

Transcription of the interview with Charles Ruppert (Sanem, 25 August 2010)

Caption: Transcription of the interview with Charles Ruppert, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 25 August 2010 at the CVCE's base in Sanem. The interview was conducted by Elena Danescu, a Researcher at the CVCE, and particularly focuses on the following subjects: the personality and achievements of Pierre Werner, the rapid development and prospects of the international financial centre in Luxembourg, and the role of Luxembourg in the European integration process.

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I. Charles Ruppert on the personality and achievements of Pierre Werner

[Elena Danescu] Today, 25 August, Professor Charles Ruppert, Chairman of the Pierre Werner Foundation, has done us the honour of visiting us in Sanem to give us his account in connection with the research project on Pierre Werner’s European activities. We shall be discussing topics relating to the personality of this important Luxembourg politician as well as to Economic and Monetary Union, since the Professor has also served as Chairman of the Luxembourg Bankers’ Association and knows all about the introduction of the euro in Luxembourg. Welcome, Mr President.

[Charles Ruppert] Thank you.

[Elena Danescu] Thank you for your time. I suggest we begin with questions about Pierre Werner as a man and about his work. How did you first meet Pierre Werner and how do you remember him?

[Charles Ruppert] The very first time I was fortunate enough to meet Prime Minister Pierre Werner was when I was a young civil servant working in social security. I was in charge of evaluating the future of pensions and the methods of adjusting pensions to wage levels, as well as calculating pensions and accident insurance payment systems. I was young and this was an extremely important area; I was recruited after passing a Social Insurance Office competition and also indirectly by the state. So I was surprised to hear, through others, that Mr Pierre Werner, the Prime Minister, was very familiar with my CV and was aware that I had been approached to take up this position of actuary in the Social Insurance Office. I found it very surprising that a young university graduate such as I should have caught the eye of a Prime Minister, for this was a very important job about which I knew very little at that stage. Later on, I soon met him and his advisors in person, since he had very some sensitive questions concerning the national debt in view of the social security deficit that needed to be looked into, that there was some controversy about, that had not really been followed up. As a young man, I took that to heart, so I very soon had the privilege of meeting Mr Werner. I remember him with great respect as a highly competent man of great discretion.

[Elena Danescu] How did your relationship develop over time?

[Charles Ruppert] At a very modest level. Mr Pierre Werner as Prime Minister, as statesman, for me that was one thing; my professional career and future was another. So it was a relationship based also on the respect and loyalty of a young official towards a statesman such as Pierre Werner. But it was also with a great deal of curiosity that I followed Mr Pierre Werner’s career very closely, not just for political or other reasons but simply because I was impressed. It also took me back to some memories from when I was the young, very young member of a large family, living in the Moselle region of vineyards and farms. And my parents, who were Christians while also being active in regional political life, spoke of Mr Pierre Werner with respect, as a talented, level-headed man who was very knowledgeable about the country’s financial affairs, as a man who put people at their ease and inspired great confidence. During that difficult post-war period — we ourselves were the victims of bombings during the war — he was a man that my parents placed great hopes in. I was a

small boy then and I have many memories of that time. That is why later on, when I was working in the Social Insurance Office — dealing with pensions, at national level, the future of pensions and in particular budgetary developments, preparing a budget methodology, a standard accounting plan — I remember Pierre Werner very well. Let me tell you a little anecdote: at one time, we introduced a common social insurance number and totally reorganised the data-processing system. There were two schools of thought. First, there were the consultants who had come from Paris; then there were the locals, who now included very experienced people who gathered information from abroad, especially from Germany and also from Paris. And the local people were very cautious and advised us to take a very cautious, thorough and meticulous approach. We were also supported by a very important gentleman, Professor Thullen, one of the leading figures of the International Labour Office, a very eminent mathematician, an eminent actuary, an eminent international director. So together we were looking to build things up gradually while at the same time some politicians were eager to move fast, to speed up some stages, among them a minister who has since died, which means that at a certain moment we rather went our separate ways. And the order had been to say: ‘OK, Frenchmen, this consultancy group, go for it! The Luxembourgers will follow on later in any case.’ That was in spite of some people saying: ‘Take care!’ and also of some precautions we wanted to propose. I remember that it was not an easy time, but we said fine, we will cooperate anyway, as one should. So one day, inevitably, we had to agree to the same structure, on the basis of a common insurance number such that you and I have today. When that was introduced it was a small revolution. And the French, this group of consultants, had carried out tests in a reference population group. They took the higher echelon of the state and some ministries, including the Government Council, and had sent out questionnaires asking: ‘Is all the information given above correct? This will form the basis of the identification system.’ And that was the moment, I remember, that I heard the first indications that Pierre Werner had become Peter Werner, since they had repeated word for word the information on civil status from the German system. And I believe there was also a code indicating that he was a widower or an orphan, something completely ridiculous. And the project was brought to a halt immediately and we took it over entirely at that point, with the consultants remaining consultants rather than running the project. So that also showed his very pragmatic and speedy side and his trust in the people alongside him. I myself worked in social security until 1979, on extremely important matters. I was frequently summoned by him or one of his immediate colleagues. And each time I saw that same ability to listen and also to prepare an issue; he had no problem examining a file, even a technical file, and asking questions, even if he then said: ‘It’s a bit too mathematical, too technical, but still, it gives me an idea.’ That also shows that he expected his colleagues to have prepared their files properly. And that was impressive.

[**Elena Danescu**] You currently chair the Pierre Werner Foundation, a public interest institution created in 1993 with the aim of promoting and perpetuating the work of this Luxembourg statesman. You knew him because you worked with him, as you have told us during this interview, and you shared the same enthusiasm for studying monetary phenomena. What kind of a man was Pierre Werner, in your view?

[**Charles Ruppert**] He had a great intellect and a strong character, marked also by belief in humanist and most probably also spiritual values, which were therefore linked to his personal convictions and his background, and which meant he lived an unusual life in economic and also in professional terms, as he was not just a politician but also a servant of the state. As an official, he was also a banker, a legal expert and, on the other hand, he was a citizen. He knew Luxembourg well, and I believe he had very strong, deep convictions, as well as a wealth of ideas and a great ability to carry them through. He also had a very sound attitude to life, a very sound intellect. As a statesman, where he flourished, and as a member of the government team, I believe he also did things in his own way at every point ... he was not one for grand speeches and rhetoric, he was not the type to compromise on his beliefs. He was very able in the areas for which he later became responsible. When he retired, he remained very interested in life and showed great wisdom. At the same time, he also belonged to organisations, becoming involved in his spare time in the local choir and in singing, culture and music. As for his family, I believe he was immensely fond of his family. So for me he was an exceptional person for whom I have great respect.

II. Pierre Werner — Luxembourg’s monetary identity and the single currency

[Elena Danescu] You spoke of getting a job in the Social Insurance Office and also as a civil servant. That was after your brilliant mathematics and physics studies at the Sorbonne, as well as your political studies, and your career, which began in 1969, took off at almost exactly the same time as work began on the Werner Plan, the plan for economic and monetary union by stages that the Luxembourg Prime Minister was to coordinate. The Werner Plan, which was presented on 8 October 1970, was a success in terms of European integration but also for the Grand Duchy of Luxembourg. What was the response to the Werner Plan in Luxembourg and among people you knew?

[Charles Ruppert] On the one hand, I did not hear any direct response, any direct reaction, since I was not a member of the ministerial team in the Ministry of Finance and the Treasury. On the other hand, I did have friends working there. Those friends told me about the important work being done under the leadership of their boss and of Mr Tietmeyer, who among other things was German State Secretary. And there were some major French figures too. So I learned through others about the important work being done, in so far as I perceived the crucial role of these initiatives, for at that point I had not completed my studies and had not begun my studies in economics. So I did not realise the true technical scope of the project, but politically I was hugely interested. I was very, very interested in the idea of having a European currency. And in terms of social security I was indirectly very, very aware of these issues. I will tell you why. At that time, in 1969 for instance, but even more so after that date, there was at times a certain tension between states. In particular, France, wanting to make up for internal weaknesses in terms of economic stability or competitiveness, carried out massive devaluations of the French franc. Obviously that meant that people living in Germany but who received family allowances or social security payments from France found that the amount in DM had fallen markedly. In the same way, French or Luxembourg nationals who had worked in France — many in the coal and steel industry — and were resident in Luxembourg, and therefore received a proportion of the French pension, found that pension reduced overnight. That caused very great problems at Community level and by chance I was appointed to the Commission at a certain moment to look into this very thorny problem. In the end it was simply a question of repercussions, malfunctionings and brutal macroeconomic changes, which at that time were reflected by the need for adjustments; but actually taking a broad look at the various phenomena of revaluation, inflation and adjustment to inflation, to make up for the effects of devaluation, it was clear that over a 15-year period the balance was achieved by using macroeconomic methods. That completely defused this political bombshell. That is something I was lucky enough to work on in the monetary, exchange-rate and currency field, at international level at that time. So I had become more aware of the Werner Plan and knew that it was extremely important. We were proud of the fact that our superiors had such a part to play. It was very important to anticipate events since we, in Luxembourg, with our little Luxembourg franc — we were well aware that it was never going to be able to play a strong part in the world. On the other hand, we were convinced that it was important to have a currency that could match up to the dollar, to the other major currencies. So we followed all this closely. And then later on, during my studies, I was lucky enough to be able to look at this in more depth. I well remember that in Nancy, studying international financial economics, my teacher asked me, ‘Since you are from Luxembourg, describe for me the ins and outs of the Werner Plan.’

[Elena Danescu] That was a typical question at the time ... I would like to fast-forward, just for a moment, to your banking career and ask you whether you think, with hindsight, that as a financial centre Luxembourg benefited from the renown of what Walter Hallstein described as the most important Community achievement since the Rome Treaties?

