have an active foreign trade policy and to conclude agreements like the CETA agreement, even if it is strongly contested by certain parts of European opinion. And moreover the European Union has also continued to negotiate and conclude trade agreements in the midst of the coronavirus crisis. The environmental dimension needs to be included, in accordance with public opinion. And in this respect, I do not agree with the idea that the border carbon tax is a protectionist measure. It is a vital measure if we want to meet ambitious targets such as achieving carbon neutrality by 2050. It will be impossible to achieve this if we have an economy in which European companies pay a heavy price to emit less carbon, but we continue to import products duty-free that have been manufactured without any respect for the environment. Either we abandon environmental objectives – despite increasingly public support for them – or we implement this carbon tax.

Patrick Lefas: I completely agree, especially since when we look at the situation in France, the carbon footprint is greater than the carbon costs of French production. So we face a real question: how do we reduce the carbon footprint of the imported portion? This is an especially important issue since it involves very considerable sums.

Olivier Klein: Furthermore, we are going to need a fairly strong trade policy towards the outside world, because the United States is starting to announce surcharges on exports of European products. We will therefore need a fairly consistent, well-established and well-negotiated position.