CEPS wins prestigious ‘Think Tank of the Year’ award

For the second time in three years, CEPS was honoured to receive the prestigious ‘Think Tank of the Year 2010 European Public Affairs Award’ at a ceremony in Brussels on November 4th. The prize was in recognition of CEPS’ consistently excellent contribution to the policy debate in Brussels; in particular for the role we played in putting forward concrete proposals to increase future financial stability. CEPS pledges to continue “thinking ahead for Europe” and to produce independent and high-quality research.

Info: www.epaawards.com

Understanding euroscepticism

A new book entitled: Understanding Euroscepticism was presented at CEPS on November 8th, by author Cécile Leconte, Senior Lecturer and Head of the European Studies Department, Sciences Po, Lille. Leconte compared the current wave of euroscepticism with historical precedents such as the anti-European views that were the result of the recession in 1973. Today’s euroscepticism has different characteristics, however, which are unique to 2010:

1) Young voters now make a cost-gain analysis of the Union;
2) There are strong, internal national party divisions;
3) A new factor is the redistributive impact;
4) The lack of trust in the EU member states (evident during the Greek crisis, in particular).

Panellist Andrew Duff, MEP, ALDE, added during the Greek crisis, in particular).

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1) Young voters now make a cost-gain analysis of the Union;
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Thoughts on the future of the Monetary Union

The euro crisis is not over yet – far from it. The question is: how can we prevent a chain of bailouts and save the euro from break-up? We asked CEPS’ economists Daniel Gros (DG) and Paul De Grauwe (PDG) for their views on how to fix the unresolved problems in the eurozone.

Q: Does the Monetary Union have a future without a crisis resolution mechanism?

DG: The European Monetary Union (EMU) needs a crisis resolution mechanism that both allows for assistance to illiquid, but solvent, countries and also allows the Union to refuse assistance to an insolvent country. The former exists, albeit imperfectly, in the form of the European Financial Stability Facility (EFSF). The latter requires a mechanism to stabilise financial markets in the case of sovereign bankruptcy; this is missing in the current framework. Also missing is an independent institution to assess whether a country is illiquid or insolvent. What I call a ‘European Monetary Fund’ could fulfil this role.

PDG: The Greek crisis spread to other countries because there was virtually nothing in place to manage a sovereign debt crisis. There is thus a need for a permanent crisis resolution mechanism.

What form should such a mechanism take? There are two possibilities. One is to create a European Monetary Fund, which should offer a carrot but carry a big stick. The carrot is financial assistance at concessional interest rates; the stick is the conditionality. The latter should be unattractive enough to governments receiving financial assistance to discourage them from coming back (moral hazard problem). In May, the eurozone countries created the EFSF, which can be seen as a precursor to a European Monetary Fund. The second possibility would aim to solve the moral hazard problem by stating that when governments face payment problems they let bondholders also pay in the form of haircuts.

The European summit essentially agreed to implement this approach (and to phase out the EFSF). In my view, such a system will open the door to even more speculation in the government bond markets and increase the fragility of the eurozone. There is no sure way to self-destruction of the eurozone than by implementing this second approach.

Q: Ireland versus Greece: both condemned but for different sins. Can one make a distinction?

DG: Yes, one should try to make a distinction: in Greece the government engaged in excessive spending (and cooked the books). It is thus up to the Greek government to adjust. In Ireland the banks engaged in excessive lending (and their books were so opaque that the mess has only now come to light). So the banks should be held responsible here, not the government. Bondholders of the banks should be asked to bear part of the burden. If this was done, the Irish government would not be insolvent.

PDG: Indeed, both did commit different sins, and now face the same punishment. The best solution is to treat them in the same way. This can be done within the context of the EFSF.

Further reading at www.ceps.eu/books:

**Recent events**

**Another look at the Services Directive**

On November 3rd, CEPS hosted the first in a series of meetings on the Services Directive. Jacques Pelkmans of CEPS, explained that the purpose of these meetings was to evaluate the Services Directive from different perspectives, since in recent years it has rarely been a topic of discussion.

