by Andrea Moneta

THE OPINION

European Challenges: Questions about Europe's new identity

Next March, on the 25th, the 50th Anniversary of the Treaty of Rome is due, which established the European Economic Community (EEC). What kind of Europe have we built so far and where do we want to go? The following thoughts were presented at the last Economic Forum in Krynica, Poland, by a EU citizen and a banking practitioner, who is in his everyday life facing the challenges of building Europe from below.

The EU's present political impasse reveals the lack of a long-term vision and courageous actions

The vision that inspired the European founding fathers was to overcome the hatreds that brought two world wars into Europe in the first half of the 20th century, and to institutionalize cooperation so as to make war a practical impossibility. There were also more ambitious aims, there was a vision driven by strong beliefs. In the words of Altiero Spinelli, "A free and united Europe is the necessary premise for the strengthening of modern civilization"[1].
Since then, important successes have been recorded, above all a quadrupling in the number of member States and more than a doubling in its population over five successive enlargements. There had also been important deepening of the Union, including the creation of a Single Market in 1992 and the adoption of a single currency in 1999.
Successes in the economic sphere have not, however, been accompanied by a smooth integration on the political side. The Maastricht Treaty that launched the Monetary Union aimed at a deepening political union, with a common Foreign Policy and far more majority voting – but not much has been done on this front so far. Even more ambitious plans were formulated in the proposed EU Constitution, which failed spectacularly in referenda in France and the Netherlands.
The lack of a clear vision on the Union is also affecting future enlargements. The 2004 Eastern enlargement has involved a major social and political challenge. It added 74 million citizens, but the 10 new members accounted for only 6.5% of the Union's GDP. This led to conflict over the EU budget for 2007-13, which set net contributors and "old" net beneficiaries against "new" net beneficiaries whose needs were far greater. There were also unjustified worries about the impact on the labour markets of old Member States of poorer workers from the new Member States. With other countries at the door of the EU, among them Turkey, the debate on the willingness of the Union to accept new members is becoming very heated.
It is crucial to understand where we stand and where we want to go. If our vision of Europe is of wider and deeper integration, we must reform the rules to allow "more Europe". National interests must make way for European interests – leading to effectiveness in political decision-making and more flexibility in economic policy, so as to ensure that European competitiveness does not continue to deteriorate. If, on the other hand, member States desire a mere club of nations, they may indeed believe that the Union has already "overreached" itself. In that case, however, they will need to find another way of avoiding the current "euro-impasse".
Most of all we need to act. One speed or two speeds, this size or even larger, whatever the solution for our Europe, we have to make it as soon as possible. The rest of the world is not just waiting for us and we risk to loose ground politically and economically. Actions speak lauder than words. The 50th Anniversary of the Treaty of Rome on March 2007 is an important occasion to move on.

Building the EU from below – the economy is pushing, but constraints hinder the full realization of the Union

While the political and institutional construction of the EU is stalling, positive news are coming from the business side – with the first important indications of the EU being gradually built from below.

Wider and deeper European economic integration is evident if we consider trade or foreign direct investments flows. An interesting indicator is cross-border M&A activities. In 2005, more than 9,200 M&A occurred in Europe in different sectors. In 61% of these deals the bidder and the target shared the same nationality. In 15% of cases the bidder was a non-EU firm; in more than 18% of cases – almost one out of five – the deal was among EU firms.

Can we consider this 18% share of intra-European mergers to be high or low? Surely it is a good signal, particularly if we consider that the previous year the number was 16%, while five years ago it was around 12%. But in a truly integrated market it would certainly be higher.

Indeed, institutional obstacles, such as bureaucracy, the need for authorization and other additional costs are particularly high in the case of cross border mergers. On top of these issues, remaining protectionist attitudes often drive the behaviour of national authorities. It is not by chance that there is a clear positive relation between the measure of Euro-enthusiasm calculated by the EU Commission (the difference between support for and opposition to EU membership as expressed in "Eurobarometer" opinion surveys) and cross border M&A activity in different EU countries.

Three recent cases are particularly instructive and, unfortunately, are not the only ones.

The first one is the attempt made in the first months of this year by the Italian utility company ENEL to enter the French market, acquiring Suez-Lyonnaise des Eaux. This prompted the French authorities to encourage a defensive merger between Suez and the State-controlled Gaz de France.

Ironically, the second case is the opposition of the Italian government to the recent proposal of integration between Abertis, the Spanish group that is one of the leading European motorways operators, and the Italian Autostrade. The third one is the opposition of the Spanish government to the takeover of its electricity generator Endesa by E-on! of Germany.

THE EU IS IN A PHASE OF GRADUAL UPWARD CONSTRUCTION. WIDER AND DEEPER EUROPEAN ECONOMIC INTEGRATION IS EVIDENT IF WE CONSIDER TRADE OR FOREIGN DIRECT INVESTMENTS FLOWS. WHILE THE 18% FIGURE FOR EUROPEAN CROSS-BORDER MERGERS IS CERTAINLY A POSITIVE SIGN, THE FIGURE WOULD BE EVEN HIGHER IN A TRULY INTEGRATED MARKET

Thus, there are still persistent difficulties for cross-border M&A emerging from the "uncompleted Union".

