

September 2009

Thinking ahead for Europe

**CEPS welcomes a new
Corporate Member:
OMV**

Tackling climate change: A Japanese perspective towards Copenhagen



Nishimura

Mutsuyoshi Nishimura, Special Advisor on Climate Change to the Prime Minister of Japan, sees the setting and adherence to a global GHG emissions cap as a definitive solution, the work on which will continue beyond Copenhagen. On July 8th he offered his views

on a future international agreement and Japan's contribution to climate action at a meeting organised by CEPS and the EU-Japan Centre for Industrial Cooperation, chaired by CEPS Senior Fellow Christian Egenhofer.

Nishimura believes a successful Copenhagen deal is achievable if countries recognise a long-term limit to the amount of GHGs that can be safely emitted world-wide. Developed and developing countries alike must agree to share this 'carbon budget' in a fair and equitable manner. Each country's action must depend on its own conditions. Thus, Japan's 2020 target of 8% below 1990 levels, excluding forest sinks and international offsets, is a substantial step forward considering the country's significant early action. Japan is also investing in a new development strategy aimed at achieving leadership in solar power generation, energy conservation and deployment of eco-cars.

Matthias Ruete at Corporate Breakfast

On July 2nd, CEPS hosted a breakfast meeting for corporate members at which Matthias Ruete, Director General, DG TREN, European Commission, briefed the participants on EU Energy and Transport Policies.



Ruete & chair Staffan Jerneck (CEPS)

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Less than 100 days to Copenhagen: Time to panic?

Christian Egenhofer, Senior Research Fellow

With less than 100 days before the crucial global climate change conference opens in Copenhagen, negotiations remain stuck. Initially it was expected that the latest meeting in Bonn, 10-14 August, would launch the 'real' negotiations on a long-term international agreement to combat the risk of climate change, but this did not happen. Some progress was made in informal groups on many of the main topics, but by no stretch of the imagination can this be called a breakthrough. Far from it, the major move forward has been the drafting of consolidated negotiating texts that attempt to bring together all proposals on each theme. The main negotiation text, however, still stands at 199 pages. At a comparable time in the Kyoto negotiations, the text had been reduced to around 30 pages.

Is it time to panic? It all depends on one's expectations. It has long been clear that there is a wide spectrum of possible outcomes. At one end is a fully-fledged agreement with all details adopted, leaving open only the precise formulation of implementation provisions. At the other end is a general political deal where countries commit to an agreement – for later – and outline the main elements. This would probably mean at least another year of negotiations and possibly more.

It seems now that the outcome will tend more towards the latter scenario. This should not come as a total surprise. It is still unclear whether the United States will be ready by the time of Copenhagen, despite the important policy shift on climate change under the Obama administration. A cap-and-trade bill has been adopted in the US House of Representatives but has been pending for some time in a divided Senate. The value of any US commitment, however, critically depends on its prospects to win Senate approval. Other developed countries, such as Australia and Japan, are also struggling to come up with an ambitious, yet domestically acceptable target. And while many developing countries have put in place – often very ambitious – domestic climate change policies, they tend to delay when it comes to making a commitment in international negotiations.

Many observers are now pinning their hopes on the emergence of international high-level leadership to champion the climate negotiations in the context of ongoing parallel processes, such as the Major Economies Forum, the (informal ministerial) Greenland Dialogue, the UN Heads of State or the G20. All of these bodies are scheduled to convene in the intervening days before the next round of climate negotiations in Bangkok in late September/early October. While extra momentum from these parallel processes would be instrumental in extracting a political deal, it will not be enough to ensure a fully-fledged agreement. Too many details remain to be settled, which will require weeks if not months of meticulous technical negotiations.

Thus, it may be that the best outcome to be hoped for at this point is an agreement at Copenhagen to continue negotiations in earnest. It is important that the developed countries, led by the EU, do not accede too easily to the less well-founded demands of developing countries, just to be able to declare a political victory.



