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ANNUAL REPORT
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European League for Economic Cooperation, a.i.s.b.l.

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Contents

All documents are available on the website
http://www.elec-lece.eu

President's message

2013 has been a year of progress on a number of issues which are crucial for the survival of the Economic and Monetary Union: the creation of the Single Bank Supervision Mechanism under the European Central Bank (ECB), the move towards a Single Resolution Mechanism and a Single Resolution Fund, the Agreement on the recast Directive on Deposit Guarantee Schemes, the Green Paper on the long term financing of the European economy, the launch of an Expert Group on Euro-Bills (with the participation of our colleague Graham Bishop), stronger prudential requirements (CRV IV Directive), better coordination of Member States' budgetary and macro-economic policies (including a warning by the European Commission on the size of Germany's current account surplus), work on the recommendations of the High Level Expert Group on reforming the structures of the EU banking sector (Liikanen Report). At the same time after several years of deep crisis and painful structural reforms, encouraging signs of economic recovery are appearing in Ireland, Portugal, Spain and even Greece.

Nevertheless the situation remains far from satisfactory. The biggest disappointment has been the totally inadequate budgetary framework adopted for the 2014-2020 period: inadequate in its overall volume, which makes insignificant its potential for European recovery, as well as in its composition, sacrificing for instance R&D expenditures for the more traditional CAP expenditures or high speed internet development for the more traditional transport and energy infrastructures. There has been no progress in implementing President Herman Van Rompuy's constructive proposals, such as creating a genuine fiscal capacity at the level of the euro zone, solidarity in support of "mutually agreed contracts for competitiveness and growth" or giving substance to the social dimension of EMU. Our banking sector remains highly vulnerable and its perverse nexus with sovereign risks has not yet disappeared while the continuation of structural reforms and recovery in peripheral countries might require more solidarity and debt relief.

Popular support for the EU is at a low point, with European leaders less able than ever to demonstrate to the public opinion the usefulness and the necessity of addressing at the EU level the great challenges of our time and bracing themselves for a surge of populist, nationalistic and anti-European parties in the European Parliament elections. More than ever, as argued by Philippe Herzog and others, the European Union needs to generate a greater sense of our common destiny, enthusiasm and confidence in the future, by pursuing a more assertive policy that enhances our global competitiveness and our potential for smart, sustainable and inclusive growth, including more investments in the industrial activities of the future, clean and secure energy, modern mobility and both climate change prevention and adaptation. Such a policy requires a renewed combination of more courageous structural reforms at the national level, including in France, and the transfer of more sovereignty and budgetary means, if not at the EU level, at least at the level of the euro zone.

As one of the founding components of the European Movement, ELEC has more than ever a role to play as a debating forum for innovative ideas, as a platform to promote creative proposals and as an efficient network reaching out to both Euro-sceptics and Euro-enthusiasts, to old and new Member States, as well as to close or distant non-EU European countries such as Switzerland, Andorra or Armenia.

Our working commissions intensely discussed the different aspects of the crisis in the European Union and in the euro area and proposed solutions to overcome the difficulties. At a meeting in Utrecht (February 7th) the Monetary Commission focused on the plans to create a Banking Union in the EU. The practical implementation raises a lot of questions. This was confirmed at a meeting in September that coincided with the fifth anniversary of the bankruptcy of Lehman Brothers. The Monetary Commission examined whether five years later, the lessons of the financial crisis had been learned. It lead to the conclusion that much work is still to be done to get us out of the doldrums.

A meeting of the Economic and Social Commission (Brussels, December 5th) put the role of banks on the agenda and pointed out ways to reinforce the contribution of a restored financial sector to the economic upturn in Europe. Given the trade-off between financial stability and the capacity to support economic growth, the real debate is not so much between Small and Medium Enterprises versus banks, but between banks and business versus European policy makers and regulators.

