

## CEPS welcomes a new Corporate Member: Det Norske Veritas

### Future of wholesale banking in the eye of the storm

The ECMI Annual Conference on March 31st focused on the prospects for European wholesale banking in the aftermath of the financial crisis. The conference opened with presentations from Jan Loeys, JPMorgan, and Avinash Persaud, Intelligence Capital Limited, who discussed how global capital markets have reacted to the current crisis. Three other sessions dealt with the impact of state aid packages on financial institutions, the prospects for Europe's market infrastructure and ways to re-establish the fund management industry after last year's dramatic capital outflows.



Panellists at the ECMI Annual Conference

The conference culminated with a dinner debate where executives from major European financial institutions discussed the future of European capital markets. Speakers for the dinner debate included H. Onno Ruding, Chairman of CEPS, Ignace R. Combes, Euroclear, Robin Fransman, Holland Financial Centre, Olivier Lefebvre, ECMI Board Member, and John Rega, Bloomberg.

Read full event report at  
[www.eurocapitalmarkets.org](http://www.eurocapitalmarkets.org)

### The European Elections Conundrum

Julia De Clerck-Sachsse, CEPS Research Fellow



With only a few weeks to go until the European elections on June 4-7, a recent Eurobarometer poll paints a gloomy picture: just over 30% of voters will be casting their ballot this year, which is a record-low turnout. There is of course nothing new about a falling turnout for European elections. It has been declining steadily ever since citizens first took to the polling booths in 1979. Yet this development is somewhat paradoxical: while this institutional pillar of direct democratic legitimacy has been successively reinforced – the EP has been granted ever more rights as a co-legislator with the Council of Ministers – at the same time it is being hollowed out by increasing voter apathy.

Even though the expected low turnout this year continues an existing trend towards abstention, which can also be seen at the national level, there are at least three aspects worth considering in this round. First, since most countries within the Euro area have weathered the economic crisis better than those outside it, it was hoped that the current fear of instability would garner public support behind the European project. This seemed to be corroborated by a recent swing in Irish opinion polls in favour of the Lisbon treaty in a second referendum. Second, the EP has increasingly flexed its muscles towards the Commission and the Council, taking a firm stance, for example, on the appointment of the Barroso Commission and playing a key role on policy initiatives such as the services directive. These events not only increased the EP's standing within the institutional triangle, they also received public attention beyond Brussels, making the European Parliament better known as a political actor. Third, the European Commission has spent large amounts of money this year on a glossy election campaign: 'It's your choice' as well as launching special initiatives to reach out to women and young voters; two groups that display a particularly low interest in European affairs.

Despite these factors, however, the conundrum of the EP increasing in visibility and influence while appearing to be largely irrelevant to voters persists. This lack of public interest in the EP elections can in part be explained by the fact that European elections are largely fought on national rather than European issues. The election campaign kicked off late and has met with little public resonance. A second factor is that the campaign does little to politicise the debate by providing actual policy choices and making clear which party stands for what. The EU-level campaign is largely run by the Commission, not the political parties. To many voters it is therefore unclear how their vote will make a difference.

One way to remedy this would be to link the outcome of the European elections more clearly to the appointment of the next Commission president. The decision not to propose competing candidates already during the election campaign is a real missed opportunity to infuse the European elections with more tangible political stakes. As a result the elections receive only scant attention in the national media. Instead the EP has been making headlines with scandals over MEPs' expenses and a controversial pension fund.

The inability to portray the Parliament as anything other than the 'Brussels gravy train' ties in with the failure of the Commission to emerge as a leading actor in the current economic turmoil. Governments, moreover, while calling for concerted action have only reluctantly agreed to a common line. In the absence of strong political leadership on European issues, taking recourse to MTV election spots is unlikely to have much impact on public perceptions.

This failure to make the EU and its institutions relevant in times of crisis can only exacerbate the rift between the EU and its citizens. A record low in European elections this year does not bode well for efforts to democratise EU governance by extending the powers of the European Parliament.