Award-winning FT journalist draws analogy between bankers and tribes

On July 1st, Gillian Tett, Capital Markets Editor at the Financial Times, presented her recent book, colourfully entitled *How Unrestrained Greed Corrupted a Dream, Shattered Global Markets and Unleashed a Catastrophe*, at a CEPS meeting. Earlier this year, she was named 'Journalist of the Year' by the British Press Awards. The book tells the story of a group of innovators at JP Morgan who 15 years ago created the complex financial products and tools that later caused the financial crisis. A social anthropologist by education, Tett characterised the bankers as a "tribe", united by a common quest for profit and a strong belief in financial markets and their efficiency.



Tett

She observed that in past years, innovation of financial products had occurred at the expense of market safety – a general trade-off inherent in financial markets. Nevertheless, she stressed the importance of financial innovation for market completeness and development. Discussant Paul De Grauwe, CEPS Associate Senior Fellow and Professor at the University of Leuven, applauded the book's portrayal of human brilliance, egoism and disaster, where most bankers got carried away by their belief in efficient markets. De Grauwe further stated that through the innovation of financial products, a network of interconnectedness of banks has been created, whose stability depends on the performance of a few market players.

RECOMMENDED LATE SUMMER READING

CEPS Policy Briefs

Free Download at <http://shop.ceps.eu>

CEPS Working Documents

Towards the Next Phase of the EU's Area of Freedom, Security and Justice: The European Commission's Proposals for the Stockholm Programme, Elspeth Guild and Sergio Carrera, August 2009

The road ahead after de Larosière, Karel Lannoo, August 2009

Why Europe might suffer more, Daniel Gros, July 2009

Time for Action: Immediate Priorities for the Next European Commission, Arno Behrens, Sergio Carrera, Julia De Clerck-Sachsse, Christian Egenhofer, Anaïs Faure Atger, Daniel Gros, Elspeth Guild and Karel Lannoo, July 2009

Bilateral Disputes between EU Member States and Russia, Mathias Roth, August 2009

Consumer Bankruptcy Regimes and Credit Default in the US & Europe, Maria Gerhardt, July 2009

Lost Voters: The Case for Compulsory Voting to Increase Participation in EU Elections, Anthoula Malkopoulou, July 2009

Effects of the Financial Crisis on Systemic Trust, Felix Roth, July 2009

Global Welfare Implications of Carbon Border Taxes, Daniel Gros, July 2009

UPCOMING PROJECTS & EVENTS

New JHA project on undocumented migrants



The Justice and Home Affairs (JHA) research unit at CEPS starts a new project in September that focuses on the gaps between current policies and the research findings by experts and civil society actors on 'undocumented migrants'. It seeks to structure a pluralistic dialogue on the status and rights of undocumented migrants in the EU among key stakeholders, in light of the pending adoption of the next multi-annual programme on Freedom, Security and Justice – the Stockholm Programme – by the Swedish Presidency in December 2009. The project is financed by Zennström Philanthropies in London.

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Swedish official to speak on responsible lending



The European Credit Research Institute is hosting a conference on October 14th to discuss ways to enhance the effectiveness of financial education schemes and to ensure more responsible lending. The event, to take place at CEPS and co-sponsored by Intrum Justitia, will be chaired by David Shireff of The Economist. The keynote speech by Urban Karlström, Swedish Secretary of State for Financial Market Affairs, will be followed by presentations by Flore-Anne Messy of the OECD and Mick McAteer of the Financial Inclusion Centre and a final panel discussion.

Download workshop programme and registration form at www.ecri.eu.

RECENT EVENTS

Expectations for EU-Canada economic partnership aired at CEPS roundtable



Charest

CEPS hosted a wide-ranging discussion on June 29th concerning the new economic partnership and free trade agreement currently under negotiation between the EU and Canada, chaired by H. Onno Ruding, Chairman of CEPS. The opening address by Jean Charest, Premier of Quebec, focused on the possible impact of a comprehensive agreement on transatlantic relations. Philippe de Buck, Director General of BusinessEurope, and Roy MacLaren, Chairman of the Canada Europe Roundtable for Business, then outlined the support and expectations of industry and the private sector for the negotiations. Gary Doer, Premier of Manitoba, commented on the social advantages of a new EU-Canada agreement and noted the importance of the EU as a destination for Canadian natural resource exports. Lastly, Pascal Kerneis, Managing Director of the European Services Forum, detailed the opportunities and significance of an FTA from the EU service sector perspective.