[Charles Ruppert] Yes, if I may be so bold, I agree with Hallstein’s view. As a financial centre, Luxembourg is a rather exceptional product of the interplay of certain important factors, which meant that at times the environment had to be fairly liberal, open in terms of rules. In parallel, perhaps, there were other areas in which we had to be innovative, we had to set up new or structured projects. I believe we did so very adroitly, partly by luck but also thanks to the foresight and agreement of people who knew what we were talking about. And since Mr Pierre Werner, thanks to his professional experience and also his training in Paris with Jacques Rueff and others at Sciences Po, had learned about the workings of the economy, the workings of the financial economy, the workings of the banks, he understood things very quickly. He was not on the defensive, he was very cautious, emphasised the right points, was an interlocutor and a very great innovator. So when I now look at how this financial centre, which first became important after the Second World War, or initially after the First World War with the legislation on holdings, the legislation on stock exchanges — and there was an

article in a major Belgian daily paper saying that in terms of its laws Luxembourg had probably laid the foundations for becoming a future financial centre, which was true — so after the Second World War, when Luxembourg managed to exploit these revivals of various capital flows and markets and the opening up towards the Euromarkets, i.e. to carry out capital transactions, whether compulsory issues or credits, in Luxembourg for debtors who were not in Luxembourg and for investors who were not in Luxembourg in a currency that was not the Luxembourg franc — what is known as Eurocurrency, a currency outside one's own area; and it could be the Eurodollar, it could be other currencies — so those transactions in a sense developed and thrived in centres known as Euromarkets, such as Luxembourg or other major financial centres such as Paris or London. Those were the three major capitals that were clever enough, during this restructuring of the international markets following Kennedy's interest equalisation tax that rather closed off the American market to non-Americans... and therefore all these oil export flows, all this certainly had to be reused, rechannelled. And those three groups — i.e. London, Paris and Luxembourg — were really the only ones able to profit from it. Brussels benefited a bit, the others, Switzerland in particular, had missed the boat, the Germans very much so. So there was this extremely big market expansion and the establishment in Luxembourg of banks from all kinds of countries, and it was all growing at a furious pace. And the banks were gradually acquiring enormous know-how. Here too, it is important to say that this happened thanks not only to Luxembourgers but also and particularly to the contribution of people who were very competent and had been trained abroad; for given this diversity of banks coming from a wide variety of places and from every continent, well, specialists from every continent came to Luxembourg! And that really was how Luxembourg began to become an international centre. That was all very well, but as from a certain moment some advantages began to become less marked. And then there was all the uncertainty that arose in the international banking system and also in the international monetary and exchange rate system as a result of the monetary assessments and devaluations, the monetary turbulence and turbulence on the exchange rate markets. So it was only logical that some players on the financial market were keen to create instruments to ensure that investors did not suffer too much from these events and could even gain from them. The same applied to debtors, i.e. to those who issued these capital transactions. The banks were developing this kind of know-how and that led to the birth of units of account, the birth of the Euromarkets in units of account, of special drawing rights, and above all what some banks began to call the ECU. The ECU was a basket of currencies that, at European level, was designed to ensure a good average — which could be variable — that was attractive to the investor and also to the debtor. In effect it was the precursor of the euro in terms of private banking. Without enlightened businessmen, without people who could devote themselves entirely to the basic monetary problem, to monetary union, it would never have been possible to find a valid interlocutor for these initiatives. So this project for new capital markets in units of account, in ECUs, quite naturally turned towards a Euromarket with the euro as the central currency. And Pierre Werner certainly played a very, very important role in the development of this kind of approach, in the acquisition of this know-how, by displaying an openness as a politician to the rather technical issues of these international markets.

[**Elena Danescu**] Is that when the idea of a specifically Luxembourg monetary identity came back on the agenda?

[**Charles Ruppert**] That's right. Having worked in an international bank and knowing that even currencies like the Belgian franc were of quite minimal importance on the international market, that even currencies like the French franc or — the Deutschmark was a rather different case — the Swiss franc or other currencies that were after all sovereign national currencies had relatively little importance on the major exchange markets and had to follow the movements of the major reference currencies, I very soon realised that to want that for our Luxembourg franc was something quite natural, something that we might think about but that would never have happened, especially since our economy is so open, because of ARBED, the iron and steel producing company, but also because of some other large undertakings such as Monsanto, Dupont and Goodyear, and then to say: 'I will close up again, I will go for parallel markets' — there would have been no means of doing that. But it was an opportunity to really experience the positive and very negative effects of devaluation, to create an awareness — yes, that is true — and also, having worked in a bank — there was a very big exchange room with lots of brokers — to live from day to day. What does it mean to 'manage currency positions', what does it mean to be a link in the great international currency market? Yes, I can say I experienced that, as I did the slippage of the two francs — I don't know if you are familiar with that. At that moment I had, you had in many countries such as Belgium, France and also Luxembourg, although they were not the only ones, on the

one hand the currency that had a specific exchange rate for what were called economic, commercial and export operations. Then, on the other hand, you had a rate that was fixed each day for capital or investment transactions or simply speculation. You had the financial franc and the commercial franc. And the latter could differ by up to 19%; so it was important to specify whether you were engaged in operations that had intrinsic economic links such as salaries and commercial acquisitions, or whether you had transactions aimed at buying currencies or involving investment operations, in which case there was the financial franc. And one of the major problems when the ECU was introduced was to know which kind of Belgian franc, financial or commercial, was involved in this new formula, plus the fact that the European Investment Bank was finding it very difficult to propose a solution, and finally it was the market. We started out from the principle: ‘We have to protect investors so we are going to choose the franc that is most likely to protect investors.’ Subsequently, that became the market rule. And then, later, these different francs and this whole business became quite unimportant because we had the single currency. And as a result of the single currency, it became much easier to group together all these little markets that existed in Luxembourg — and that is certainly something else for which we have to thank Pierre Werner — into more substantial markets, and other products that were perhaps more mature and perhaps more able to stand up to subsequent international competition came up in Luxembourg.

[Elena Danescu] We have mentioned the monetary union with Belgium, yet in regard to the ECU, the Luxembourg franc entered the ECU basket as a currency in its own right. Despite that monetary union, Luxembourg expressed its identity specifically by the individual participation of its currency.

[Charles Ruppert] Exactly.

[Elena Danescu] Working in an international bank, as you were in 1982, what was your view at the time of the international implications of the monetary crisis with Belgium for the Grand Duchy of Luxembourg?

[Charles Ruppert] If you look at the main types of activity in a large international bank, which are, on the one hand — in terms of the balance sheet — credits, there are credits and major transactions that you carry out at international level for large groups for the financing of, say, large factories, for construction work in a developing country, they are not carried out in Belgian francs, or indeed in Luxembourg francs, but in one of the major currencies or in a currency package. So however proud we may have been of the Luxembourg franc or the Belgian franc, that was not the issue in this case. Such activities were not actually given up, but they were not of enormous importance. Those were niche markets. The real markets were the dollar market, the yen market, the pound sterling and Deutschmark markets, and then, later too, to some extent the Swiss franc market. But the first four were the really important markets. So in the case of a bank like that one, the major operations, from the point of view also of investors at the time, were carried out in those currencies. The same applied at international level. As regards major international issues — and many people may not be aware of this today — the role of Luxembourg at that point in the bond markets, some Luxembourg banks were the main bankers of Portugal and Scandinavia... And when the ECU came, well, some banks, including one in Brussels and one in Luxembourg — the one where I was working — were in fact forging these new instruments where every day we had to regulate the market, and rather oddly this developed in a very blatant manner, and one day we said: ‘Now we have to abandon this market because it has become so big that if we do not manage one day to arrange things properly with those who have too many ECUs and those who have too few ECUs and we have to create them on the basis of the original constituent currencies, if we are crushed between these enormous amounts, that will be the end of us.’ And that was the beginning of the association of banks for clearing the ECU and later it became ... so it was compensation by the euro and on the other hand some other aspects that were passed on to the national bank, to the central bank.

[Elena Danescu] So in the course of your banking activities, you began to meet Pierre Werner more often?

[Charles Ruppert] Yes, as an observer or taking part in conferences. But less so as a direct colleague, as these were areas of activity that were perhaps related but not directly. So yes in the case of some meetings between bankers and the Ministry of Finance. And those were always very well-prepared meetings. And Mr Werner effortlessly took on the role of the big boss and was recognised for his abilities. In that respect he was extremely impressive. So from my point of view he was someone who gave me much guidance, who showed

me what a distinguished man could do. He was also discreet. He did not brag at all. Nor was he the sort of person who immediately knew better than others what should be done. No, he was actually very hesitant. Many people said he was the *cunctator*, i.e. the man who waits, who weighs his options. But don't get me wrong, that does not mean that underlying that he was not very precise and logical, with what one might call a very strong resolve to succeed. Alongside my actual professional activities, I was a member of the Luxembourg Association of Catholic Academics. And Pierre Werner had been a member of that association since his student days, and I believe he remained close to it to the end of his life. So that was an area where one could meet him without any fuss. He was open, he was discreet, but he also listened carefully to youngsters like myself.

[**Elena Danescu**] During that period of monetary turbulence, when the Werner Plan was sidelined, do you know whether he was worried about the future of a single currency?

[**Charles Ruppert**] Let us say that in regard to the Werner Plan as such, I can only speak of what I learned from the press or the positions that were taken.

[**Elena Danescu**] In the Werner Plan, he put forward the idea of a single currency to be set up in stages and, at a certain point, that was set aside.

[**Charles Ruppert**] Exactly, there was a kind of... a sense of what I might call frustration, if you like, of disappointment. But on the other hand, the people of Luxembourg were open enough to give due recognition in particular to those who were working at international level, to realise that they were after all very, very pioneering, very much in the vanguard, and so if you went to New York and said: 'Look, he is creating a single currency,' well you were regarded as if you came from another planet! If you were in London in those days and talked about working on something like the ECU or said you were preparing the ground for what might possibly become a single currency, that you were testing the merits of that kind of currency or that you were doing so at private level, people would look at you and say: 'Do you really think that is a serious possibility? Do you really think it can lead to anything?' And that was very, very surprising and it remained the case for a very long time. So we were fairly aware of how avant-garde this was and that the whole business would probably need to be looked at again, whatever its direct merits. And the fact that the three stages could not take place as foreseen or with the planned sub-stages was a bit disappointing. But we did not penetrate the banking world as such, since the banking world means financial economics as well as the Ministry of Finance and the Ministry of State. They are governed by other priorities, other technical concerns.