Information about the European Parliament's elections, June 2009: [www.europarl.europa.eu/elections2009](http://www.europarl.europa.eu/elections2009)  
See also upcoming CEPS event on May 25th: The 7th Legislature of the European Parliament: More powerful, but less legitimate? (details on the back of this newsletter)

### EIB President characterises anti-crisis measures as timely, targeted and temporary

On March 30th, Philippe Maystadt, President of the European Investment Bank, discussed the EIB's contribution to the EU's response to the economic crisis at a CEPS lunchtime meeting, chaired by H. Onno Ruding, Chairman of the CEPS Board of Directors. Maystadt outlined the EIB's anti-crisis measures for 2009 and 2010, which mainly focus on three orientations: fostering SME lending, a comprehensive package for energy and climate change and support for Central and Eastern European member states. The EIB is increasing its total lending by more than 30% to €45 billion in 2009-10 to support policy actions that are timely, targeted and temporary, as recommended by the European Council.

Maystadt stated that the EIB is often approached to carry out more tasks, but he emphasised that the institution's mission is not to bail-out companies, but to finance projects for the future. Furthermore, the EIB has only limited capacity to fund projects, as this capital has to be borrowed on the markets first as well. So far, the EIB has experienced almost no defaults on its loans, which Maystadt attributes to the Bank's thorough appraisal process of financial and technical aspects before lending capital.



Maystadt

## RECENT EVENTS

### Spotlight on rule of law in Bulgaria and Romania

The final conference of the project "Safeguarding the Rule of Law in an Enlarged EU: The Cases of Bulgaria and Romania" took place on April 24th. CEPS collaborated with the Open Society Institute (OSI) Bulgaria in this research project to provide an independent assessment of domestic governance and the rule of law in the two latest EU member states. A similar debate has now been launched across all EU member states. The achievements of the project were presented at the conference followed by intense discussion with EU policy-makers and practitioners.

Info: [sergio.carrera@ceps.eu](mailto:sergio.carrera@ceps.eu)



Panelists Guild, Alegre & Nilsson

### The future of the global financial architecture



Colmant & Diplock

On April 22nd, ECMI and CEPS held a roundtable with Jane Diplock, Chairman of the Executive Committee, International Organisation of Securities Commissions (IOSCO) and Chairman, New Zealand Securities Commission, chaired by Bruno Colmant, Head of Euronext Brussels and Member of the Management Committee, NYSE-Euronext. Colmant gave an overview of the securities market infrastructure in the European Union and how the MiFID (Markets in Financial Instruments Directive) impacted on equity markets. The fierce competition between multilateral trading facilities (MTFs) and regulated exchanges raises many concerns about the lack of a real level playing field. Diplock's speech pointed out the outdated global financial infrastructure and called for rebuilding the global financial architecture around networking solutions and the implementation of new global financial standards for regulation and supervision. Diplock concluded that the IOSCO's experience can contribute significantly to the creation of a global regulator and eventually restore confidence in financial markets.

### EU policy developments in Freedom, Security & Justice

As part of the project "Informing the Immigration Debate: Preparing for the European Parliament Elections 4-7 June" the Justice and Home Affairs section of CEPS, supported by the Barrow Cadbury Trust, gave a briefing lunch inside the European Parliament on March 15th for a selected audience of MEPs and NGOs. CEPS researchers outlined the main achievements and shortcomings in the creation of an Area of Freedom, Security and Justice in Europe and presented the current issues at stake in European policy-making in four major policy areas: immigration, borders, asylum and data protection. The Justice and Home Affairs section will publish a series of briefing policy papers on the issues raised at this event.

Info: [sergio.carrera@ceps.eu](mailto:sergio.carrera@ceps.eu)

### CEPS meeting explores the crisis of globalised finance



De Grauwe, Gros, Brender & Pisani

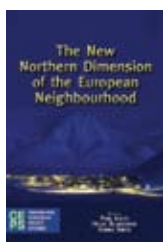
At a CEPS seminar chaired by CEPS Director Daniel Gros on April 16th, Anton Brender, Chief Economist of Dexia Asset Management, and Florence Pisani, Lecturer at the University of Paris-Dauphine, presented their study entitled "Globalised Finance and its Collapse". The authors argued that the creation of an "alternative banking system" and increased international financial inter-penetration led to a wider circulation of financial risks without market players collecting the necessary savings to finance them. Together with Paul De Grauwe, Associate Senior Fellow at CEPS and Professor at the University of Leuven, they discussed the role of imbalances created through massive surplus savings in the emerging countries, especially China, and the shift of risks related to their investments to the "Western financial system", especially the US, as "key enablers" of the current financial crisis. They also elaborated on the possible impact of such surplus savings.