Is diversity a prerequisite for stability in banking?



Llewellyn, Ayadi & Schmidt

On June 26th, CEPS hosted a special event on Diversity in the Banking Sector in Europe to mark the launch of a CEPS book that investigates the merits of a diverse banking system with a special focus on the performance and role of savings banks. One of the key messages supports the view that 'dual bottom-line' institutions, such as savings banks, are economically and socially beneficial. Among the panel discussants were the book's authors Rym Ayadi (CEPS), Reinhard H. Schmidt (University of Frankfurt) and Santiago Carbó Valverde (University of Granada), as well as representatives of savings banks associations, industry experts and European Commission officials, including Patrick Pearson (DG Internal Market) and Antoine Saint-Denis (DG EMPL). David Llewellyn (Loughborough University) chaired the event.

Investigating Diversity in the Banking Sector in Europe is available for purchase in print or free PDF download at <http://shop.ceps.eu>.

Hedge funds and the EU's draft Directive



Deinet, Rasmussen, Lannoo & Bulchandani

The draft Directive on Alternative Investment Fund Managers represents a resolute attempt by the European Commission to closely look into hedge funds' Chinese boxes. On June 30th, ECMI Secretary General, Karel Lannoo, moderated a roundtable discussion of the potential impact of the proposal on the industry's business model and the safety of the financial system. Didier Millerot, Deputy Head of Unit (asset management) at the European Commission, gave a broad overview of the AIFM proposal and its scope. Poul Nyrup Rasmussen, MEP and President of the Party of European Socialists, highlighted the need for stricter regulation and ad hoc capital requirements for hedge funds. On the industry side, Ravi Bulchandani, Head of Alternative Investments at Barclays Wealth, discussed the role of hedge funds for efficient financial markets, while Thomas Deinet, Executive Director of the Hedge Fund Standards Board, considered their limited role in the financial crisis and the criticisms of the Commission's proposal.

See detailed event report on the ECMI website (www.europacapitalmarkets.org)

Swedish Perm Rep briefs CEPS members on priorities of Sweden's Presidency

At a CEPS membership event, chaired by Staffan Jerneck (CEPS) on June 26th, Sweden's Permanent Representative to the EU, Christian Danielsson, presented the priorities of the Swedish Presidency of the EU. Noting that his country would be taking over the Presidency during extraordinarily difficult circumstances, the Ambassador outlined the expectations of the Presidency, listing the economy and economic recovery, climate change and the implementation of the Lisbon Treaty as priorities. In addition, Danielsson discussed other challenges that the Presidency plans to work on, including the Stockholm Programme (the next 5-year plan for Justice and Home Affairs), further enlargement and enhancing the EU's role as a global actor.



Danielsson

State aid to EU financial institutions

On July 9th, CEPS hosted the second meeting of the Task Force on State Aid to the EU Financial Sector.



Gros, Wouters & Sutton

The meeting's chair, Alastair Sutton, Partner at White & Case, presented a working paper on the consistency in the Commission's approach to state aid approval for financial institutions. Following this, Daniel Gros, CEPS Director, and Rudi Vander Vennet, University of Ghent, discussed the state of the EU economy and whether it was time to begin curtailing state aid to banks. Lastly, Jan Wouters, University of Leuven, discussed state aid in a global context, arguing that there is currently a 'disconnect' between large banks, which operate globally, and the regulation of those banks, which functions at the national or EU level.

Benchmarking for the EU ETS and beyond



The 2nd meeting of the Task Force on Benchmarking for the EU ETS on July 8th started with a presentation of the McKinsey cost curves to identify abatement potentials in industrial sectors, aimed at opening the discussion on the usefulness of benchmarks.

The participants discussed ways in which design issues can encourage emissions reductions and avoid perverse effects. These and other benchmarking matters specific to the cement, refining and steel sectors were debated. Experiences from the EU, Japan and the US will be examined at the next meeting on September 10th.

