Deutsche Bank conference, Frankfurt – 14 March

This weekend marks six months since the collapse of Lehman Brothers. While we may have avoided financial meltdown, the global economy is shrinking for the first time since WWII. It is time to face our responsibilities.

I am not here to lay all the blame on banks. Whether it was the culture of investors always expecting double-digit returns, or families funding their lifestyle through debt rather than sacrifice - this all contributed to the crisis. These habits of greed existed from kitchen tables to boardrooms – and they were not sustainable.

Responsibilities of The Commission / competition enforcers

So the Commission is ready to face its responsibilities. Having said that, we also recognize that we are only part of the solution.

We can set rules, monitor and referee the single market and bring parties together. And we are prepared to lead – even when that means telling people things they do not want to hear. But at the end of the day it is national governments that must implement most of the restructuring requirements and the spending measures. And it is the private sector that must develop new sustainable business models.

The proof of our commitment is in our 50 state aid decisions of the last six months – a record speed for any part of the Commission – and our resolute battle against protectionism. State aid control and other competition enforcement remains as strong as ever.

Responsibilities of the Banking sector

Financial institutions cannot escape either their role in creating this mess, or their role in getting out of it.

In many recent meetings with bank CEOs, I am told *their* bank is fine, but the other banks have problems. They cannot all be right. So the high levels of transparency we are demanding are essential for determining the full scope of our collective problems and rebuilding trust.

Only by fully identifying and correctly valuing the impaired assets can we approve an effective restructure and start again. To protect taxpayers and maintain the level playing field, the public purse will simply not be open to banks who do not want to open their books in return.

We have been taking speedy but surgical action in the financial sector for six months now. The clock is ticking towards restructure deadlines. As those are negotiated, we will not be driven by events, but rather by the rules and our experience of this crisis dating back to the Landesbanken and Northern Rock. One of the key lessons from this period is that it takes two to tango. We can't give quick decisions without full-cooperation from the other party.

We are also clear that half-solutions won't help. We are aiming to clear balance sheets, either through restructuring or winding down of banks, so that the survivors have the best chance of a healthy future. This is the clearest path to stability in the sector, more lending to the real economy and a return to economic growth

I am highly aware of the risk of governments running banks towards political objectives rather than towards economic efficiency. That is why all our state measures are temporary and targeted.

But the sector is in no position to lecture governments right now and the public is in no mood to listen. It would be better for banking leaders to take the initiative to restore confidence in the assets they hold. I would be curious to hear the views of Deutsche Bank as to why this is not happening on a large scale. Where is the leadership? Why not creating a group of leading European banks and come up with a public statement indicating you trust each other, you are strong and investors should buy your shares?

Future market structure

More broadly, we need banking leaders to offer new business models that can fit in with changes coming to the sector.

If we have monetary union and a single market we also need a single approach to at least the key elements of banking regulation. We must also replace unsustainable, overleveraged structures with simpler, less leveraged, more prudent and more transparent forms of banking.

But I also believe that it is possible to stabilize revenue and find sustainable competitive advantages through better use of the European single market. Having smaller, leaner banks does not preclude more cross-border banks. That is what the single market is for.

In fact this is exactly why we need a more visible contribution from the banks. New ideas on cross-borders banks can strengthen the single market. If we leave market restructuring only to national governments the focus will be national markets. Legitimate opportunities would be lost and the single market would operate below par… we can do better than that.

Real economy

Turning to the real economy: some want to see sectoral bail-outs and relaxed competition rules. That is the opposite of what we need if we are to rebuild the economy. We must remember the lessons of 1930s America and Japan in the 90s.

Having performed triage on the banks, we now need to quickly implement horizontal measures in the real economy.

We don't need expensive and indulgent sectoral bail-outs: there is no shortage of horizontal opportunities. The Commission offers literally dozens of options of this 'good state aid' – aid which does not wreck the level playing field or hurt the businesses that have done the right thing all along. In 26 fields the government does not even need prior approval from the commission for the state aid in question. That is in addition to specific new measures to get credit in the hands of SMEs in particular.

Protectionism and the need for competition

There may be a lack of certainty in some parts of the economy but you can rely on this: the Commission will continue to say no to protectionism. We will continue to oppose bailouts of structurally inefficient companies.

We have the law and history on our side. We need the pressure of competition to improve productivity, to lead to innovations, to support purchasing power.

We are working flexibly to deal with radically different market conditions, but we are not compromising on the principles… the legacy of bad state aid would be a massive tax burden to future generations. That is not a price we should agree to pay.

In the EU in particular we are a family and families stick together. That means guarding the family jewels – the single market – and recognizing that we depend on each other. I don't just mean the 27 member states, I also mean the public and private sectors, producers and consumers, the different generations footing the bill. We are all in this together.

Mergers

There are no quick fixes to our situation. So, for example, you will not see us offering special treatment to companies who view a merger as a quick-fix to their problems.

The reality is that two turkeys don't make an eagle. And we have no interest in allowing the creation of yet more companies that are 'too big to fail.'

Conclusion

In conclusion, 2009 requires us to face our responsibilities.

Invisibility and weakness are not options – real, honest debates and decisions are the only items on the menu.

There are no perfect solutions. It's going to be messy and it's going to be hard - but we are determined to avoid the mistakes of the 1930s.

While I am here to listen, understand and be fair, I am not here to please. I hope you will respect and understand that.

ENDS