## CEPS BOOK LAUNCHES

### The New Northern Dimension

A meeting was held on April 3rd to discuss the recently published CEPS paperback *The New Northern Dimension of the European Neighbourhood*. The authors - Paami Aalto, University of Tampere, Helge Blakkisrud, Norwegian Institute of International Affairs, and Hanna Smith, University of Helsinki - presented their respective views, under the chairmanship of Michael Emerson, CEPS Senior Fellow. The main tasks identified for cooperation in the region were energy, transport, environment, public health and fisheries. Marius Vahl of the EFTA Secretariat highlighted the issue of the melting ice caps and the challenges of cooperation within the Arctic strategy and Baltic Sea region.

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### Strategy study for German foreign ministry on pan-European spaces

At the request of the Policy Planning Staff of the German Federal Foreign Office, CEPS produced a study entitled *Synergies vs. Spheres of Influence in the Pan-European Space*, by CEPS Senior Fellow Michael Emerson and several co-authors including CEPS Researchers Arianna Checchi, Noriko Fujiwara and Elena Gnedina. The study explores how EU policy towards wider Europe might develop cooperative actions overarching the three political spaces of Russia, the Eastern Partnership states and Central Asia, in order to shift EU-Russia relations into deriving mutually beneficial synergies, and away from competition over spheres of influence. The study's findings were presented on April 23rd at a seminar at the European Commission and Council on EU-Russia Relations, and in Prague in the Czech foreign ministry.

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### The Cyprus Peace Process

This year will prove decisive for the protracted conflict in Cyprus. Of all the dossiers on the conflict resolution agenda in Cyprus, security arrangements, peacekeeping, guarantees and international alliances have always been the major bones of contention. In light of the importance of security matters for the resolution of the conflict and the urgency posed by the ongoing talks, CEPS organised a conference on April 6-7th to discuss the peace process and its security dimension. On April 8th, CEPS launched the book *A People's Peace in Cyprus*, which presented the results of a second survey testing public opinion in the Greek Cypriot and Turkish Cypriot communities on the options for a settlement. The first opinion poll in this project was published in October 2008 under the title *Building Confidence in Peace*.

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*Task Force on energy security sets priorities*

The first meeting of a CEPS Task Force on "Securing European Energy Supplies: Making the Right Choices"



Knud Pedersen (chair), Houssin & Vinois

was held on March 31st. The opening session focused on global and EU energy trends and policies, featuring presentations by Didier Houssin, Director for Energy Markets and Security of the International Energy Agency and Jean-Arnold Vinois, Head of the Energy Policy and Security of Supply Unit in DG TREN, European Commission. An issues paper prepared by CEPS was discussed among participants to decide on the thematic emphasis of future meetings.

Info: arno.behrens@ceps.eu

*Budget and climate change body meets in EP*

The second meeting of the CEPS Task Force on the EU budget and climate change took place in the European Parliament on April 1st. Participants



MEPs Claude Turmes & Anders Wijkman

concentrated on the energy package and external action, and were later joined by a parliamentary group on the Supergrid, which resulted in a technical presentation on this modern trans-European energy system. National recovery packages and the recent recovery package of the EU, which had an important element on energy, took centre-stage, provoked heated but constructive debate.

Info: jorge.nunez@ext.ceps.eu

*Art. 82 group discusses new Guidance Document*

The next meeting of the CEPS Task Force on the treatment of exclusionary abuses under Article 82 of the EU Treaty will meet on May 12th to further discuss the Guidance Document issued by the European Commission in December 2008. Chaired by John Temple Lang, the Task Force has already hosted lively debates in March & April on issues such as the use of economic analysis in the application of Article 82, predation, loyalty discounts and the treatment of 'not-yet-as-efficient competitors'.