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See also: www.ceps.be/Article.php?article_id=617

Gaps exposed in EU bank crisis resolution schemes

The financial crisis has exposed big gaps in the scheme for dealing with international banks, prompting a debate about the need for an EU-wide or international bank resolution scheme. The diversity and complexity of national schemes, however, make harmonisation an extremely difficult undertaking. Speaking before a new CEPS/Assonime/Unicredit Task Force on Bank Resolution Procedures on July 17th at CEPS, Eva Hupkes of the Swiss Financial Authority illustrated the problem by metaphorically asking whether it is not easier to move a piano chair than the piano itself. By this question, she meant to imply that it would be easier to let banks adapt their legal model to the functions they perform, than to go through a very costly international harmonisation of legal models and associated proceedings.



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Fifth and last meeting of Task Force on Article 82

In February, the CEPS Regulatory Affairs Programme inaugurated a Task Force on the Treatment of Exclusionary Abuses under Article 82 of the Treaty. In the course of five meetings, the group tackled selected aspects of the European Commission's Guidance paper of December 2008, setting forth its enforcement priorities in preventing anti-competitive behaviour. The final meeting on June 24th approached issues of margin squeeze, single product rebates, predation, refusal to contract, cost benchmarks, bundled discounts and tying.



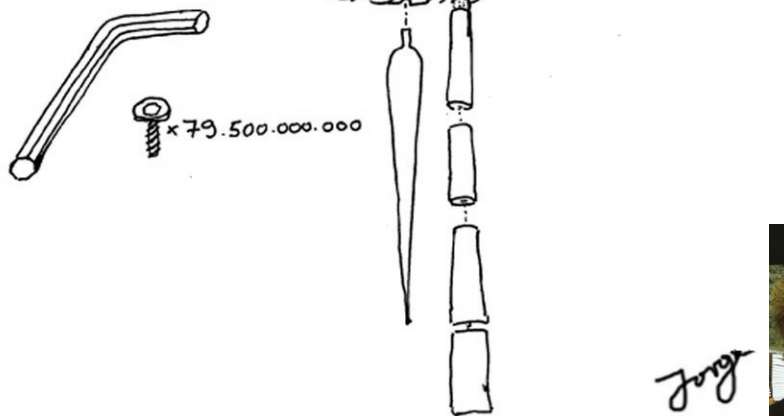
Andrea Renda (rapporteur) & John Temple Lang (chair)

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- 1. The Treatment of Exclusionary Abuses under Article 82**
Chair John Temple Lang, *Cleary Gottlieb Steen & Hamilton LLP & former Director, DG Competition, European Commission*
Report to be published in September
- 2. Internal Market for Retail Financial Services**
Chair Anton van Rossum, *former CEO, Fortis Bank*
Report under preparation
- 3. CDM and post-2012 Flexible Mechanisms**
Chair Ulrika Raab, *Senior Advisor, Swedish Energy Agency, Member of the CDM Executive Board*
Report under preparation
- 4. Benchmarking for the EU ETS and beyond**
Chair Anna Törner, *Head of Section, Ministry of Enterprise, Energy and Communication, Sweden*
3rd meeting 10 September
- 5. A Green Budget for a Sustainable Future: Adapting the EU Budget to Climate Change**
Chair Anders Wijkman, *former Member of the European Parliament*
5th meeting 14 September
- 6. Innovation Policy: Boosting EU Competitiveness in a Global Economy** **NEW!**
Chair Maria Anvret, *Senior Executive Scientific Expert and Advisor, Confederation of Swedish Enterprise*
1st meeting 18 September
- 7. Restoring Investor Confidence**
Joint Task Force by ECMI & CFA
2nd meeting 18 September
- 8. Securing European Energy Supplies: Making the Right Choices**
Chair Knud Pedersen, *Vice President, DONG Energy*
3rd meeting 29 September
- 9. Banking Crisis Resolution Procedures**
2nd meeting 12 October
- 10. E-communications: Regulatory Challenges for the post-Lisbon Era**
Chair Staffan Jerneck, *Director & Director of Corporate Relations, CEPS*
4th meeting October
- 11. The Solvency II Regime: A Revolution for European (Re)insurance Companies**
Chair Jos Streppel, *former CFO & Member of the Executive Board, Aegon*
3rd meeting October
- 12. EU and Global Climate Change Policy and the Increasing Role of Cities**
Chair Laurence Tubiana, *Director, Institut du développement durable et des relations internationales, Paris*
2nd meeting 15 October (tbc)
- 13. Completing the Doha Round of WTO Negotiations**
Chair Hanns Glatz, *Delegate of the Board of Management, Daimler AG*
6th meeting October
- 14. Corporate and Commodity Standards and Sustainable Trade**
Chair Corrado Pirzio-Biroli, *Former chef de cabinet of European Commissioner Franz Fischler*
2nd meeting October
- 15. State Aid to the Financial Sector: Fragmentation or integration?**
Chair Alastair Sutton
Partner, White & Case
3rd meeting October
- 16. European Security Forum**
Chair François Heisbourg, *Chairman, Fondation pour la Recherche Stratégique*
26 October; Info & registration: esf@ceps.eu