III. Pierre Werner and the expansion of the international financial centre in Luxembourg

[**Elena Danescu**] As he mentions in his memoirs, as Minister for Finance Pierre Werner apparently set up a kind of informal think tank on the future of the financial centre and also on the future of the single currency. I believe you took part in the discussions and reflections about the ECU?

[**Charles Ruppert**] Yes, quite, because he was extremely interested in these developments since he was extremely well aware that there was a future in all this, because ultimately the objectives of the bankers, i.e. the initiators of the ECU ... of what began as the unit of account and became the ECU, well these were common or underlying objectives, they were the same as those of the single currency, if you like, in a sense. So he was very aware of things, he observed these activities very, very closely and was very, very open; he also sent his colleagues to these working groups, precisely in order to consider the various instruments that could be set up, what role they could play on the Luxembourg stock exchange, at the level of CEDEL or other institutions. So he was extremely interested in this and you are one hundred per cent right that these are two worlds that have to work closely together. And that was the great stroke of luck we had with Pierre Werner during those very delicate times when normally ministers with just as much talent but without his experience and awareness would have said: 'Yes, but show us the results first, then we'll look into it.' And even then ... So that is true, he was a man of enormous merit, in regard to the ECU and the single currency, and indeed in other areas too, such as the investment funds. On more than one occasion he addressed a small group of people

in the banking sector to ask for clarification, for information. And he was a giver and not only a taker, meaning that he also showed gratitude. He said: ‘Oh, there is a seminar being held in Luxembourg attended by eminent economists or an American central banker or the chairman of a major bank, Lehman Brothers of New York. Would you be good enough to honour that meeting or seminar or perhaps that dinner with your presence?’ He could be counted on to do so provided it fitted in with his schedule. And there again, he would listen with great interest and show great knowledge when he spoke. Absolutely.

[**Elena Danescu**] And at these informal think tanks or discussion groups, how did they approach the various subjects? Were there preferred subjects? Were there exchanges of view, since everything remained rather closed off, rather confidential?

[**Charles Ruppert**] Yes, it was more like brainstorming. You had people who mastered a particular area pretty well, who shared their knowledge or who also had questions. And it was an opportunity to put those questions to very high-level state officials so as to make more rapid headway. And also to consider what adjustments had to be made to the legislation. Take, for example, the legislation on investment funds where Luxembourg, alongside the United States — which is number one in the world — where Luxembourg is number one, if you like, if you leave out the United States. And during that expansion, which happened over, let’s say, the past three decades ... yet again, you looked at certain products. I remember that when I joined the bank there were three people working in investment funds. I think that our department was by far the largest of the whole financial centre. Most people said: ‘What’s that? What is an investment fund? What is a collective investment undertaking?’ And what was rather odd was that the two laws on which the investment fund was based as a product were firstly ... it was the fact that you had the regulation and the law on joint ownership. People have a house, they share the flats, the surface area. That needs to be regulated, and if you have people who have a section, who have investments in a fund, that too needs to be regulated. That could be done using virtually the same legal framework. The second law was the law on the stock market, which allowed stock market activity, and the law on holding companies, which set out lightweight structures for non-commercial companies that allowed them to set up funds and investment funds and collective investment undertakings economically. And then later, it was all very well but there was certainly a major debate in Luxembourg; and as I had just come back from the United States where they clearly had legislation on such funds, people said: ‘There’s no other way of doing it.’ ‘Yes indeed, our mollusc has become quite solid now, you cannot have a backbone that is completely soft and flexible, we now have to build ourselves a real backbone, with legal principles, with protection for investors, with the rights and duties of deposit banks. It needs to be clearly defined, it needs to be on a par with what they have in London, what they have in New York, what they have in Zurich. And that is what we did. There again you need responsible people in the respective ministries who know that something urgently needs to be done, where the staff are willing to work together with the banks’ groups of experts; conversely, the people in the banks also have to be at least somewhat willing to work on an equal footing with the specialists in those ministries. Here, since Mr Pierre Werner had an extremely solid background in terms of training and also commercial and practical experience in a bank and in a commission ... that was obviously useful. And it is true, the very last brainstorming session I attended was already at a very advanced stage; it was, I believe, sometime in the late 1990s, when he had arranged a meal in his home, near the theatre. There were three or four people round the table with him and odd others who were close to him, since there were already some people who were saying yes, how are things going? Isn’t there a way of having new products in Luxembourg to take over the lead, of perhaps finding areas that allow us to have a future that is *sui generis*, in other words not being regarded as a parasite — for example, there are financial markets that were always a danger — or of not taking advantage of structures that are a bit too easy or too lightweight in fiscal terms, or also of realising that bank secrecy cannot protect against crimes or offences — it is important to understand the specific nature of bank secrecy and therefore probably make a law that was quite different from what we had at the outset. Bank secrecy was in fact regulated by a small addition to an article in the civil code, which specified that lawyers and midwives, among others, were bound by professional secrecy. It was added that bankers were also bound by professional secrecy. That was the very first definition. That was a good idea and it went very well at first, but from a certain time onward it was not very reliable. So at that time we had to take a more radical approach. Here, Pierre Werner proved to be a remarkable man, as indeed a certain number of other politicians proved to be subsequently.

[**Elena Danescu**] Among your banking colleagues, who else took part in these brainstorming sessions?

[**Charles Ruppert**] Usually there were the various chairmen of the major banks and then you had one or other law firm with people who were eminent in a particular field. Now, if you were discussing the development of the ECU market, you obviously had to do so with working groups of the two or three banks that had a huge expertise in the subject. If you were looking at the bond market, well, you worked on that, if it was the investment fund, you worked on that. So it was, after all, done very transparently. It was not a kind of small closed club or a group of privileged members. No, it was along the lines of: ‘We are doing something, we are reflecting on the country’s future.’ After the meal I told you about there was one other time when we engaged in that kind of brainstorming. It concerned the seat of the future central bank. The Community treaties included a provision on establishing the seat of the monetary institutions in Luxembourg. The question was: ‘Fine, the EMCF, yes. What about the central bank? Should it have its seat in Luxembourg or not?’ And that think tank included among others Mr Pierre Jaans, former head of the Commission for Banking Supervision, which then became the Luxembourg Monetary Institute, subsequently to become the central bank. So he was also someone to whom Pierre Werner listened very carefully and whom he greatly appreciated. And the reverse also applied. So Pierre Werner, Pierre Jaans, and then the president of the Chamber of Commerce and a few big bankers and the chairman of CEDEL also formed part of this group. And we were two blocs, those who said: ‘Yes, let’s pursue this, let’s do it as fast as possible, to ensure that this becomes reality in Luxembourg, that buildings are available.’ It was just as with the advent of the Community in Luxembourg when we said: ‘Look, the CFL, the Luxembourg railways, are moving out and we’ll give the CFL building on the Place de Metz, opposite the Caisse d’épargne, to the Commission.’ That is how they moved there temporarily and then remained there. So we wanted things to move ahead for the central bank too. I remember an evening organised at the Orangerie in Mondorf when the new Minister for Finance, at that time Jacques Santer, who had taken over from Mr Werner, said: ‘*pacta sunt servanda*’: contracts and agreements must be respected. Yes, that was true, but later on Germany woke up to the fact and said: ‘Hang on, this business of a common currency is actually becoming quite serious.’ Previously, Germany had refused to have anything to do with this development, despite the fact that François Mitterrand found the idea of establishing the seat of the central bank in Luxembourg quite interesting; but in the space of one night the question moved to Frankfurt and that was it. But that was an issue to which Pierre Werner himself still made some written contributions. In terms of the arguments in favour, he gave his opinion on various papers on which Mr Jaans, myself or others were working, the arguments for and against. They were very objective and at that point they wanted to present the case to government bodies, for he himself was no longer a member of the government at that point but liked to follow the matter very closely.

[**Elena Danescu**] We spoke of the Luxembourg Monetary Institute, which was the embryo of the future central bank, the Banque centrale du Luxembourg. What did the Banque centrale du Luxembourg bring to the Luxembourg institutional arena, which had never had a central bank culture in the past?

[**Charles Ruppert**] I think it is quite right that Luxembourg as a Member State has a central bank. Having a central bank in your economy almost confers a kind of title of nobility. I believe it is important to have an institution dealing with what is extremely important in terms of macroeconomic structures, the sound running of an economy, namely currency and the requirements and capacity of credit and monetary reserves in the country, to have a central bank that then runs it soundly within this European system rather than in competition with Belgium or some other country. The fact of having good leaders, of having a group of highly competent people within this impartial institution, which is in a sense above it all and is not influenced by political trends, is, I believe, important. It is also a guarantee of reliability, particularly in terms of supporting the measures and provisions relating to the revival and future development of the financial centre. I believe that that is most important.

IV. Pierre Werner and visionary projects — satellites and the Luxembourg shipping flag

[**Elena Danescu**] Pierre Werner retired from political life in 1984 and devoted himself to promoting the single currency, but also to a project very close to his heart, the satellites project. Did he talk to you about the birth of this project, of the pitfalls encountered in setting it up?

[**Charles Ruppert**] Yes; we also spoke of other things. Whenever the opportunity arose, and given that I was a good listener and found it so interesting, obviously this was even more likely to happen. As far as the SES satellite company is concerned, by chance I was in fact directly involved, really directly involved and it is ... in fact I had just come back from the United States at that time. Right, I had already been back two years when Whitehead, the specialist who, when Mr Werner was still Prime Minister, had been approached so that we could benefit from his know-how — and he really had the best know-how in the world at that time in terms of communication, satellites and television. So Mr Pierre Werner had also approached Mr Bruck, Corneille Bruck, the head of the State Savings Bank, who had previously been ...

[**Elena Danescu**] ... at the European Investment Bank ...