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

Info: staffan.jerneck@ceps.eu

*E-comm Task Force to debate future regulation*

The next meeting of the CEPS Task Force on e-communications, chaired by Staffan Jerneck, CEPS Director and Director of Corporate Relations, will discuss the future regulation of communications in Europe, after the recent triologue meetings between EU institutions to shape the new regulatory framework. The Director General of the Commission DG Information Society and Media, Fabio Colasanti, will speak on the current state of EU regulation. Other speakers include Karim Lesina (AT&T), Marc Lebourges (France Telecom), Tom Lindström (Ericsson), Chris Hutchins (Liberty Global), Mustafa Aykut (Türk Telekom) and Alfredo Acebal (Telefonica).

Info: staffan.jerneck@ceps.eu

*New group tackles role of cities in climate change*

At its launch on May 15th, a CEPS Task Force chaired by Laurence Tubiana (IDDRI) will take stock of ongoing initiatives on the role of cities and climate change policy, thinking through some of the emerging issues with strong focus on the link to the carbon market.

Info: christian.egenhofer@ceps.eu

Info: staffan.jerneck@ceps.eu

- 1. Internal Market for Retail Financial Services**  
**Chair Anton van Rossum**, Former CEO, Fortis Bank  
 Report under preparation
- 2. E-communications: Regulatory Challenges for the post-Lisbon Era**  
**Chair Staffan Jerneck**, Director & Director of Corporate Relations, CEPS  
 3rd meeting 5 May
- 3. CDM and post-2012 Flexible Mechanisms**  
**Chair Ulrika Raab**, Senior Advisor, Swedish Energy Agency, Member of the CDM Executive Board  
 4th meeting 6 May
- 4. The Treatment of Exclusionary Abuses under Article 82**  
**Chair John Temple Lang**, Cleary Gottlieb Steen & Hamilton LLP & Former Director, DG Competition, European Commission  
 4th meetings: 12 May; 5th meeting: 8 June; 6th meeting: 24 June
- 5. EU and Global Climate Change Policy and the Increasing Role of Cities** **NEW!**  
**Chair Laurence Tubiana**, Director, Institut du développement durable et des relations internationales, Paris  
 1st meeting 15 May
- 6. Securing European Energy Supplies: Making the Right Choices**  
**Chair Knud Pedersen**, Vice President, DONG Energy  
 2nd meeting 2 June, 3rd meeting 2 July
- 7. European Security Forum**  
**Chair François Heisbourg**, Chairman, Fondation pour la Recherche Stratégique  
 Next meetings: 12 June & 26 October; Info & registration: [esf@ceps.eu](mailto:esf@ceps.eu)
- 8. A Green Budget for a Sustainable Future: Adapting the EU Budget to Climate Change**  
**Chair Anders Wijkman**, Member of the European Parliament  
 4th meeting June
- 9. Bank State Aids and the Single Market**  
**Chair Alastair Sutton**  
 Partner, White & Case  
 2nd meeting June
- 10. The Solvency II Regime: A Revolution for European (Re)insurance Companies**  
**Chair Jos Streppel**, CFO and Member of the Executive Board, Aegon  
 3rd meeting June
- 11. Restoring Investor Confidence** **NEW!**  
 Joint Task Force by CEPS, ECMI & CFA  
 1st meeting June
- 12. Completing the Doha Round of WTO Negotiations**  
**Chair Hanns Glatz**, Delegate of the Board of Management, Daimler AG  
 6th meeting June/July
- 13. Innovation Policy: Boosting EU Competitiveness in a Global Economy** **NEW!**  
 1st meeting September
- 14. Corporate and Commodity Standards and Sustainable Trade**  
**Chair Corrado Pirzio-Biroli**, Former chef de cabinet of European Commissioner Franz Fischler  
 2nd meeting September
- 15. Education - Human Capital in the EU** **NEW!**  
 1st meeting September

## Eurobarometer expects low turnout for the European elections



I am confident that I will win a seat in the European Parliament. My opponents have smaller families.