The banking sector is particularly interesting when looking at the M&A activities. True, the banking industry is subject worldwide to a large-scale consolidation process and naturally the European banking system is no exception. A significant number of M&As among large European banks took place in the run-up to and in the early years of Monetary Union (1998-2000). The peak was reached in 2000 (in terms of value of M&A undertaken by European banks). Nevertheless, 70% of the volume of transactions was related to national M&A. European banking institutions started to consolidate their domestic position and to be better prepared to compete in a wider European market. It is only now, in the second phase of integration, that cross-border deals predominate, with 60% of deals by value in 2004-2005 involving cross-border M&A. But also in banking this is not an easy going.

The Italian case can be very instructive. In the summer of 2005, the attempts of BBVA and ABN Amro to acquire two Italian banks encountered resistance by local authorities. It had been necessary to have a new Central Bank Governor and a new attitude by the national

authorities in order to see two foreign players – ABN Amro and BNP Paribas – acquiring the two Italian banks concerned (Antonveneta and BNL, respectively).
Paradoxically, while cross-border deals are a rather new phenomenon in the "old" EU, they are the norm in the "new" EU member States and in Eastern European candidate countries. This has made integration of these countries' banking sectors into the EU much faster, smoother and easier.
In this complex – and rapidly changing – context, the integration of UniCredit with the HVB–BA-CA Group represents a very important step: it's the biggest cross-border deal in the banking sector ever undertaken in Europe. And this deal is also a clear case of what we can call "Europe built from below".

A CLEAR VISION OF THE EU'S FUTURE IS LACKING. THIS IMPASSE IS A HANDICAP TO FULLY EXPLOITING THE OPPORTUNITIES OFFERED BY THE COMMON MARKET, ESPECIALLY WHEN NATIONALIST PRESSURES PREVAIL OVER EUROPEAN INTERESTS. ECONOMIC POWERS ARE TAKING ON A LARGER ROLE IN CONTRIBUTING TO EUROPE'S UPWARD DEVELOPMENT

UniCredit, the first truly European bank

The year 2005 marked a turning point and a great change for UniCredit. The integration of UniCredit, HVB and BA-CA had resulted in the creation of the first truly European bank, which ranks among the top three players in the Euro zone[2] in terms of assets, with an important presence in 20 European countries, 7,320 branches, more than 133,000 employees, and 28 million customers.
Such integration has clear value. From a strategic point of view, the new Group benefits from a valuable positioning at the heart of Europe. The Group is strong in the wealthiest European regions (Southern Germany, Northern Italy and Austria), being the second German bank (with a 5% market share[3]), the second Italian Bank (with a 10% market share) and the first Austrian bank (with a 18% market share). It is also the leading player in the fast growing Central and Eastern Europe, covering 17 geographies and being twice the size of its second largest competitor.
The integration among UniCredit's banks is also of great value in terms of human resources. Following the integration, the Group is really multi-cultural. Additionally, the average age of the employees had been reduced (now at 39) and the share of women had increased to 58%. Such diversity, if properly managed and leveraged, is a great asset in a service industry, in which people make the difference.
Needless to say that the deal had to face a cumbersome process, given the large number of constituencies involved in many different countries, with different authorities and regulations. To achieve the integration UniCredit had to consult European authorities and those of 20 countries (Central Banks, Supervisors, Governments), each having different standards and different laws and regulations, involving well over 40 authorities in all.
Even after the completion of the integration, different regulations, supervisory and reporting requirements will remain, and continue to characterize the life of a cross-border institution.
The integration brings also less formal, but equally important challenges, such as the different habits and different cultural background of the various countries. Cultural differences among various contexts become a key topic for all firms operating in a multi-country environment. Global companies should work on this issue themselves and translate these challenges into opportunities, building their own values and *esprit de corps*. Clearly, the more Europe the more effective can be such a process, activating a virtuous cycle.

Conclusions

To conclude, it is evident that the EU is today facing a political impasse, due to the lack of a clear vision of its future and an empowered leadership to take actions. This impasse is hindering the full exploitation of the opportunities of the single market, as nationalistic pressures still sometimes prevail. In order to have a strong Union, with a highly competitive economy and a clear voice in the international arena, we need more Europe and less stress on national interests.

Likely enough the business forces, though sometimes hampered, are taking a role in contributing to the development of Europe "from below". The UniCredit-HVB deal – with the creation of the first truly European bank - is an early and very clear example of this trend. Still, there is a lot of work to do if we are to have more examples of this kind.

In the words of two of the Italian founding fathers of the European idea – Altiero Spinelli, Ernesto Rossi and Eugenio Colorni[4] – "The road to pursue is neither easy nor certain. But it must be followed and it will be!"

1. Altiero Spinelli, Emesto Rossi and Eugenio Colorni, "Manifesto of Ventotene", 1941
2. In the global market, UniCredit Group is now the 16th world wide bank in terms of market capitalization according to FT Global 500 (June 2006)
3. In terms of Total Assets
4. "Manifesto of Ventotene", 1941