

Post-electoral briefings series

Over the last month, CEPS continued its series of post-electoral briefings to examine the campaigns, results and possible impact on the EU of recent national elections. On May 31st, David Kral, Director of Europeum, discussed the poor performance in the Czech Republic of the mainstream parties, the conservative ODS and social-democrat CSSD. Especially remarkable was the positive outcome for the new parties, the pro-European TOP09 and anti-corruption Public Affairs party (VV).



Kees Aarts, Political Science Professor at the University of Twente, offered insights into the outcome of the Dutch elections at a June 10th event at CEPS. He too

observed declining support for core political parties, like the Christian-Democratic CDA and Social-Democratic PvdA, noting that the liberal VVD had attracted the most voters in its call for austerity measures. The eurosceptic and anti-Islam party of Geert Wilders (PVV) used integration and immigration problems as a platform for becoming the country's third largest party.

Finally, on June 14th, Zuzana Lisonova, Researcher at the Slovak Foreign Policy Association, discussed the unexpected outcome of her country's elections. While the social-democratic party Smer-SD won the elections as foreseen, its allies turned in an unexpectedly weak performance, leaving little prospect of forming a coalition. Instead, Lisonova expects the opposition centre-right SDKU to lead a government formation despite the electoral win of the social-democrats.

Based on these assessments, CEPS expects to publish a comparative study this summer on how national election debates and outcomes affect EU decision-making.

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Can the US 'shale gale' take hold in the EU?

Roderick Kefferpütz, CEPS Associate Research Fellow



The US energy scene has undergone an immense transformation in recent years. New drilling techniques have given access to previously unexploited and unconventional gas supplies, most notably gas trapped in shale formations, and the gas market has soared. While shale gas made up only 1% of total US gas production in 2000, it now accounts for roughly 20% and is projected to reach 50% by 2035.

The effect of the US 'shale gale' is already having significant repercussions abroad. The glut of natural gas in the US has caused LNG tankers to re-route to markets in Europe and Asia, displacing traditional suppliers such as Russia's Gazprom. Keen to capitalise on the potential suggested by the American shale gas success story, major energy companies are now taking the next step, engaging in a veritable European landgrab in the hope that this so-called 'quiet revolution' can be exported to the EU.

At first glance, shale gas seems destined to play an important role in the EU's energy mix. Not only is natural gas less carbon-intensive than other fossil fuels, it also works particularly well with the EU's planned expansion of renewables, given the ability of natural gas power plants to accommodate changes in electricity supply and demand in the grid arising from the intermittency of renewable energy. In the context of increasing sensitivity about import dependency following the two recent gas crises, many pundits also consider the EU's potential shale gas reserves as a Wunderwaffe able to solve all of Europe's energy security problems.

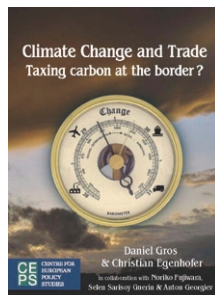
On the surface, the European Union also appears structurally well-prepared to emulate the shale gas success story. Its integrated market offers a steadily rising demand, attractive prices and an established pipeline infrastructure. In addition, preliminary estimates suggest the presence of sizeable shale gas deposits in several EU member states.

There are, however, a number of important obstacles to the outright success experienced in the US. Not only are the actual figures related to shale deposits in Europe far from certain, there are also multiple above-ground complications. Compared to the US, the EU faces higher labour costs, severe equipment shortages and the lack of an experienced drilling workforce familiar with unconventional gas. Europe is also more densely populated, raising the likelihood of opposition from local residents concerned about the environmental impact of shale gas extraction. Opposition may also be more likely as mineral rights in many EU countries are owned by the state as opposed to local residents, whose American counterparts are able to sell their rights in an impressive 'rags-to-riches' fashion. Many other issues remain, such as the difficulties regarding water sourcing and the environmental effects of shale gas on water deposits.