Jorge

CEPS  
Place du Congrès 1  
B-1000 Brussels  
Tel: 32(0)2.229.39.11  
Fax: 32(0)2.219.41.51  
Website: [www.ceps.eu](http://www.ceps.eu)  
Bookshop: <http://shop.ceps.eu>

Belgique - België  
P.P.  
1000 Bruxelles  
1/758

European  
Credit  
Research  
Institute

### The Future of Retail Banking in Europe: Competition and Regulatory Challenges

10th Anniversary Conference of the European Credit Research Institute, jointly organised with DIW BERLIN

Georges Siotis, Chief Economist Team, DG COMP, European Commission  
Roman Inderst, Professor, Johann Wolfgang Goethe Universität, Frankfurt/Main  
Giancarlo Spagnolo, Professor, Università di Roma "Tor Vergata"  
Eric Ducoulombier, Deputy Head of Unit for Retail Issues, Consumer Policies and Payment Systems, DG MARKT, European Commission

10 June 2009, 9.00-13.30 at CEPS

Registration: [http://www.ceps.eu/registration.php?event\\_id=374](http://www.ceps.eu/registration.php?event_id=374)  
Info: [isabelle.tenaerts@ceps.eu](mailto:isabelle.tenaerts@ceps.eu)

### CEPS Fellows at INNODRIVE workshop

On 17-18 April, the partners in the FP7 research project INNODRIVE,



INNODRIVE workshop in Prague

which is coordinated by the Finnish VAASA University, met in Prague for a workshop presenting developments and preliminary findings. This project aims at measuring the contribution to growth of intangible assets at the macro and micro level. CEPS is a partner in this project and was represented by Research Fellow Felix Roth and Associate Senior Research Fellow Jørgen Mortensen.

Info: [www.enepri.org/inno](http://www.enepri.org/inno)

## CEPS MEMBERSHIP MEETINGS

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

7 MAY  
13.15-14.30

*Critical Infrastructure Protection: The Role for Public-Private Partnerships*

**Andrea Servida**, Deputy Head of Unit, Network and Information Security, DG INFSO, European Commission  
**Hasan Alkas**, Principal Economist, ICT for Competitiveness and Innovation, DG ENTR, European Commission  
**Vangelis Ouzounis**, Senior Expert IT Security Policies, European Network and Information Security Agency  
**Paul Nicholas**, Senior Security Strategist, Critical Infrastructure Protection Program, Microsoft

20 MAY  
13.15-14.30

*Combating the Global Crisis: Prospects and Challenges - Launch of the IMF's World Economic Outlook 2009*

**Jorg Decressin**, Head, World Economic Studies Division, International Monetary Fund  
**Silvia Sgherri**, European Department, International Monetary Fund  
Chair: **Daniel Gros**, Director, CEPS

25 MAY  
13.15-14.30

*The 7th Legislature of the European Parliament: More powerful, but less legitimate?*

**Julia De Clerck-Sachsse**, Research Fellow, CEPS  
**Piotr Maciej Kaczynski**, Research Fellow, CEPS

27 MAY  
13.30-18.00

*Is Europe doing enough to fight the credit crisis? - Conference in cooperation with Business Europe*

**Annika Lundius**, Deputy-Director General, Confederation of Swedish Enterprise  
**Paul Mercier**, Deputy-Director General, Market Operations, European Central Bank  
**Hannes Rehm**, Spokesman, SoFFin  
**H. Onno Ruding**, Chairman of the CEPS Board of Directors  
**Baron Turner of Echinwell**, Chairman, Financial Services Authority, United Kingdom (tbc)  
**Pierre Wunsch**, Head of Cabinet to the Belgium Minister of Finance  
(See programme on CEPS website for details)

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](mailto:amboudou@ceps.eu).