[**Charles Ruppert**] ... afterwards he was at the European Investment Bank; before that he had been Director of the Inspectorate-General of Finance, while I had previously worked at the Inspectorate-General of Social Security. So he had asked for four or five people to be brought in to work with him and pool their thoughts, together with foreign experts, to prepare the ground for an objective discussion on the introduction of a satellite, which, at that moment, was still called something else. The project was called Coronet. And the fact that I had worked in New York, among other places, and internationally, the fact that they were looking for bankers with some kind of Luxembourg roots, who knew about government administration, was why I was approached to join this very small study and working group, which met two or three times a week for four hours, for ten hours, beginning very late at night. We wanted to make real headway, to consider the legal environment, the technical question, the financial questions, and above all the fourth question, namely the need for this kind of television communication. Was there a market for it? Was there a future for this project? So I worked very, very closely with them, initially under orders, if you like, from Pierre Werner, since he was the person in charge of this study group, and nobody knew anything at all about it, it was not even an institutionalised group. There was no official statement to the effect: ‘A group is hereby set up.’ No, no, it was a de facto group. And we worked hard on it. We were, all but one of us, truly committed. There was one person who was half in favour of the project and half against. But that is also a good thing in a working group. And so, later on, I followed this project very closely, always as representative of the banking sector and also of KBL bank. So it is something in which I took part. I was also on the very first SES board and, then during my activities as bank director or co-director, and at the same time I was working at the request of the bank and of the government on an exercise like the SES study group. That risked creating some conflict and so at that moment I stopped this SES work. But I really experienced the SES from its embryonic days. It had not yet come into being, but really there were just three or four of us working on it and, as I said, the first meeting took place with Whitehead while I was in the Foreign Ministry, at Saint-Maximin, when Whitehead came there with Koltay. Steve Koltay was the financier who brought him. I was also there when Mr Pierre Werner asked Mr Whitehead: ‘So, Mr Whitehead, are you definitely taking part in the Luxembourg project? Yes or no? This will no longer be an American and Scandinavian project but a Luxembourg one, so will you participate, yes or no?’ Yes, at that point I was sitting beside Whitehead who was extremely nervous, so much so that without realising it he made a hole in the beautiful green rug in the conference room, and then said: ‘I am still thinking.’ Then there was a final gathering of opinions and everyone had to say what their principal’s position was and Whitehead said no. He did not say yes when we believed he would do so. And then, later on, it was rather a pity, but that was that. So it was a project he was immensely keen on and it was one thing for Luxembourg to have a central position in this area, but on the other hand what I believe he always very much wanted to say was: ‘In Luxembourg, as a sovereign state, we have duties that are sometimes quite disproportionate to our size. We have obligations, but we also have opportunities. We also have means of representing ourselves. But let us exploit that properly, let us take advantage of it. If we have frequencies, the right to broadcast on certain frequencies and to send satellites into space in a little cube to a height of x thousand metres, whether it be 36 km or whatever, we are in a geostationary position. But it would be nice to take advantage of it with honourable partners.’ That is an idea that is also at the basis of our position as a financial centre. Our financial position draws on the fact that Luxembourg, as a sovereign country, can adopt legislation that ensures that we have economic and legal means of making use of that legislation. And that frees the way for new activities. And what is most beneficial for a financial centre — as Pierre Werner very soon realised — is not just having to choose the easy options and saying: ‘We will have an advantage, we will pay less taxes, etc.’ but also saying: ‘There are certain areas where we must all adapt our legal structures to

new concepts that will make it possible to fulfil new needs at that moment.’ One example is the company with variable capital. The traditionalist lawyers said: ‘A company has its capital; if there is another capital you make a capital increase or a capital reduction. But there is a specific capital. What does “variable capital” mean?’ It is a concept invented by the French, as far as I know, and one that we have therefore introduced into our legislation. It allowed us to develop this wonderful SICAV market, and in other areas, risk capital. It is a concept that has been very valuable, to be able to say that because we are sovereign we may be able to advance ahead of other countries or, in regard to investment funds, adapt our legislation to the Community legislation so that, starting out from Luxembourg, if you like, we can market funds, sell funds, provided we notify the other state. But there is no need to make a request in each state. So we were able to capitalise on that, be the first to enforce this legislation in Luxembourg. And it was a pleasure to be able to cooperate on this kind of initiative. That happened in the first years after Pierre Werner retired, but he still followed it closely. And the very first investment fund initiatives also occurred in Pierre Werner’s time.

[**Elena Danescu**] In that same spirit of visionary imagination, the Luxembourg maritime flag opened up another means of economic diversification in the services sector ...

[**Charles Ruppert**] Yes, I am smiling because there were many smiles when that flag was born. Little Luxembourg, which only had the Moselle, and the Sûre, was about to have its own little maritime flag. That is one point. The other was that we had the sovereign power to do so. Yet it had to be done properly. And the legislation was quite sizeable, and I remember we had Muhlen as our State Secretary. And I myself was part of the working group that was examining the large package of draft legislation on the maritime flag, so I was there when that flag gave its very first signs of life. There was also a question of the approach to take. There again there were two schools of thought. There were those who wanted to draw easy advantages from it, because there were structures that one might call ultra-aggressive. Take, for instance, labour law in regard to the maritime flag, which allowed Filipinos, who had many sailors working under extremely favourable conditions, to work under our flag according to its laws, and not according to our national law. No, we showed that the red card, no. If they worked here, they had to respect Luxembourg law. On major issues, we were not going to take the easy road, because that would not last. On the other hand, there was enough substance here to allow us to make progress. There was the marina flag, the flag that was, I believe, an extension of Antwerp, which had a very interesting legal environment because very early on it became one of the major ports. On the other hand, Belgium was facing a lot of turbulence, a lot of tension among its people, in the political arena. So at the time another part of the Belgian public sector perceived the calm way new legislation could be introduced for a particular economic sector as an advantage, a privilege, so they were against it. In this case, however, it was a very good idea to do it with Luxembourg. It even complied with a European directive or recommendation on the maritime flag aimed at opening the market to something wider. Pierre Werner was very interested in that too. But I did not meet him directly in relation to this dossier. I met his successors.

V. The former Chairman of the Luxembourg Bankers’ Association: strengths and weaknesses, current state of affairs and future prospects

[**Elena Danescu**] In 1979, you chose to become a banker. You joined KBL and reached the highest office in the bank. You had many areas of responsibility, which related to all the major aspects of an internationally based merchant bank. First of all, how did you come to choose that career?

[**Charles Ruppert**] Yes, first of all this is a personal question and it is a difficult one; it is not difficult to reply to but it is a little delicate, although one has to remain modest. When you are young you study what you like most. In my case, in terms of my family, which was a large family, owning land and vineyards, my point of reference was that of the people around me. First of all my parents, then the few members of my family who had perhaps reached secondary level, few of whom went to university. So at a certain moment you find yourself in a course of studies, you do well, and you find yourself on the road to discoveries. The first discoveries were languages, philosophy, science. And at first it was science, maths in particular, that I enjoyed most. That is how I came to study maths and physics. It suited me because of its stringency, its logic, and also

because it opened up a world unknown to me. I could just as well have done law or philosophy, which also interested me. But there you go, I found myself doing that course, but I was always open to other disciplines. I had university friends in other disciplines. When I was in Paris I would usually speak French with the others. Not out of vanity but simply to say: 'I am in Paris, I speak French. So I am quite open to any kind of contact.' Rather than staying with a few Luxembourg colleagues and being confined to the little Luxembourg circle. That meant that in the course of my years of study I realised that aside from pure science there are also other extremely interesting subjects. I saw the interactivity between pure science and society, between the citizen and the researcher. In terms of the need for a wide variety of disciplines, I found that pure science and mathematics played an increasingly important role, in economics, in engineering and in a whole range of fascinating areas. In regard to the organisation of society, there were new disciplines such as information, cybernetics, operational research and computing, which was just beginning and where I was privileged to attend one of the very first university classes that studied the way the computer brain worked compared to our Boolean logic. So as a result of all this I was open to these various currents of thought. I came back to Luxembourg when the Luxembourg state told me: 'Two mathematicians have died.' It is not that it is a difficult or dangerous job, but these things happen. So they said to me: 'You are on a scholarship. Please come back.' I went back, even though I had initially intended to stay in Paris. So as a result of circumstances, following brief studies lasting a year and a half that I enjoyed enormously, well, I was indirectly approached on a basketball court: 'Would you be interested in becoming an actuary?' I did not even know what an actuary was. I did not know it involved dealing with assessment, studying questions linked to chance phenomena such as life, such as being invalided, such as having an accident, etc., but obviously I had actually studied those phenomena. But I had never seen them in practice. So that world was opened up to me; then I discovered the economic side of it, the related legislation. That in fact interested me hugely; it was in 1973–74, when the Inspectorate-General of Social Security was set up. These were all areas that Pierre Werner directly monitored. He monitored these projects directly, but also in close collaboration with the International Labour Office. And after some time working in these areas I was contacted by the industry and by some large companies in Luxembourg that were well established and that said: 'OK, you are interested in what you are doing. Would you be interested in doing some work with us?' And then, in 1979, the question of the bank came up. The bank had just begun operating. I was also treasurer in the social insurance office, I was dealing with the markets every day; I was probably dealing with the largest accounts departments in Luxembourg, because the social security reserves were experiencing a period of growth, the reserves, the income from contributions, two or three times a year. Accident insurance involved enormous sums that had to be invested well; we had to develop an entirely new accounts strategy. So I also had to work in accounting, which indirectly took me into the world of business, the world of economics, contacts with bankers, which I saw as a good challenge. That is how I ended up at the bank. Perhaps I should also give you a bit of information that I believe was interesting, and I was lucky enough to benefit from it. I was approached by the boss, who was Mr Constant Franssens, one of the pioneers of the financial centre who was interested in what I was doing, without knowing who he was, although he knew full well who I was because he had followed a conference in which I had taken part on the future of social security in Luxembourg, in particular demography and pensions. So when he approached me in this rather unconventional manner, I said: 'Yes, that could interest me, I will think about it. But if I do come, I would like to have the chance to come as a real banker, not as a computer analyst, not as someone familiar with public administration, not as a technician, but as a banker. So I would like to be able to learn the whole business as a trainee, and then if possible to do a lengthy placement abroad.' 'Perfect,' he said. So I had the privilege, and also the duty, the difficulty, of spending an entire year working for all the departments involved in this profession, except the legal service. For I did not want to insult the lawyers by training with them, given that they are after all a class that I respect and like very much. So I then spent the whole year abroad. I spent three months in Brussels, then a month in London; I spent time in Düsseldorf, in Paris, in Switzerland, and also a whole month in New York. Incidentally, I was with Meryl Lynch on the day of the attack on Reagan. And I saw how this market evaporated in the space of a few seconds. So I was very aware of these questions and that there could be sharp rises, sharp falls on the exchange market; for me that had become something quite comprehensible and normal. This was contrary to what I felt before I worked in social security; I had spent a short holiday somewhere in Turkey, where I had met young economists, German economics students, and I said to them: 'Surely these devaluations are dirty tricks, with people becoming rich overnight.' They said to me, 'But you are arguing like a mathematician, that's nothing to do with it, you've understood nothing.' Later on, I saw the links, it was true: at the time there were people who had become rich, who speculated, and others ... that may be very shocking, and probably is very shocking. But if you look at the global economies

that change in terms of strength or weakness, and you think that has to be corrected in some way, then the only way it can be done is through the currency. So those were phenomena I had studied carefully. At that time I had also studied — even though I was told that it was forbidden to touch that because it was extremely dangerous — the options market, the futures market. I was in the New York stock exchange and saw at the time the derivatives, the risks and *raisons d'être* of those markets, which are very old and date back to regulating and controlling the risks of the tulip market in Amsterdam. So it all goes back that far, some centuries, and I learned what was behind it all, the why and wherefore of it all.