Thus, while shale gas will undoubtedly affect the European energy landscape – as a result of both the arrival of larger volumes of displaced US-bound LNG on the European market and domestic exploitation efforts – it is unlikely to become a 'game changer' within the foreseeable future.

See also *Shale Fever: Replicating the US gas revolution in the EU?*, CEPS Policy Brief No. 210, June 2010.

Taxing carbon at the border?



The European Commission has recently released its analysis that upgrading the existing 2020 carbon dioxide emission reduction goals is affordable and technically possible, but EU member states are reluctant to do so unilaterally without 'comparable' emissions reductions by other countries. A major concern is that European industry would lose competitiveness, which would shift production and emissions to other countries that produce less efficiently. This would be environmentally ineffective while also being economically detrimental to the EU.

This discussion – also taking place in the US – coincides with the release of a new CEPS book in print by Daniel Gros and Christian Egenhofer in collaboration with Noriko Fujiwara, Selen Sarisoy Guerin and Anton Georgiev. The team of CEPS economists and climate specialists makes a strong case for border taxes on CO2 emissions of all goods imported into the EU because, from a purely economic perspective, this would be a straightforward way to transfer, at least partially, 'shadow' carbon pricing even to those parts of the world that are without domestic measures of any magnitude. Another finding is that there are solutions to issues such as WTO compatibility and equity, the latter for example through rebates to poorer developing countries.

Purchase book (€25) or download PDF free of charge at www.ceps.eu/books

CEPS Director at prestigious Brussels Economic Forum

Daniel Gros was invited to speak at this year's Brussels Economic Forum, the EU's premier platform for debate on economic issues held on May 25th-26th by the Directorate General for Economic and Financial Affairs. Sharing a panel with Herman Van Rompuy, José Manuel Barroso and Mario Monti, Daniel Gros explained that current arrangements are not adequate to prevent a repetition of the economic crisis. What the EU needs in his view are clear rules about the endgame, aimed at confronting less disciplined member states with their responsibilities while at the same time protecting the stability of the eurozone in its entirety, rather than just one or two of its members.



"Most banks fail on a Friday"

At a CEPS membership meeting on June 17th, Thomas Huertas, Director for the Banking Sector of the UK Financial Services Authority, presented his new book *Crisis: Cause, Containment and Cure*. Huertas attributed the crisis to inadequate monetary policy, the collectivity of the financial system and poor resolution policy. In his view, three policies have been crucial in containing its effects: governments pumping capital into the system, central banks slashing interest rates and fiscal stimuli. He advised that the next phase of curing the crisis will require a comprehensive and consistent framework of 1) macroeconomic policy, 2) pro-active and intrusive supervision, 3) limited, but rapidly reacting deposit guarantee schemes, 4) regulation of capital, liquidity and remuneration and 5) resolution systems with bankruptcy codes for banks. Huertas emphasised the importance of prompt policy reaction to bank insolvency and advocated a model of winding up bankrupt institutions over a weekend, as most banks appear to fail on a Friday, enabling a solvent wind-down while banks keep operating.

Book available at <http://us.macmillan.com/crisiscausecontainmentandcure>

ECMI combines AGM with conference on the fragility of capital markets

The Annual General Meeting of the European Capital Markets Institute on June 15th occasioned the discussion of a paper on the default of complex financial institutions and the link with the market for credit default swaps, between the author, Giovanni Calice, University of Southampton, and CEPS Director, Daniel Gros, as discussant. A second session highlighted the main shadows hanging over European capital markets. John Berrigan, European Commission, pointed out how the crisis of public finances may undermine European financial integration and new initiatives, such as a common European bond issuance. Paul De Grauwe, University of Leuven, stressed the importance of solidarity mechanisms within EMU for the survival of the project itself.