Name  First name

Position

Organisation

Address

Postal code  City

Telephone  E-mail

## The Quest for European Leadership CEPS Annual Conference 2009

### Opening Dinner

4 March 2009, Cercle Royal Gaulois, Brussels

Chair: **H. Onno Ruding**, Chairman of the CEPS Board of Directors

Speaker: **Mirek Topolánek**, Prime Minister of the Czech Republic

Speaking at the opening dinner of this year's CEPS Annual Conference, **Mirek Topolánek**, Prime Minister of the Czech Republic, stressed that the presidency of his country would focus



Topolánek speaking at the Opening Dinner

on a staunch defence of the EU and the single market, amidst the climate of hysteria generated by the economic crisis. In this respect, he was eager to point out that there was pervasive misinformation being put about by opinion-makers with 'great powers but zero accountability'.

*“The crisis should not arrest the enlargement process ... hope should prevail over fear.”*

Topolánek recalled the principles of solidarity and responsibility that underpin the EU, based on the strong rejection of protectionism and free-riders.

The Czech Prime Minister sees the Union as a voluntary group of 27 countries, which are only accountable to their own citizens. One of the foundations of European integration is the common market, which has more than proved its worth over time. Political integration cannot function without this market. In this respect, he highlighted some of the differences between the current economic crisis and that of the 1930s, explaining that today the EU is essentially grappling with a crisis of confidence. This has led to a tendency to adopt protectionist

measures, due to the inability of politicians to explain to their voters that the party is over. One of the key aims of EU leaders should therefore be that of restoring confidence, in particular to the banking sector. In order to do this, they will need to robustly demonstrate their responsibility.

*“The single market does not mean a single economy... it is inevitable that the fiscal policies of member states should differ.”*

Topolánek referred to the concerns from some quarters that new dividing lines could be drawn within Europe, even referring to a possible new Iron Curtain around the Balkans and Turkey. In his view, the crisis should not arrest the enlargement process, because 'hope should prevail over fear'. To support this argument, he quoted the recent report by the European Commission on the five years since enlargement, which showed that both the new and old member states benefited from the 2004 broadening of the Union. Topolánek himself labelled it a 'big fat plus'. He was also keen to stress that the single market does not mean a single economy, and that it is inevitable that the fiscal policies of member states should differ.

Anticipating some of the arguments that could be brought against his defence of the enlargement process, Topolánek stated that in a new EU with more member states, institutional issues would not be all-important. According to him, deepening and broadening cannot continue to go hand in hand, since the transfer of further decision-making powers to Brussels is possible but not necessary. On the other hand, he stressed the importance of properly implementing existing legislation, calling for fewer rules, but rules that have to be obeyed by everyone without exception. Ending on a positive note, the Czech Prime Minister remarked that if politicians show courage, the crisis could represent a unique opportunity for structural reforms.

## Session I. Reforming the EU Treaties: Improving Ratification Procedures & Democratic Involvement

5 March 2009, Palais d'Egmont, Brussels

Chair: **H. Onno Ruding**, Chairman of the CEPS Board of Directors

Speakers: **Diego López Garrido**, Secretary of State for European Affairs, Spain

**Dick Roche**, Minister of State with Special Responsibility for European Affairs, Ireland

During the first session of the Annual Conference, **Diego López Garrido**, Secretary of State for European Affairs of Spain, focused on the achievements of the Constitutional Treaty and the success of the European Convention, of which he had been a member. Summarising what in his view were the most significant improvements introduced by the treaty, he referred to the growing number of competences; the further strengthening of the powers of the European Parliament; the adoption of Qualified Majority Voting instead of unanimity, and in general to the switch from a permissive consensus on the part of the citizens to a participatory one.



López Garrido, Ruding & Roche

In Spain the Constitutional Treaty had enjoyed strong popular support, reflected in the successful referendum conducted by the Zapatero government. The rejection in the Netherlands and France of the Constitutional Treaty was a matter of some regret to the Spanish Secretary of State. With regard to what happens next, López Garrido only registered his preference for the more coherent form of the Constitutional Treaty over the somewhat opaque structure of a classic amending treaty that was eventually agreed in Lisbon.