Europe's energy policy – or the lack of it – was the subject of the May meeting of the Economic and Social Commission. European energy policy is far from harmonized, although coal & steel and Euratom were initially at the heart of European integration. Given the divergent policies e.g. on nuclear and shale gas and oil, a resolution was adopted that called for a common, global and ambitious European energy policy.

After Armenia became a member of ELEC in 2012, the new Armenian ELEC section honored us by organizing the summer Central Council (June 7th 2013) in the Armenian capital. The message in Yerevan was loud and clear: Armenia shares European values and is deeply committed to a closer integration with the European Union, i.e. by a new Association Agreement with the EU that would include a deep and comprehensive Free Trade Area. So it was quite a shock when we learned in the autumn that Armenia would not be in a position to sign the agreement, but instead would join a Customs Union with Russia as well as countries such as Belarus and Kazakhstan. During a conference call with the participants of our December Central Council in Brussels, a warmly applauded Rafi Semerdjian, president of ELEC Armenia, said that the choice of the Armenian authorities was based on purely political considerations (i.e. regional security) and that a reduced model of partnership with the EU should still be feasible.

ELEC no longer has an active UK section, but in organizing our so-called "London dinners", we try to keep in close contact with key pro-EU personalities. Former Irish PM John Bruton was the keynote speaker at the dinner organized on February 25th. We did not lessen our efforts to establish new member sections in other European countries either. We have established serious contacts in the "new" EU member states Bulgaria and Lithuania, and at the same time promising steps have been taken to revive the dormant ELEC sections in Germany and Italy.

To tackle the financial losses of ELEC International and its secretariat, drastic measures were taken. We replaced our physical office in Brussels by a virtual one, and the secretariat now runs on voluntary and outsourced services. It will result in a 2014 budget that will show a surplus for the first time in more than 10 years.

I think we can say that ELEC is ready to take up the future challenges imposed on us. What is true for the European Union, is true for ELEC. If I may paraphrase Shakespeare's Cassius (in "Julius Caesar"): the key issue is our capacity to be the master of our own fate.

Baron Bernard SNOY
International President

Meetings of the Central Council

Yerevan - June 7th 2013

The summer Central Council meeting was preceded by a Round Table that gave ELEC members and senior Armenian experts the chance to focus on the challenges and constraints of a deeper integration between Armenia and Europe. Armenian government representatives stressed that Armenia and its population already feel they are part of Europe and that the missing link is the forthcoming Association Agreement between Armenia and the EU. The Central Council drafted a resolution calling for a stronger integration between the EU and Armenia and expressing support for the negotiations on the Association Agreement.

The Central Council was attended by two special guests, Diogo Pinto, secretary general of the European Movement International and Virginius Kundrotas from Lithuania. They actively took part in the discussion on how to recruit new ELEC member sections. On a proposal from the Romanian section, it was decided to revive the "Agriculture commission" and to broaden its name to "Agriculture and Environment Commission", so as to take into account the new environmental challenges. The Central Council approved the new formal address of the secretariat of ELEC International (rue Marie-Thérèse 21, Brussels). A broad discussion on the state of the European Union resulted in a resolution calling for more leadership and democracy in Europe.

Brussels - December 6th 2013

The Central Council meeting was attended by Kalin Marinov from Bulgaria and Andrea Mogni from Italy, where ELEC is trying to (re)start a national section. At the same time efforts are undertaken to revive the German section. The president of the Armenian section was unable to attend due to professional reasons but a conference call was held, in which both he and the other members of the Central Council expressed their disappointment on the abortion of the economic rapprochement between Armenia and the EU.

The new website of ELEC was presented to the participants. Member sections are encouraged to use this interactive form of communication by sending information on their activities and to give their opinion on European affairs in the member's Forum. The draft budget 2014 that was approved foresees in a surplus of 13,000 euro that will be used to rebuild the reserves. The mandate of secretary general Jerry van Waterschoot was renewed for another five years.