[**Elena Danescu**] So during your first years as a banker you saw from the inside the monetary crisis with Belgium, when the Belgian franc was devalued unilaterally and created tensions and risks in the Luxembourg economy. Do you have any memories of the way that monetary crisis unfolded and was handled?

[**Charles Ruppert**] Yes, I remember that brutal, unilateral devaluation of the Belgian franc quite clearly; there was total confusion, it produced a scandal in Luxembourg, because our figures, our trade balances were in order, our national accounting figures were in order, and moreover we had not been warned. Our people in charge were taken unawares. So in a sense it was a scandal on the one hand; on the other hand the procedure was poor and people said: 'We need closer coordination.' Also, Luxembourg did not see it as at all necessary. On the contrary, people said: 'From now on, we will have to avoid this.' I remember that very well. I also remember that working groups were immediately set up to see how one could anticipate, how one could possibly set up self-correcting systems or signs, early warning systems. I also remember that the first talk I had to give, as a young bank recruit, was entitled: 'Devaluation: the pros and cons and the lessons to be learned.' I remember that very well.

[**Elena Danescu**] You became chairman of the Luxembourg Bankers' Association, the ABBL, in 1992, remaining in charge until 1995, and in that capacity you made a substantial contribution to the consolidation and diversification of the financial centre, and played an active part in preparing for the advent of the euro. What were the principal challenges facing the financial centre at the time? And what strategy did you devise to develop competitiveness in the centre, as the driving force of the Luxembourg economy?

[**Charles Ruppert**] Yes, I remember those days very clearly. Last night, I consulted the records I keep in my cellar. I looked at a few documents and I came across an article that had appeared in one of the well-known international economic journals, an American publication. And there was the headline: 'Luxembourg has to be demolished'. These activities in Luxembourg must be stopped. It must not be allowed to profit from them, to become a financial centre. And this was in the early 1990s, and back in 1984 there were also the third-world debt crises, including the crises in Mexico. And it was at this point, when tensions were running high, that a number of very, very determined attacks were directed against Luxembourg. I remember one, in particular, that appeared in *Euromoney*, one of the journals reporting on the highly specialised world of international financial markets, which actually said: 'Adiós Panama', 'Bye-bye' and 'Au revoir Luxembourg'. And again, to spread panic: 'These are people who operate in areas that may be less transparent, less reliable.' As for me, I was given responsibilities in the Luxembourg Bankers' Association at a relatively early age and I spent a lot of time listening, I did my best to listen. Also, I was soon appointed to stand in for Mr Franssens, who only rarely attended ABBL meetings, and at a very, very early age, I was effectively ... I attended board meetings, sometimes as an expert, sometimes as the unofficial stand-in for the head of KBL and former chairman of the ABBL. So I was constantly gaining experience during my periods abroad and in life at KBL, which was really an international investment bank, to get inside the skin of international bankers in Luxembourg and their mission: 'I have to manage this bank and I have to go back to my own bank and justify my actions. I must also have the necessary funds and the necessary confidence. I must be able to make my point. My point being what? The advantages of the financial centre, the reliability of the financial centre, the expertise of the financial centre.' So, as regards advantages, it meant helping to develop the legal and regulatory measures at our disposal. And, if possible, in parallel with the options presented by European legislation. If European legislation says: 'It would be good for a given product to be developed to encourage funding of, say, real estate or research or venture capital,' 'Yes, let's try to be among the first to develop that product. If it's a matter

of promoting the new idea of collective saving, let's encourage this initiative in the field of investment funds. So yes, let's work on it. If there are investment funds for large groups but not for individuals, let's work to ensure that the rules are more professional, less restrictive. If we have investment funds that want to invest in other investment funds, let's have a system like the Russian dolls. Let's have investment funds within investment funds. Funds for funds. Let's work on it.' That was one of the first projects. 'Let's be professional'. And at this point I upset many of my fellow-bankers: 'Let's have a code of conduct.' 'What's that?' they said. 'A code of conduct.' 'Well, OK, but you'll destroy the financial centre.' I said: 'No, I don't think so. Even Switzerland has a code of conduct. There is a code of conduct in London, there is a code of conduct in New York, in Hong Kong, in Singapore. We ought to have one too, otherwise we shall be open to further attacks. And that would not be good news.' The same goes for banking secrecy — we needed to have a working group — and for withholding taxes — we needed arguments, so we asked a professor at the London School of Economics to draw up an econometric model which says it would perhaps be premature to introduce systematic withholding taxes at this stage. But one must be prepared, these are ideas that will have to be considered. There was also a great debate about the following questions and I remember my own small contribution, which was a topical and technical speech on the challenges facing the financial centre. So, in my very first speech to the ABBL general meeting, I raised the question of reservations about tackling delicate issues, such as, for example: 'In Luxembourg, I can save on tax by making certain types of investment', because, if the investment was made unofficially or 'on the quiet', there was no need to declare it. It is a question of conscience. Let us be careful about this, because it may come back to haunt us. Or again: 'With banking secrecy, if you invest in a particular structure in Luxembourg, you can do as you like.' So there we are, Luxembourg is the land flowing with milk and honey, the investor's paradise. Certain banks, notably German banks, were engaged in fierce competition at the time, with two very large and prestigious German banks advertising their services in the major German daily papers and trade journals, telling people: 'Right, if you want to succeed, this is what you must do.' Then they made plays on words their addresses in Luxembourg. But Luxembourg also had to defend its position to the Commission and the European Parliament in Brussels. Explaining, in particular, on the issue of the withholding tax, a measure introduced by the Commissioner for Taxes, Mrs Scrivener ... that it was too early. It was a question of gaining time to prepare our banking industry for fresh challenges. And I recall that, in the course of my speech, in all modesty — I do not wish to claim any credit but it was an important moment for me too — I spoke at some length about training. I will return to this later, because it is a subject close to my heart. Because I had taught at the university centre for ten years and I had also taught early in my career, so it is a subject close to my heart. And so I emphasised this question of reservations about such issues, saying for example that if, at European level, ministers are obliged to claim that 'yes, withholding tax at source is not all that important and, on the other hand, many other investments are made in full compliance with the regulations, and it is ultimately for each individual citizen and each state to manage the matter, so do not blame us for this conduct' — we should also react as bankers and respect their position, without being dependent on politicians. And one should refrain from publishing a notice on the leading pages of a major daily newspaper, inviting the reader to 'come to Luxembourg, because here you have banking secrecy and you can invest your own private and personal savings or those of your friend or of anyone you like.' That kind of thing is just not done. I had said: 'Well, I would like' I had not said anything more on the subject in the general meeting. I had simply said that I would like, although I belonged to the geographical banking group 'Belgian and Luxembourg banks', which was an important group at the time, I would like to be present, officially, for the very first time at a meeting of the most important group, namely the German group. They said: 'Fine, you will be invited.' And I was immediately invited to a meeting taking place the following week. All the leading figures were at this general meeting of the German group, held in the *Le Royal* hotel. The leading figures did not usually attend these general meetings. They sent deputies. Two days earlier, I had sent a letter to all the bank chairmen, in which I said: 'I attach a letter from the Prime Minister and Minister for Finance, Jacques Santer, about the "top level" talks between Luxembourg and the European Commission and, in particular, about the questions of withholding tax and banking secrecy.' I said: 'As responsible and forward-looking bankers, we should avoid bad publicity. It is hard to defend our positions otherwise.' And so I attended the general meeting. The German banking groups held the meeting as usual, it meeting was short and then, all of a sudden, there was the head of one of the largest banks saying:

‘Well, congratulations. You have made a nice little speech. But now, if you will excuse me, I have a very direct question. Since when does the chairman of a bankers’ association carry messages from the government to other bankers? Are you at the beck and call of the politicians?’ I said: ‘No, I am not at their beck and call, I am doing my duty. I have passed on a letter; if you do not want to act on it, you will not do so. That is for you to decide. That being so, I think it is very important that everyone should act on it.’ Then he said: ‘But this raises another question. Is it or is it not true that banking secrecy is enshrined in law?’ I said: ‘Listen, banking secrecy is covered by a specific article of a specific law. Yes and, if I remember rightly, it is mentioned in exactly those terms. So it is in the public domain, it is common knowledge.’ ‘Then why can’t we do this?’ ‘It’s very simple, as parents tell their children. It is just not done. It is not a responsible position to take.’ Then another banker said: ‘Yes, but what about the withholding tax? Is the withholding tax enshrined in the law?’ I said: ‘Of course there is a law on the subject. It is covered by a specific article in a specific law.’ But once again: ‘Yes, but why can’t we do this? Why have you sent us a letter like this, that puts us in a quandary and ...’ I said: ‘Well, simply because it’s not done.’ He said: ‘That’s no answer, we do not agree. But perhaps we should look into the matter.’ ‘Yes, I have just one more thing I should like to say. You know, these are very important matters and, deep down, everyone would like to see more freedom, but on the other hand, the law is the law. But there is no need for you to follow my lead. I am simply an elected chairman and you have your policies to defend to your authorities, to your own banks. And no, there is no need for you to listen to a Finance Minister or a Prime Minister from Luxembourg. You have received a message. I have delivered a message. You may or may not act on the recommendation it makes. Nor is there any need for you to follow the lead of the first German Finance Minister, Dr Waigel, or the German Chancellor, Dr Kohl. But someone will come along, and then it will all be over.’ The room went very quiet, and I said: ‘Your own bank in Frankfurt will come along. And one day, when law enforcement officers visit your branch in the morning to check an address, there will be a phone call, and you will be off to Frankfurt the same day. This is all I can say. That is how it will be, because it has already happened in the past. And it will be all right because you are large and prestigious banks, you have done nothing wrong, and you mustn’t make a fuss. We should remain neutral. We cannot do so.’ So what happened? A fortnight later, there was a knock on the door. The second largest bank. And what did they say? ‘But listen, we have a letter here, we have a different policy, we have been warned. We are doing nothing.’ And that was good, because the ice had been broken. But it was necessary to take the lead, or have the courage to speak out, more than once. And to confirm the financial centre’s reliability. The second point was training. So it was decided to found a training institute for bankers in Luxembourg, the IFBL or Institut de Formation Bancaire Luxembourg, because they said: ‘We can’t not have one.’ I also took the lead on the university: Luxembourg needs that critical mass. We need people who do not spend all their time contemplating the Luxembourg navel, we need people who are open, people who can exert an influence. And who have the critical mass to challenge some of our doubts and hesitations, our facilities. And to create more opportunities, otherwise we shall be stifled.

[**Elena Danescu**] You are also among the founders of the recently established Luxembourg School of Finance.

[**Charles Ruppert**] Yes, indeed. There was ... and before that there was the Académie Bancaire Européenne, precursor of the present Luxembourg School of Finance. It was established with similar institutes in Paris, London and Frankfurt. So that is another aspect that was very important. And then the close contact with the public authorities, participating in working groups, identifying the future needs of banks and finance, and really taking the lead in this area. Yes, these were topics that were very, very close to my heart.

[**Elena Danescu**] There is also the task of constructing a legislative framework with the state.

[**Charles Ruppert**] Yes, indeed. The state has the privilege and the duty of drafting appropriate laws and so there is the task of providing the underlying information. And it is then up to the politicians to weigh the pros and cons. That is quite clear.

[**Elena Danescu**] Seen from the outside, the financial centre appears to be a most harmonious body. But from the inside, as you describe it, there are disputes, conflicting interests, and a great deal of arbitrage.

[**Charles Ruppert**] Well, if you have ... and I can give you other examples. If you have, for example, a provision in the tax code, let us suppose that there is a growing body of case law on the subject. A court says: 'Yes, you can do that. It's OK.' But the court has not considered that it was opening another door, and as a result conferring substantial advantages on those choosing to avail themselves of that option. Some financial transactions were made through Ireland at the time, taking advantage of the fact that interest is classified differently from dividends there. But in some cases the tax concession may be the same for both, conferring an advantage on this type of structure and apparatus. And here my concern was to tell other bankers: 'Right, let's do it. But let's ensure that we do it in a transparent way. And so that these concessions do not result in structural imbalances or a substantial loss of tax revenue.' Remembering that 'if I make big profits and there is more tax to pay', nevertheless 'if I can neutralise the increase to some extent by specific structures, with the agreement of the tax authorities and in accordance with the law, it's all right. But if, on the contrary, it reduces the state's tax revenue, the state will have to change the law and then we shall have gained nothing,' so it's best to be reasonable in these matters. And, as a whole, the banking world has many interesting sides to it, we are all in competition. But we have a habit of getting together, talking and exchanging information at very regular intervals. And, of course, there are more fundamental issues on which work needs to be done. And here, well, there are bound to be differences of opinion. But never ... how shall I put it, frustration or bickering or what have you. In any case, the discussions were always very, very civilised in the cases within my experience. And the last task, to which I attached very, very great importance, was to create conditions of employment in Luxembourg that were more in line with international conditions of employment, both employment and pay. And therefore to change the collective agreements, which were based on the civil service model, to make them more dynamic, to introduce the mechanism of performance-based pay, to keep the social aspects but not to over-emphasise them. And this proved to be a very difficult task, with the threat of strikes, but it all came out right in the end. This was the beginning of more flexible structures. I think this is important. And we should introduce many more measures in this area, more competitiveness, more flexibility in Luxembourg. In everyone's interest.

[**Elena Danescu**] What were the main geographical issues you tackled, from a strategic point of view, during your term as chairman of the ABBL?

[**Charles Ruppert**] When you say 'geographical issues', you mean development abroad. I think that one has That is an area which, I think, is the banks' own prerogative, don't you agree? What a chairman can do is contribute, participate in work to establish legal conditions, regulatory conditions and conditions for conducting business that will bear fruit. And in that sense, of course, it was a matter of strengthening the links with the main groups that were present but perhaps did not feel that much attention had been paid to them. We must not forget that Mr Contzen is the first non-Luxembourg chairman in the history of the ABBL. And he has only just been elected to the post. I welcome the fact that this has happened at last. And on the other hand, from the geographical point of view, well, we paid exploratory visits to Japan, the United States and South America. These are three great areas in which I participated. And also Yes, that's right.

[**Elena Danescu**] What — and this is a separate issue — but what have you to say about the increasing interest currently shown in Islamic finance in Luxembourg?

[**Charles Ruppert**] There are two things to be said. First, to assess the actual impact now, I am not altogether convinced that, in terms of worldwide finance, the volume of Islamic finance is really very great. Nevertheless, the fact that it is there, the fact that it is increasing, that I do find important. Second, the phenomenon of a population mix, massive movements of people, the arrival in our countries of fellow citizens with different religious beliefs, I think this also leads to a desire to open up. In any case, it facilitates openness to Islamic finance. And, on the other hand, it must also be said

that the major players on the principal international financial markets are very, very often businessmen from that part of the world. Be it Arab countries or other parts of the world where Islam has taken root, it is important in this connection for an international financial centre like Luxembourg to be open to these trends. And third, if you look at the number of subjects that are taught, either at the university or the School of Finance, out of a hundred courses you may find two on Islamic finance. So I would say that, within limits, it is of interest, it is a start, but I would not overestimate it. I would say that it is very important for it to be there, and very important for us to be open. I would say that it is one phenomenon among many, and we should also take other phenomena of this kind into account.

[**Elena Danescu**] Let us return to Economic and Monetary Union. I should like to ask you how the banks, particularly the leading lights among the financial centre's institutions — the stock exchange, CEDEL, and then Clearstream — helped to promote the various monetary stages of European Economic and Monetary Union.

[**Charles Ruppert**] Yes, I think they certainly played a very, very important part. Now, as a major player, the Luxembourg stock exchange, if you compare it with really big stock exchanges — however proud we may be to have it, it is nice and it is modest. But the fact that you have legislation, and powerful legislation, the fact that you provide quotations that are uncomplicated, efficient and reliable, enables you to be of extremely valuable assistance in developing these markets, with the indirect consequence that you have a major part to play. CEDEL's role was undoubtedly of prime importance throughout this opening phase in Luxembourg's dynamic rise. It acted as a securities clearing agency, so if anyone sells securities, if I sell securities, those securities, shares or bonds do not have to be handed over to you in person. All that is needed is for someone in the establishment to record the transaction and do the sums. Then, if a third party is involved, someone to arrange clearance. Even on this, namely the issue of fungibility, there have to be changes in the law. These are extremely important issues. So both the stock exchange and CEDEL, and also the various associations, be it the ABBL or the Luxembourg investment funds association, ALFI, which is a new and very, very important player. This, I believe, is extremely valuable. This openness to the fact that the CSSF — the Financial Sector Supervisory Commission — has established groups of specialists, who follow the main trends and who help to develop new products. I think this is extremely valuable. The fact that the central bank has specific initiatives and is developing them — Pierre Werner was the first chairman of the central bank — so a complete rehash. These features are extremely valuable, adding to the financial centre's reliability and its creative capabilities.

[**Elena Danescu**] About the central bank and the Financial Sector Supervisory Commission, these two institutions share the responsibility for supervising the financial centre. Have you any comments on this separation of functions?

[**Charles Ruppert**] Historically, these were completely different areas of supervisory activity. One was more concerned with currency stability and currency reserves. That was the main concern. Whereas in the surveillance sector, it was the CSSF, and it was really concerned with the life of the banks as such. Not the currency, but the life of the banks as such. Well, in the course of time, the interaction between these different areas gradually increased. That's one thing, and secondly, some of the instruments and some of the expertise you need in order to manage effectively must also be at the disposal of the CSSF and the central bank. So one may well ask oneself: 'Isn't there an element of duplication in having these two institutions operating side by side, even if theoretically they are working on completely different things?' This has been a matter of debate for a very long time, since ... — well, I was aware of it when I made my international tour — I was aware very, very early on, that some legal systems operate perfectly with the separation of these two aspects. And then you have others who are very much in favour of saying: 'You have one big institution, and within that big institution, one department to deal with this and one department to deal with that. So, in Luxembourg, we have a department that deals more with the fundamental questions of safeguarding the currency and maintaining stability. And another that covers everything to do with the banks' business transactions and their reliability.' Since Luxembourg is a country with relatively modest reserves, the question of the best way to organise supervision of the financial sector is, in my view, an important

question, which should not be left too much to the personal judgement of particular individuals but should perhaps be reconsidered in a new light, in the country's interest. Another subject of debate: should the insurance sector and the financial sector be subject to separate supervision, as they are at present, or should they not? The arguments are much the same. These are two specific disciplines, as are the central bank and the supervisory body, but again with areas that are very, very close to each other, so that here too it may be easier to find synergies and concentrations of expertise if common superstructures are established for each. It would perhaps be a challenge for the future to create superstructures of this kind.

[Elena Danescu] And the debate continues, because there are regular calls to amend the law in the sense of recasting the system of supervision.