*“There are much more challenging issues for Europe to be dealing with, and which could win back the affection of its citizens.”*

The fundamental question, in the opinion of López Garrido, was that of why, despite the best efforts of EU leaders, citizens continue to reject what is put to them. In this respect, he considers that the treaties are too complicated to be put to such a simplistic vote as a referendum. Moreover, it is time to dispense with the requirement of unanimity for the entry into force of new treaties. At the political level, leadership is needed to convince European citizens that what we are doing is in their interests. This also entails engaging with citizens to explain why they should vote for the Treaty of Lisbon. The latter is a daunting task, as “rightly or wrongly the idea of a dominant Eurocracy has set in”.

The Spanish Secretary of State saw it as the task of EU leaders to dispel this myth. To that end, the Spanish government is preparing “a very European presidency”.

Speaking on the same panel, **Dick Roche**, Minister of State with special responsibility for European Affairs of Ireland, also recalled his times as a member of the Convention on the future of Europe, dwelling in particular on the “striking sense of equality” that characterised the experience, which was very participative and produced a treaty that was “very good”. However, ensuing developments and the continued focus on “institutional tinkering” left citizens cold and turned them off Europe. Roche believes that there are much more challenging issues for Europe to be dealing with, and which could win back the affection of its citizens.

*“Politicians should not wait for a crisis to convince the people that Europe is about them.”*

The Irish politician then spent some time explaining the position of his government with regard to the failed referendum and the next steps for the ratification of the Treaty of Lisbon. In his view, a good starting point was the fact that the treaty includes a margin of flexibility, which will be helpful in reassuring citizens that the Irish government can defend their vital national interests. The Minister pointed out that although 95% of the Dáil (the Irish Parliament) supported the treaty, the marching orders came from the citizens. It was therefore necessary to understand their concerns. In this respect, he outlined the results of a survey commissioned by the Irish government, which showed that 4 out of 10 voters rejected the treaty due to a lack of information, and 7 out of 10 persons who did not vote abstained because they



Networking opportunities at the CEPS Annual Conference

felt that the issue had not been properly explained to them. In terms of demographics: unskilled, blue-collar workers were among the highest no-voters, as was the case in France and the Netherlands when they rejected the treaty. For the long term, Roche argued, politicians should not wait for a crisis to convince the people that Europe is about them.

Among the measures that could be taken, he called for a simple introduction “in layman’s language” to every piece of European legislation. On the technicalities of a potential second referendum, the Minister stated that it should be a stand-alone vote because otherwise, no matter how carefully-worded the referendum question is, citizens will always vote

on a variety of issues. He also believed that to ensure a positive vote, it would be helpful to use more uplifting language. In this respect, despite all the problems it brought about, the economic crisis could also have positive spin-offs, as in Ireland it has “re-legitimised Europe”.

## *Session II. What role is left for the market?*

*5 March 2009, Palais d’Egmont, Brussels*

Chair: **H. Onno Ruding**, Chairman of the CEPS Board of Directors

Speakers: **José Luís Escrivá**, Chief Economist, Banco Bilbao Vizcaya Argentaria

**Roberto Nicastro**, Deputy-CEO, UniCredit Group

**Daniel Gros**, Director, CEPS

**T**he second session of the conference dealt precisely with the consequences of the financial and economic crisis.

**José Luis Escrivá**, Chief Economist of the Spanish Banking Group BBVA, started by affirming that the crisis served to show that Europe was still far from completing the internal market for financial services. If anything, the way the crisis has been managed shows that the EU was not prepared from a systemic point of view. The measures that have been put in place can be seen as a case of “very little Europe and very many national reactions”. Having said that, the Spanish economist insisted on the need to assess the problems of liquidity and solvency separately. Concerning the first, the worse case scenario has been avoided, but the interbank markets are not yet operating properly, and they are only likely to start working again in the medium term. With regard to solvency, the measures to restore confidence in the system and avoid the credit crunch have so far been ineffective. This has led to many business models being no longer sustainable. Escrivá is convinced that without decisive action in this field, the situation will not improve, and the necessary efficiency in the provision of credit is not going to be restored. In this respect, he raised the question of why the European Central Bank had not done anything to address the problem of European credit growth. This inactivity could even result in a rolling back of the achievements of European Monetary Union.