Maria Martin-Prat, DG MARKT, European Commission, took stock of the lessons learned in the “Mutual Evaluation Process” of the Directive. Discussants Helen Gonzales of the Dutch Ministry of Economic Affairs, and Norman Rose, European Business Services Roundtable considered the unique application of the Mutual Evaluation Process during the transposition period, and the opportunities offered by the Services Directive to further the internal market. Participants agreed that it was still too early to assess the results of the Directive, but that additional direct input from businesses was now crucial in this regard. The next meeting, scheduled for January, will focus on the economic significance of services in the internal market.

**When perceived national interest sparks wars**

CEPS Director Daniel Gros explained the motives behind the “currency wars” at an informal CEPS members’ meeting on November 4th. He attributed this perception of a war to a clash of interests between the two largest economies, each with its own ‘exorbitant privilege’. The US has a privileged borrower position as issuer of the world’s reserve. China has a privilege as the only large economy with capital controls so that it can manage its exchange rate and accumulate huge reserves. But the crisis has significantly altered priorities in the US: employment rather than cheap borrowing is now the main worry, and the dollar’s depreciation is seen as the only way to cut unemployment. The aim of the US to weaken the dollar clashes with the perceived national interest of China that without a weak currency, the economy cannot grow enough. Though both perceptions can be wrong, they have sparked a currency war. To reduce risks of further escalation in the field of trade, Gros suggests the US introduce a reciprocity requirement for inflows from China: only if China lifts its capital controls would it be allowed to continue to invest in the US. This way the US can regain control of the dollar, but might have to give up its exorbitant privilege.

Purchase or download “How to Level the Capital Playing Field in the Game with China” and “A world out of balance?” at www.ceps.eu/books.

**Georgia and the EU – Towards an Association Agreement**

Georgia-EU relations were discussed at a CEPS membership meeting on November 4th, focusing on the case for opening negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA) as part of a new Association Agreement, for which negotiations are already progressing. The Georgian representatives were Tornike Gordadze (Deputy Foreign Minister), Tamara Kovidzidze (Chief Negotiator for the Free Trade Agreement), and Vato Lejava (Chief Adviser to the Prime Minister). They pointed out that Georgia had already unilaterally adopted tariff-free trade with the rest of the world, thereby proving its ability to engage in free trade with the EU. Their presentations were commented on by two discussants, Adrian Kleczynski of the Permanent Representation of Poland to the EU, and Cesare de Montis of the European Commission (DG RELEX). The Georgians pressed the argument that it was high time to progress with the DCFTA in order to support the pro-reform momentum in Georgia and set a good example to other states of the Caucasus.

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**SECURE project addressed major energy sources and technologies**

The SECURE project’s ambition was to build a comprehensive framework to look at various issues related to security of energy supply, such as geopolitics, price formation and the economic and technical design of energy markets inside and outside the EU. The project evaluated the vulnerability of the EU to the different risks that affect energy supply, with the aim of optimising the Union’s energy insecurity mitigation strategies, including infrastructure investment, demand-side management and dialogue with producing countries. All major energy sources and technologies (oil, natural gas, coal, nuclear, renewables and electricity) were addressed within the project – from upstream to downstream.

SECURE (Security of Energy Considering its Uncertainty, Risks and Economic Implications) was devised not only to provide a comprehensive methodological and quantitative framework, but also to propose policy recommendations on how to improve energy security, taking into account the costs, benefits and risks of various policy choices. The results of the project can be used to achieve the appropriate energy mix regarding security of supply and sustainability requirements; to improve the internal energy market regulatory framework; to develop stable relations with energy exporting countries and external partners; and to make the most of synergies between member states.

“SECURE was devised not only to provide a methodological and quantitative framework, but also to propose policy recommendations on how to improve energy security.”

The two SECURE conferences on November 16th and 25th marked the end of the two-year project. The first conference focused on the security of European oil supplies. Following an introduction by MEP Paul Rübig, Giacomo Luciani of the Gulf Research Center Foundation presented the results of his research on oil security. He noted that oil was a relatively secure energy source, with no incident so far of it being physically unavailable. But investment in infrastructure was key to ensuring supplies in the future.

At the final SECURE conference on November 25th, a broader range of results and policy conclusions was discussed with various stakeholders. Both the concerns of the EU and its energy producing partners were taken into account in a panel discussion.