[Charles Ruppert] Indeed there are. But it is a very, very complex subject. And I think that the tremendous turmoil we have experienced, and the huge systemic risks inherent in the system, I think these support the case for having the greatest expertise concentrated in very secure places. And this is a new debate on another question that was on the agenda when I started my career as a professional banker. At that stage it was believed that it was best to keep the number of obstacles to a minimum. That was the universally accepted theory. The moment a banker started to argue, as I sometimes did: 'Listen, we should have a code of practice, we should perhaps have more detailed initial instructions on one or two points. Not to make life more difficult for us but, on the contrary, to enable us to do better and be more efficient.' And here one has to find the happy medium between the two. But yes, these are extremely important questions.

[Elena Danescu] But this split in the supervision of the financial sector is ultimately attributable to each country's traditions and choices, not necessarily to the challenges associated with Economic and Monetary Union.

[Charles Ruppert] Precisely, so it is really time to reflect, to adopt a more systematic overall approach to the subject. Absolutely.

[Elena Danescu] Many voices have been raised drawing attention to the risk of having too many regulations and the adverse effect on the financial sector and the rest of the economy. What do you think?

[Charles Ruppert] Yes, this is another extremely difficult question. I think that in view of all that has happened, and the enormous failings that have been identified, whether at structural, corporate or personal level, in the course of this financial crisis and others, I think that to leave everything to chance once more, to wait and see if it happens again, would be pretty irresponsible. We should not introduce new laws and regulations just for the sake of it. Nevertheless, it is essential in certain specific situations to set guidelines and take steps to prevent an accumulation of risks, a concentration of risks, and to avoid unjustified risks. This, I think, is important. To have laws to prevent laundering, laws establishing rules of conduct, laws to prevent a concentration of risks, regulations confirming that it is important for quotas ... the importance of compliance with solvency — particularly liquidity — regulations; that does seem to me to be important. But without overdoing it in terms of regulations.

[Elena Danescu] Luxembourg has now become the primary international private banking centre in the euro area, the second most important centre for investment funds after the United States, and one of the top ten financial centres in the world. What do you think the future holds for the Luxembourg financial centre, in terms of major challenges, gains to be protected, and weaknesses to be addressed?

[Charles Ruppert] Well that is a big subject, you know. Looking for a moment at the main challenges, the first is can we continue to play this important part? That depends on many factors. It certainly includes what we want, with closer links between the various European countries, European Member States. There is certainly less room for niches, but in some areas of expertise there will be more potential for genuine players in this field. So the various fields of activity must be clearly

identified. Personally, and in the light of my own experience, I have been generally in favour of avoiding too much specialisation when it comes to banking: in my view, a bank — and this is also in line to some extent with traditional British and American banking practice, and with banking practices in a number of other countries, but there it is enshrined in law in very, very simple and almost candid terms — a bank is an institution which provides a link between those who have money to spare and those who need money, and at the same time acts as intermediary for certain services connected with that function. If you want to be more scholarly about it, you could say that your bank's activities are active, passive and intermediary. There was a new trend, originating in the United States after the First World War, namely a regulation that was clearly designed to avoid a second crash. That was the Glass-Steagall Act, and then there was another law which said that banks could only operate in one state. So the Bank of California could not do business in New York. It could do business in California. A bank in New York could do business in New York but not, let's say, in Alabama or Atlanta, and so on. Chicago banks could do business in Chicago, San Francisco banks in San Francisco. So there were geographical divisions, with Chinese walls to prevent fire spreading easily. Then, you have the other distinction that was introduced, specifying different types of bank. France also had a law of this kind. So you have banks that are merchant banks, you have banks — in England too — that are discount houses, you have commercial banks, you have savings banks. So you had these types of bank. Banks of issue in the strict sense of the term. Banks that could operate as clearing banks. So you had these various types of bank. Some were determined to stick to the system, and then came liberalisation and competition between states, so there were to be no more divisions, the walls were to come down, and everything was now transparent or open. So when the tsunami came, it was able to spread easily too. And we all know what happened next. So I think that in that respect, there are likely to be further developments in Europe that will have a serious impact on the future of the banking industry as such. The role of our financial centre in all this: to return to my definition of the term bank, in my view saying 'I am just a private bank' or 'I am an investment bank' is already somewhat a caricature of the banker's profession. Why? Because, in my view, the very first mark of a banker is someone who is able to appreciate the risk they are taking. And if you look at the crisis, the main reason for it is that, faced with the challenges to take risks, people forgot the prime importance of knowing the risk and assessing it in relation to the profits to be expected. The orders were to look for rapid returns on investment and not to ask: 'But what about the direct risk to the borrower, the risk involved in the transaction, or the underlying systemic risk?' The moment I accept that in markets — in my view, though I am a great fan of maths among other things — mathematical modelling may produce models that work very well under certain conditions, in optimising market potential by arbitrage and other means, and as I have said, one cannot foresee everything, so there is always an area that is not foreseen in these models. One cannot foresee what is unforeseeable today. There are always some remaining issues. And if I now have a powerful lever with this modelling and these models and if, by a stroke of bad luck, I find myself, in this hypothetical case, in the very situation where the condition on which I based my model is not fulfilled, well, I shall have a disaster on my hands. And as these things tend to be linked, I shall have a string of disasters. So these are things about which we should be asking ourselves serious questions: 'Are some practices really consistent with what is, for me, an overriding consideration?' — that is to say the future of the system must not in any case be endangered. And the future of the system is not to weaken it, but to avoid excessive risks and over-speculation. The markets I visited at a time when I was told: 'Those markets are to be avoided,' it was because the traditional banker had views about unhealthy speculation on these markets in derivatives, i.e. financial derivatives. In fact, if you know what you are doing, they provide the instruments for ensuring that risks are held in balance, for controlling risk more effectively. But at the same time, it can be a drug. It is a cure and a drug, and if it becomes a drug, it's disastrous. So at this point, I think, some form of regulation is required. Luxembourg should be very careful about this. To have a financial centre that says: 'I only do private banking,' I find this is not great progress, relatively speaking. Let us have private banking expertise by all means. But don't forget that, along with private banking, if you do private banking for individual clients — unless they are extremely wealthy people who have not had to make their fortunes — you will also have to be aware of the risks you take in your business dealings. The risk when you are managing other people's money and you have to be extremely cautious. So you have to have bankers who are good intermediaries, good agents, good managers of debenture bonds, but also good managers of credit. And in an economy in Luxembourg, I

think this credit activity — which is regarded as a poor relation at present, regardless of what people are saying, and in the European banking system, too — this credit capability, and the lack of bankers capable of assessing independently the risk of group counterparties is rather sad. You once had, in the big banks I visited — I take some very, very prestigious examples, when I had the privilege of being in Wall Street in the Morgan Guaranty Trust building, which was the leading bank of its kind at the time — a whole range of analysts and research staff who examined the balance sheets and the activities of their principal clients. They were not going to look elsewhere, they had staff in house. It was the same in the big banking houses in London when I was there, and in our own bank and sister establishment, KBB in Brussels, they had a ‘Study and Research Department’ at the time, where they had the best young people from the universities preparing for future activities and also studying balance sheets, studying the various sectors, and publishing their own weekly economic bulletin in Flemish, English and French. And they also produced studies on the ECU and on artificial currencies, composite currencies, paper money and special drawing rights. You will not find these functions being performed in banks now, they have all been cut to avoid duplication of effort. You simply consult a rating agency, and if the investment has a three-star rating, you go for it. And if there is some complicated structure involving leverage, well, you go for it because there’s a 1 % return and the rating is AA, so it’s an interesting proposition. OK. And finally, when you have a portfolio, a substantial holding based essentially on funds owed to the banks by borrowers who hold the credit cards of — without wishing to cast any aspersions — Mexican migrant workers in the southern United States, and because you add a few state securities as well, you say: ‘It’s a good mix, it has an AAA rating, and the return will be 1.5 % because advances on credit cards are sometimes 3, 4 or 5 %, so that makes, on average ... That’s great, so I’ll really invest in it in a big way,’ and your colleague does it, then a second follows suit, and the second shareholder says to the third: ‘Why don’t you go for this too?’, so you do. Or you have structures involving leverage, with big insurance companies coming up with products that are a mix of issues and tax concessions. Then the tax concession is withdrawn and you are left wide open. And there comes a time when, let’s say, there is the first level — not very serious — it affects ‘profits and losses’, but if it begins to affect the institution’s credibility and the counterparty is no longer disposed to lend funds to that institution in view of the financial crisis, well, there are times as in Luxembourg when you have people on the floor of the money market exchanging short-term loans, fifty people with nothing to do. There was nothing to do. Money was transferred to the central bank, here or in Germany or elsewhere, and the central bank then distributed it on the basis of its own market assessment and in order to prevent collective self-destruction. In my view, this presents a major challenge for the future of our financial centres, and I do not think we have really learned the true lessons of this crisis.

[Elena Danescu] Who is to decide what form of development and diversification will be of the greatest strategic interest?