Post-Copenhagen research dominates ECP agenda

The European Climate Platform (ECP) has organised a series of events on the post-Copenhagen research agenda. On May 25th, a seminar focused on the short-term implementation and design issues of the future climate regime and on the role of academia and science in support of the climate negotiations. At a United Nations Framework Convention on Climate Change (UNFCCC) side event held during the climate change talks in Bonn on June 5th, preliminary results of the seminar were presented to a non-EU audience. The topic was further explored in a joint meeting in Bonn on June 8th between the ECP and the network of Research and Independent NGOs admitted as observers to the UNFCCC (RINGOs).

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Freedom, Security and Justice ten years on

To mark the 10th anniversary of the Area of Freedom Security and Justice (AFSJ), on June 23rd the Justice and Home Affairs Section at CEPS organised the launch of the book *The Area of Freedom, Security and Justice Ten Years on: Successes and Future Challenges under the Stockholm Programme* edited by Elspeth Guild, Sergio Carrera and Alejandro Eggenchwil.



Hans G. Nilsson (Council of the EU), Elspeth Guild (CEPS) & Emilio De Capitani (European Parliament)

The book combines the views of key practitioners and policy-makers who have shaped EU policy in this field. It addresses the progress achieved so far, identifies challenges for future European co-operation in the AFSJ and sets down paths for further progress in the next generation of EU actions.

Purchase book (€25) or download PDF free of charge at www.ceps.eu/books

The future of regulating genetically modified crops

On June 9th, CEPS brought together experts at a workshop on EU biotechnology regulation chaired by Jo Swinnen, CEPS.



Swinnen & Karamitsios

Yannis Karamitsios, DG Health and Consumer Affairs, European Commission, gave an overview of the current EU legislation on growing genetically modified (GM) crops, noting that the procedure might change following clarification of the new 'comitology procedure'. Alessandro Olper, University of Milan, put the EU GM regulation in a global perspective and Justus Wesseler of Wageningen University analysed the potential implications of decentralising EU GM regulation. Although some stakeholders argue that the new regulation moves in the right direction, fears were voiced about conflicts with internal market, WTO rules and increasing investor uncertainty.

Croatian State Secretary maps country's progress towards accession



Plenkovic

At a CEPS lunchtime meeting on June 7th, Andrej Plenkovic, Secretary of State for European Integration of Croatia, explained that the progress of his country on the road to EU accession has been slower than expected, due in part to the New Negotiating Framework adopted by the EU in 2004. Although the latter made the process more 'controllable' for member states, it complicated matters for applicants. Nevertheless, Croatia and the EU have now provisionally closed 18 negotiating chapters out of 33. The biggest obstacle to negotiations has also been removed, with the long-running dispute with Slovenia over territorial waters now settled the criterion of good neighbourly relations is finally met, and this will allow the opening of the negotiation chapter on Foreign, Security and Defence policy, meaning that Croatia could join the EU as early as 2011. Plenkovic noted that in light of the strategic importance of this decision, the government intends to hold a referendum on the accession treaty before it is ratified. Although a simple majority would suffice, it will work towards an overwhelmingly positive endorsement of accession.

See a video of the event at www.ceps.eu/media_files

TASK FORCE NEWS

New CEPS Task Force revisits MiFID

Over 30 market players came together on June 11th to launch a new Task Force run jointly by ECMI and CEPS, devoted to the issues arising from the European Commission's review of MiFID. The discussion was introduced by the Chair, Pierre Francotte (former CEO, Euroclear), who emphasised that revising the regulation will be an extremely delicate exercise in a post-crisis environment. The Group also set its terms of reference and scope of inquiry, focusing on three main areas: pre- and post-trade transparency; trading venues and common definitions; and conduct of business rules. Salvatore Gnoni, European Commission, Diego Valiante and Karel Lannoo, CEPS, presented respectively the Commission's priorities for the Review and the effects so far of MiFID implementation.