*“A state-driven banking industry can lead to even greater disasters than the ones we have seen up to now.”*

It was then the turn of **Roberto Nicastro**, Deputy-CEO of the Italian banking group UniCredit. His remarks also focussed on the need to restore confidence, although, in contrast to his Spanish colleague, he was very keen to caution the audience about the risks of

excessive regulation. In his view, the policy pendulum is currently swinging from a pure market approach towards ever-stronger state intervention. Nicastro reminded the audience, however, that “a state-driven banking industry can lead to even greater disasters than the ones we have seen up to now”. To cite just one recent example, he referred to the German Landesbank, which, in order to compensate the losses it incurred in providing the German corporate sector with cheap money, had to create “some of the biggest portfolios of toxic assets” in the world.



Gros, Escrivá Ruding & Nicastro

Speaking of the particularly harmful way in which the crisis is hitting Central and Eastern Europe (where UniCredit has extensive assets), Nicastro emphasised that this should not make people forget the speed at which Central European corporate and retail customers gained access to a level of service and liquidity comparable to that available in the West. He singled this out as “the tremendous success of a market mechanism”. However, the Italian banker admitted that there should also be talk of re-regulation (rather than more regulation), because there are regulations that have clearly failed in recent times and need to be changed. To sum up, he compared state intervention to a medicine that probably needs to be taken, but has to be taken in the right way, and then only temporarily.

Considering other technical measures that could be adopted to tackle the crisis, Nicastrò provocatively proposed the dropping of quarterly reporting, as this encourages a short-term attitude to the running of banks. Scrapping the current system would show that the relevant actors are taking responsibility and adopting a long-term approach that would benefit all stakeholders, rather than only the shareholders.

Finally, he called for better coordination and supervision of international regulations, as the management of strong differences in regulation is extremely complicated and costly, a cost that banks then pass on to consumers and corporates.

CEPS Director **Daniel Gros** was the last speaker on the panel. His first observation was that the markets have failed, and have done so on a massive scale. One of the reasons was that the financial markets are traditionally characterised by periods of euphoria followed by manic depression. The peculiar aspect of the bubble that led to the current crisis is that it lasted for such a long time, and was truly global. One of the main problems was that no institutional actor dared to explain that it could not last forever. Historically, this has been the task of Central Banks, but in the view of Gros, this time they failed on this count, on both sides of the Atlantic. Therefore, one of the key lessons that should be drawn from the crisis is not about the greed of bankers or the need for more detailed regulation, but that there should always be someone who has the courage to interrupt the party too early, rather than too late.

*“There should always be someone who has the courage to interrupt the party too early, rather than too late.”*

Apart from the causes, the challenge now comes from the completely different measures that will be required to confront the crisis in the short and long term. Indeed, international authorities have to find ways to prevent future crises, while dealing with the present one immediately.



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Gros maintained that in the long run there will be a need for increased regulation, and for a restriction of the freedom of manoeuvre of banks, whereas in the short term it would be desirable for banks to be “more exuberant” and to lend more. This of course risks leading to systemic paralysis, since national and European authorities are sending out conflicting signals.

*“The new role of the ECB should be to make sure that, when the next boom starts, it is ended as soon as possible.”*

In this context, the role of researchers should be to dispel confusion and to help make hard choices. In particular, the immediate question to tackle is that of the banks. There, in the view of CEPS’ Director, “the scale of the disaster is such that we have to nationalise many of them”. In a paper released earlier this year, Gros had argued that this should be done at the European level, but the policy-makers have decided otherwise, rescuing banks one by one, which will obviously be more costly. For the long term, there will have to be a “lot of work” on detailed regulation. This may be only partially effective, however, since when the next period of euphoria comes, there will be pressure to relax these yet-to-be-written rules once again.

For this reason, there is a need for a very conservative and very independent institution that would constantly monitor the situation. In Europe, the only institution that fits this description is the European



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Central Bank. Until now, the ECB has only been tasked with ensuring price stability, while it should now also guarantee financial stability. Indeed, Gros considers that the new role of the ECB should be that of “making sure that, when the next boom starts, it is ended as soon as possible”. This is the only option available to do away with the current confusion and to send the clear signals that the markets are waiting to hear again.