[Charles Ruppert] Well, I think the priority lies — and this is the great challenge for Luxembourg too — it should normally be for the players themselves, in other words the leading bankers and the people who work in the banks. Together with their professional body, their professional association, the university, and also, of course, with the public authorities, which have the sovereign right to table draft legislation, and the chamber of deputies which votes on it. So it is very important. But then, isn’t there a major risk in performing this task effectively in Luxembourg, where there have been important changes? When I think, for example, of the time when my former boss, who was later my colleague and then retired, came to Luxembourg in 1949 and established a small bank here, KBL, which had two or three operations. Why did KBL, a small Flemish bank, just happen to come to Luxembourg in 1949? Well, because there was a company manufacturing tyres in the United States, which could not establish a branch in France because there was Michelin, or in Germany because there was Continental, or in Italy because there was Pirelli, or in Belgium because there was another group already established. And then there were connections with the Grand Duchy and other connections, which meant that people knew about Luxembourg. So he said: ‘What about going to Luxembourg?’ ‘OK, but if we go to Luxembourg, there are no bankers in Luxembourg.’ The group in question was Goodyear. And it said: ‘Look, we are in business in any case, we have to pass through Antwerp and there’s a big bank in Antwerp with which we do a lot of business. It’s the Kredietbank, the bank in the

Boerentoren! So perhaps that bank could help us to gain a footing in Luxembourg?’ And that is how the bank came to send a 24-year-old to Luxembourg, after a crash course in letters of credit, cheques, transfers, and one or two other accounting operations. And that young man was very gifted, a Louvain alumnus. And then a lawyer was needed, and he picked someone he knew. A minister’s son, who had been to the United States, Jean Dupong. So, in the same building on the rue Notre Dame, there was the man from KBL, with his lawyer, and next door there was Goodyear’s representative, who wanted to explore and perhaps acquire a production area, a site. And the site was at Colmar-Berg, because the court of the Grand Duchy had land there. And that is how ... once again you see what a large part chance plays. So then, suddenly launched into the international arena, the bank handled business for Goodyear, then Monsanto, then Dupont de Nemours, and was open, attentive and sensitive to all that was going on. And it came naturally to those people, I think, to take the initiative and to be on the alert. And those pioneers had a fairly broad remit to act here. They did not need to be going to Brussels all the time. They could not do much either, but there was a leading figure in Brussels who came here and who was quite happy to develop something new apart from his main sphere of activities in, let’s say, in Brussels. This also applied to some extent to BIL and to BGL. The great Société Générale, which was BGL’s ally in Luxembourg, well, Société Générale was a large and prestigious international company. And the Société Générale bank was also highly prestigious, with operations at home and a presence in Asia, the Société Générale, even in China, so Luxembourg had some good people doing good work. And they had been there since 1919 in the case of the Banque Générale, so they are left to get on with it. And they are cast in the same mould as we are, one can trust them, they are prudent, they received part of their training here. So there was this contingent, the first Germans, when did the first Germans come to Luxembourg? When Germany opened its borders. They could not go to London because it was barely 20 years after the war. ‘We don’t want the Huns here, we don’t want to see any Germans here.’ It was the same in New York. But on the other side of the Moselle, good God, what harm can it do? Where did the People’s Bank of China choose to come first? Well, an ABBL delegation, led by the ABBL chairman at the time, Constant Franssens, met the Chinese delegation in Beijing. He said: ‘Come to Luxembourg, we will help you. We will help you to establish yourselves there as easily as possible.’ And that’s how the Bank of China came to be in Luxembourg. And subsequently, of course, in London and elsewhere.

[**Elena Danescu**] As regards this cross-border influence, I think Luxembourg’s multilingual capabilities have also played an important part.

[**Charles Ruppert**] Yes, certainly, certainly. And again, it’s a matter of working together, with the financial players on the one hand and the politicians on the other, accompanying them or even taking the initiative, and occasionally taking measures, as our Prime Minister, Jean-Claude Juncker, has during the crisis, summoning up their courage and taking measures that turn out to be right, even if the bankers might have hesitated to take them. Also, perhaps, not to abuse structures that are too easy, there should be an element of self-discipline, or responsibility, at work. And then development, let’s say, development of the talent and the capabilities available in Luxembourg. So to have a genuine system of auditors in the specialised field covered by a certain type of bank, to have highly efficient private equity structures and specialists who can rise to the occasion and meet the needs of this type of capital. These are actually areas of expertise that have already been developed to some extent and should continue to be developed. That will be a separate challenge.

[**Elena Danescu**] We see that the board of KBL Luxembourg included Professor Robert Triffin, who was also consulted about the strengths and weaknesses of CEDEL. Do you know anything about ...?

[**Charles Ruppert**] Well, yes, I know about that. I believe I was present at the last meeting of the board to be attended by Professor Triffin and Professor Colin, and I was just a young assistant at the time, so it must have been in 1981–1982, when my former boss said: ‘Here’s a young man who will give you a talk on such and such a subject.’ So I remember very well. And I also remember very well when we consulted Professor Triffin, on the death of André Coussement, a leading figure in KBL who had died in an accident, and Professor Triffin helped us for a while in our work on the papers Mr Coussement had left, on social, economic and banking affairs in Luxembourg. And Professor Colin,

from the University of Louvain, those two were actually very close. CEDEL was established at the suggestion of former KBL colleagues, including Philippe Duvieusart, the Belgian Prime Minister's son, who had studied at Harvard and was familiar with the New York market. And when something important came up, he was the only person I knew who could say to the *New York Times* or the *Wall Street Journal*: 'I'm writing an article for you, could you put it on the front page, please?' The only one I knew. But he was so well known, Philippe Duvieusart. And then he left KBL. But he was the moving spirit, the man with American know-how, trained in the best American and Belgian schools and colleges, he was behind the moves to open up and to appreciate the potential capacity of well-managed Luxembourg banks and, later, the need to develop the instrument of bond issues. And then there was everything that went with it, the need for clearing houses, because he understood international clearing operations. So there you are. And this was also a project in which I participated at the planning stage, the ECU clearing systems that came later, with clearance through the BIS in Basel. But we missed out here in Luxembourg, because the competition between the banks was too strong. Otherwise, we could have had it all here in Luxembourg. And it was very important after all. I discussed it with leading members of our banking group at the time, and the response was on the lines: 'Yes, we know all about that, but clearing is an administrative matter.' I said: 'Listen, if all the flows passing through a financial centre for balancing, netting and clearance purposes, i.e. for balancing funding requirements, the surplus funds from all our banks going to the centre where operations are conducted in ECUs and may be conducted later in the common currency, that will be amazing.' And if you have that, you will probably have a central bank as well. Well we missed out, and Mr Pierre Werner agreed that we had missed that particular boat. I remember very well how some banks selfishly chose not to collaborate, preferring to stick to their own little recipe rather than say: 'No, we'll join forces and support the idea of having it here in Luxembourg.' And Pierre Werner himself wrote to some of the big banks, with a number of recommendations, saying: 'Establish it in Luxembourg. It is the right place for an international clearing house' — exactly what we, the banks, had done during a long period of private bank securities. But the volume had become so huge, it was too risky to go on.

[Elena Danescu] And did the political side not put in a word to tip the balance in favour of a Luxembourg solution?

[Charles Ruppert] Well, there were two sorts of people, if you like. You have those who really understood what was going on, and then there were the others who said: 'Clearing?' If you ask the man in the street what monetary clearance or monetary flows are, you won't get much of an answer. 'What's a clearing system?' You won't get much of an answer. Even if you ask a banker, he will find it hard to explain. So it was somewhat obscure and so, I think, there was not much enthusiasm for it at political level either. 'Is that not more of an administrative matter? Is it really so vital to secure it for Luxembourg? And if it is vital, won't the others take it anyway?' And I believe that, with Pierre Werner at the helm, we would have had a different outcome. There would have been less talk and more action.

VI. Luxembourg's role in the European integration process

[Elena Danescu] What are your conclusions about the Grand Duchy of Luxembourg's role in European integration, and particularly in the establishment of Economic and Monetary Union?

[Charles Ruppert] Well, this is an extremely difficult question. I think that, as a Luxembourg national, having had the opportunity to spend a good deal of time abroad, to work frequently for companies in other countries, I think we certainly have a role. But let's not exaggerate. We are, if you look, if I look ... so, at a small gathering last night I said, when there was a map of the world ... of Europe, say, like that, with, let's say, the German weather map, with Saarbrücken there, and a little sun next to it. I said: 'What a stroke of luck, what an extraordinary thing, that such a small country should have its sovereignty and integrity intact' That is a tremendous thing. Now let us manage it

well and let us also be prudent and modest. Let us not imagine that Europe's salvation is in our hands. I do not think that is really the case. We have intelligent people. We have had the opportunity, in connection with satellites, our flag, our financial centre, our iron and steel industry, to do extraordinary things. That is true, but other countries have done and continue to do the same thing in other areas, in telecommunications and SES. So these are extreme cases of people who were pretty much leaders in their fields, people of exceptional merit, being located in Luxembourg. There has been a great deal of exceptional merit here at one time or another, contributed by the respective parent banks or by the talents of young or not so young arrivals on the scene. And at political level, the fact that they were multicultural and multilingual meant that some of our politicians were in a better position to state their case and to ensure that their words carried weight in other countries. This applies to Pierre Werner too, but even in the case of Pierre Werner, I would say let's be modest, let's take it as a good example of success but let's not suppose that ... It would probably have been achieved in some other way or perhaps in the same way. The wheels were turning, the time was ripe, and the names of the founding fathers at the time were Delors and others rather than Pierre Werner, or Pierre Werner followed by Delors, Duisenberg, etc. So there is merit in that. I would say that Luxembourg has a role that is more important than the few square metres it occupies compared with Europe. On the other hand, let's be modest about our role, and that way we won't upset anyone.

[**Elena Danescu**] Professor, we are coming to the end of the interview you have been kind enough to give us. I am extremely grateful to you for all you have told us today about Pierre Werner and about your experience as a participant in the consolidation of the Luxembourg financial centre. And before thanking you for sparing the time for this interview, I should like to leave the last word to you.

[**Charles Ruppert**] I had the privilege of being acquainted with Pierre Werner. He is certainly a statesman worth studying. A man of many facets, well worth further research. I deeply appreciate your initiative in this connection. I think the Centre is doing remarkable work here, and I am very pleased to be able to collaborate in person and also through our foundation, a foundation established with the participation of eminent scholars and statesmen, following one of the key events as regards monetary policy in Luxembourg. In 1992, to be precise. So we bore that event in mind, and we were also mindful of the fact that we could benefit from those initiatives. I think it is highly commendable and, what is equally important, I think that in doing so we should be looking to the future, ensuring that it prepares the ground, creates an environment for the young and the not so young, like yourself and others, to contribute to this in-depth reflection on the Europe we are in the process of building, which is in a somewhat shaky state just now. And where the initial enthusiasm of the pioneers is being somewhat eroded by politicians who, I think, sometimes very wisely have their eyes on the next elections rather than on having any realistic plan for the future of Europe. And I think it is extremely important that, in the light of this example, we should all, if possible, make our own small contributions. And ensure that we cultivate the right conditions for this culture, this culture of meeting at the crossroads in Luxembourg, so that it can help to provide a platform for dialogue and for future European integration.

[**Elena Danescu**] Mr Chairman, once again, many thanks.

[**Charles Ruppert**] Thank you very much, and best wishes for the project.

[**Elena Danescu**] Thank you.