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Task Force on Critical Infrastructure Protection



Renda & Haemmerli with Task Force participants

The fifth meeting of the Task Force on Critical Infrastructure Protection in the EU was held on June 3rd at CEPS. Bernhard Haemmerli (Chair) and Andrea Renda (Rapporteur) presented the outline of the final report, which will be finalised in the next few weeks. Task Force members and a representative from the European Commission offered comments on the report's outline and its preliminary findings. The final report will be published in September, timed to coincide with initiatives by the European Commission on facilitating public private partnerships for ICT infrastructure resilience.

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RECENT EVENTS

Experts debate the merits of self-regulation



Gray, Staffan Jerneck (CEPS), Watson, Renda & Faure

The role and potential advantages of self regulation in the 'smart regulation' agenda were debated at a CEPS seminar on May 26th. Jean-Pierre Faure, of the Single Market Observatory of the European Economic and Social Committee, opened the discussion explaining that his institution supports self-regulation, pointing to its database on self- and co-regulation as an example. The increasing importance of self-regulation and more generally of soft-law regulatory instruments was further stressed by John Watson, European Commission. Oliver Gray, Director-General of the European Advertising Standards Alliance, highlighted the strengths of self-regulation as an efficient instrument for the promotion of ethical business, while Pierre Olivier Bergeron cited the Brewers of Europe as a successful example of self-regulation. Finally, Andrea Renda, CEPS, brought an economics perspective to the discussion, showing the close link between self- and co-regulation.

TASK FORCE Agenda

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- 1. Benchmarking for the EU ETS and beyond**
Chair **Anna Törner**, *Head of Section, Ministry of Enterprise, Energy and Communication, Sweden*
Report launched on 22 June in the Committee of the Regions
- 2. Innovation Policy: Boosting EU Competitiveness in a Global Economy**
Chair **Maria Anvret**, *former Senior Executive, Scientific Expert and Advisor, Confederation of Swedish Enterprise*
Report published in July, available at www.ceps.eu/books
- 3. Internal Market for Retail Financial Services**
Chair **Anton van Rossum**, *former CEO, Fortis Bank*
Report to be published in September
- 4. Securing European Energy Supplies: Making the Right Choices**
Chair **Knud Pedersen**, *Vice President, DONG Energy*
Report under preparation
- 5. State Aid to the EU Financial Sector: Fragmentation or integration?**
Chair **Alastair Sutton**, *Partner, White & Case*
Report under preparation
- 6. 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*
Report under preparation
- 7. Critical Infrastructure Protection**
Chair **Bernard Haemmerli**, *Vice President, Information Security Society, Switzerland (ISSS)*
Report under preparation
- 8. The Carbon Market after Copenhagen - Challenges and the Way Forward for the EU NEW!**
Chair: **Benoit Leguet**, *Chair of the JI Supervisory Committee and Vice President for Research, CDC Climat*
1st meeting 2 July, 2nd meeting September
- 9. A New Retail Credit Regime for Europe - Setting the Right Priorities**
Chair: **Rosa-Maria Gelpi**, *former Vice-President of BNP Paribas Personal Finance*
2nd meeting 6 July
- 10. MiFID Review: What is next for European capital markets?**
Chair: **Pierre Francotte**, *former CEO, Euroclear*
2nd meeting 16 July; 3rd meeting 17 September; 4th meeting 8 October; 5th meeting 29 October
- 11. Implementation of the Strategic Energy Technology (SET) Plan**
1st meeting - date to be announced NEW!
- 12. Transport and Climate Change NEW!**
1st meeting - date to be announced
- 13. Asset Management NEW!**
1st meeting - date to be announced
- 14. E-communications: Regulatory Challenges for the post-Lisbon Era**
Chair **Staffan Jerneck**, *Director & Director of Corporate Relations, CEPS*
4th meeting September

Dialogue on reform in the Arab world

The issue of synergy between the US and the EU was central to the Dialogue on Reform in the Arab World conference organised by Freedom House and CEPS on June 1st. A broad spectrum of experts debated topics such as freedom of speech, NGO participation, authoritarian regimes, electoral transparency and the violation of women's rights in the North African Mediterranean region.