The SECURE project was funded by the European Commission under the Seventh Framework Programme to study the “Security of Energy Considering its Uncertainties, Risks and Economic implications”. CEPS was one of 15 prestigious partners in a consortium representing 11 countries.

Related recent (November 2010) titles from CEPS, available at www.ceps.eu/books:

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- “Consumer Valuation of Energy Supply Security. An Analysis of Survey Results in Three EU Countries”;
- “CO₂ Highways for Europe. Modelling a Carbon Capture, Transport and Storage Infrastructure for Europe”.

Visit project website for more information and SECURE policy recommendations: www.secure-ec.eu

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On October 27th, the CEPS Task Force on Carbon Markets held its third meeting, chaired by Benoît Leguét (Chair of the Joint Implementation Supervisory Committee; CDC Climat). David Kindler of the UK Department of Energy and Climate Change opened the session with a presentation on how best to incentivise long-term investment decisions at a time of global carbon market uncertainty, followed by comments from industry stakeholders. Members also discussed the key messages to be conveyed at a CEPS side-event during the Conference of Parties (COP16) in Cancún, between November 29th and December 10th. Another CEPS side-event on “the future of the carbon markets: challenges and the way forward for the EU” is scheduled for December 2nd. The fourth and final meeting will be held after the spring European Council.

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**MiFID: The final act**

The group of the joint ECMI/CEPS Task Force on the MiFID Review met for the last time on November 17th, to discuss key points for the final report. Transparency, market structure and investor protection were the agreed parameters within which to achieve three overarching objectives: market safety, market efficiency, and investor protection. In agreement with the report, the group acknowledged the importance of striking a balance between these goals; in particular between safety and efficiency. Substantial comments were made on the importance of ensuring appropriate coherence between the new MiFID text and other forthcoming regulation, whose interplay in the implementation process may increase legal uncertainty. The European Securities Markets Authority should ensure that this process really will be harmonised across Europe.

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**SET to move from concept to practice**

The first meeting of the CEPS Task Force “The EU Strategic Energy Technology (SET) Plan: From concept to practice” took place on November 19th, chaired by Lars-Erik Liljelund, CEO of the Swedish Foundation for Strategic Environmental Research (MISTRA). The aim of the SET-Plan is to facilitate the RD&D (Research Development & Deployment) of innovative, yet costly, financially risky and untested technologies. The members of the Task Force discussed ways to manage these risks, and also focused on the capacity of the SET-Plan to raise enough financial resources from the public and private sectors to achieve its objectives.

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**Greening EU cities**

The Task Force Report Greening EU Cities: The Emerging EU Strategy to Address Climate Change was presented at CEPS on November 17th. Chaired by MEP Jan Olbrycht, President of the URBAN Intergroup, the discussion panel included the Deputy Mayor of Paris, Denis Baupin, Mary Donnelly of the European Commission’s DG Energy, Jean-Claude Banon from Veolia, and the Head of the Covenant of Mayors Office Kristina Dely. The final report is the outcome of a CEPS Task Force chaired by Laurence Tubiana of the Institut du Développement Durable et des Relations Internationales (IDDR). Mindful of the many challenges faced by cities in this area, the report explores, among other topics, the opportunities to accelerate low-carbon development; the consistency of EU and member state regulations, and the use of consistent and transparent measuring, reporting and verification tools.

The report is available for purchase and download at www.ceps.eu/books

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On October 25th CEPS launched a new Special Report: The Future of the Eurozone and Gold by Cinzia Alcidi, Paul De Grauwe, Daniel Gros and Yonghyup Oh. The study starts with the evidence that since the beginning of the financial crisis, gold has attracted an increasing number of investors, official and private, and its price has increased impressively. Alcidi, LUISS Research Fellow at CEPS, illustrated the main drivers of the gold market and described how four possible alternative scenarios for the eurozone could affect gold price dynamics. Overall the report suggests that gold price could continue to trend upwards for a period, even if global growth is weak, driven by persistent uncertainty in financial markets. Anton Brender, Chief Economist at Dexia Asset Management and main discussant, underlined the complexity of the channels of interaction between gold dynamics and the eurozone events and agreed on the main conclusions of the report.