Turbine 'Köpenhamn'



CEPS STAFF ACTIVITIES



In recognition of her exceptional research on Europe's borders, movement of persons and the rule of law, Senior Research Fellow **Elspeth Guild** has been selected by the European Commission for an ad personam Jean Monnet Chair under the Lifelong Learning Programme. In addition to her affiliation at CEPS, she is Professor at the Centre for Migration Law of the Radboud University of Nijmegen.

ECRI releases 2009 Statistical Package



ECRI has just published the 2009 version of its Statistical Package, providing the latest available data on consumer credit and other forms of credit to households in Europe. The comprehensive dataset allows users to make meaningful comparisons between 38 countries (up from 35 last year), including all 27 EU member states and other key global economies. This valuable research tool is available for purchase in two different versions: "Household Lending in Europe" covers the entire retail loan market, including time series on consumer credit, housing loans and other loans to households as well as loans to non-financial corporations and total credit to the non-financial business and household sector. The package on "Consumer Credit in Europe" provides comprehensive statistics on consumer credit data and national accounts.

The ECRI Statistical Package 2009 can be ordered at <http://shop.ceps.eu>.
Info: www.ecri.eu.

Piotr Maciej Kaczynski spoke at a conference on "The Prospects for Social Unrest in Central Europe and the Balkans Stemming from the Global Economic Crisis", organised in Washington, D.C. by the US State Department on June 26th. The CEPS Research Fellow emphasised the wide diversity of responses he had observed in the region and reassured the audience that instability was highly unlikely, despite some pockets of radicalisation.



On July 9th, **Rym Ayadi**, CEPS Senior Fellow, was invited to Athens by the Hellenic Federation of Enterprises to speak about "Business Development in the Mediterranean: Challenges and Opportunities" at the Athens Business Forum on Bridging the Mediterranean. The audience was composed of more than 400 ambassadors, ministers and business representatives.

CEPS MEMBERSHIP MEETINGS

Please tick the meeting(s) you wish to attend:

- 22 SEPT 13.15-14.30 *Time for Action: Immediate Priorities for the Next European Commission*
Julia De Clerck-Sachsse & Piotr Maciej Kaczynski, CEPS Research Fellows
- 6 OCT 13.15-14.30 *Proposals for a Europe of Liberties – Presentation of a report by the Fundacion para el analisis y los estudios sociales (FAES)*
José Maria Aznar, Chairman, FAES, former Prime Minister of Spain
- 7 OCT 13.15-14.30 *The Swedish Presidency after the Irish referendum*
Cecilia Malmström, Minister of EU Affairs, Sweden

Attendance at CEPS Membership Meetings is a benefit of membership. Non-members may be admitted for €50 per session, paid in cash at registration.

An informal sandwich lunch is served at 12.30 before lunchtime meetings (€6). For organisational reasons, we cannot accept telephone registrations.

Please complete this form and return to: Anne-Marie Boudou, CEPS, Place du Congrès 1, B-1000 Brussels, fax: +32 (0)2 229.39.22 or e-mail: amboudou@ceps.eu.

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