The EU and the US were called upon to offer support and engage more effectively with civil society in the region, where they should encourage the creation of democracy from within rather than exporting Western democratic norms. The promotion of gender equality and increased citizen participation in the electoral process were two issues that stood out as demanding further attention.



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RECENT EVENTS

Enhancing innovation in Turkey's health sector

CEPS researcher **Guldem Okem** organised a workshop on Innovation in the Health Sector in Turkey, in collaboration with the Association of Turkish Industrialists and Businessmen (TUSIAD) on June 10th in Istanbul. Okem presented the framework and key findings of the ongoing policy research on ways to improve innovation in the health sector in Turkey. The participants, including policy-makers from public institutions, ministries, representatives of pharmaceutical, medical technology, hospital and insurance companies, engaged in a SWOT analysis to elaborate the critical issues concerning the innovation environment in Turkey.

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How can businesses tackle corruption from within?



A. Gourley (Crowell Moring), H.-J. Priess (Freshfields Bruckhaus Deringer), S. Jerneck (CEPS), K. Moosmayer (Siemens) & M. Fruhmann (Austrian Federal Chancellery)

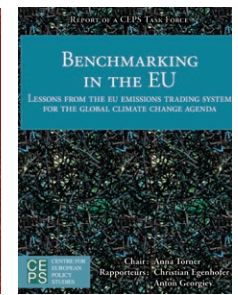
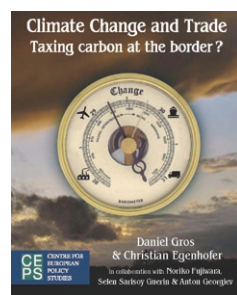
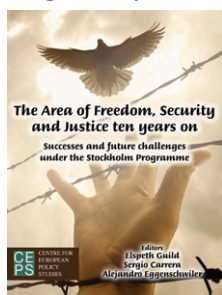
On June 8th, the pros and cons of the 'self-cleaning' mechanism as applied to public procurement were debated at a CEPS roundtable event. The concept describes the remedies adopted by companies to re-establish their reliability after corruption and mismanagement scandals. Since the adoption of the OECD Convention on anti-bribery, exclusion from public procurement procedures has become an important tool in the fight against corruption. At the EU level, the mechanism for exclusion has been enshrined in Regulation 2004/18/EC. But since exclusion can amount to an economic 'death penalty' for the companies affected, various actors are trying to devise softer but equally effective measures to deal with the problem. Most measures rely on corporate governance and the implementation of strict compliance rules. Cleansing has to start with top level management, with boards taking ownership of compliance and asking themselves: "Is this something I am willing to be held accountable for?"

New study on EU electricity and gas markets

CEPS presented its new study on EU electricity and gas markets to the European Parliament's Industry, Research and Energy Committee. The study assesses the opening and completion of the internal energy market by taking stock of the current status and offers a critical assessment of the likely policy challenges ahead, suggesting necessary policy steps.

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CEPS MEMBERSHIP MEETINGS

- 1 JULY 12.45-14.00 *The Monti Report: Prospects and Challenges for the Single Market*
Mario Monti, President, Bocconi University, author of the report on the re-launch of the single market
Discussants: **Monique Goyens**, Director General, BEUC
Jacques Pelkmans, Senior Associate Fellow, CEPS, Director of the Economics Department, College of Europe
Chair: **H. Onno Ruding**, Chairman of the CEPS Board of Directors
- 20 JULY 13.15-14.30 *The Priorities of the Belgian Presidency of the EU Council*
H.E. Jean De Ruyt, Permanent Representative of Belgium to the EU

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 (or half an hour) before lunchtime meetings (€6). For organisational reasons, we cannot accept telephone registrations.

Registration: Please contact Anne-Marie Boudou, per e-mail: amboudou@ceps.eu or fax: +32 (0)2 201.46.89.