The traditional discussion on the state of European integration elaborated further on the keynote dinner speech of the evening before by Jan Smets, director of the National Bank of Belgium. He had focused on what the European Central Bank can do – and cannot do – but assured that the ECB would continue to contribute to economic and financial stability. It was concluded that the monetary union needs to be complemented by a stronger economic union as well as a banking union and more significant steps towards a fiscal and political union.

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ACTIVITIES of the NATIONAL SECTIONS

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MEETINGS of the COMMISSIONS

24 January – Barcelona – Spanish section
Lunch debate: «La Unión por el Mediterráneo, presente y futuro», Fathallah Sijilmassi, Secretary General, Union for the Mediterranean

6 February – Paris – French section
Lunch debate: « Y-a-t 'il un avenir pour la réforme du système financier et monétaire international ?», Michel Camdessus, former Director General IMF and Honorary Governor Banque de France

8 February – Utrecht – Monetary Commission
«Banking Union: a necessary and sufficient condition to overcome the euro crisis?»

15 February – Paris – French section
Breakfast : «Casino, un distributeur au cœur des évolutions de la consommation», Hervé Daudin, member of the Executive Board of Casino Group

20 February - Vienna - Austrian section
Business lunch: «Entwicklung der österreichischen Banken», Dr. Stephan Koren, Director General Österreichische Volksbanken AG

25 February – London
Dinner with John Bruton, former Prime Minister of Ireland (1994-1997)

25 March - Barcelona – Spanish section
Lunch debate: «Condiciones de crecimiento económico de la Unión Europea», Pat Cox, President of the European Parliament (2004-2009)

28 March - Vienna - Austrian section
Business lunch: «Bürgerproteste und politische Instabilität in Russland», Professor Dr. Gerhard Mangott

28 March – Gdansk – Polish section
Speech: «Costs and advantages of the introduction of the euro in Poland», Janusz Lewandowski, European Commissioner for Financial Programming and Budget

9 April– Paris – French section
Breakfast : «Union bancaire et budgétaire, réglementation financière et résolution des crises : la quête d'une gouvernance pour l'Europe», Jean Tirole, médaille d'or du CNRS, President Ecole d'économie de Toulouse

15 April – Madrid – Spanish section
Conference : «La Presidencia irlandesa del Consejo de la Unión Europea: Irlanda y la recuperación europea», Justin Harman, Embajador de Irlanda en España, Iñigo Méndez de Vigo, Secretario de Estado para la UE, Ángel Pascual, Director de Global Risks de ESADEgeo.

18 April 18 – Gdansk – Polish section
Speech: «the projects of changes in the economic regulations to facilitate economic law in Poland and create a friendly environment for business», Janusz Piechociński, Minister of Economic Affairs

25 April 25 – Gdansk - Polish section
Visit to International Paper Kwidzyn Sp. z o.o, one of the biggest companies in the Pomeranian region

24 May – Bern – Swiss section
Speech: «The institutional architecture between Switzerland and the European Union», Ulrich Trautmann, First Councellor Trade and Economy of the Delegation of the European Union for Switzerland and the Principality of Liechtenstein

28 May – Paris – <u>Economic and Social Commission</u>
«Europe and energy».
Resolution on Europe and energy

6 June – Yerevan – Armenian section
Round table: «The economic relations between the European Union and Armenia

7 June – Yerevan – <u>Central Council</u>
Resolution on the crisis in Europe and on the relations with Armenia

12 June - Paris – French section
Lunch debate: **«**Rigueur ou austérité, croissance ou déflation ? Comment sortir du dilemme économique européen?», Alain Juppé, Mayor of Bordeaux, former Prime Minister

19 June - Vienna - Austrian section
Business lunch: «Ist die neue Regulierung der Weg aus der Krise?», Professor Dr. Bernhard Felderer

2 July - Barcelona – Spanish section
Lunch debate: «Europa: nuevos valores y nuevas exigencias éticas», Antonio Garrigues Walker, Presidente de Garrigues

4 September - Vienna - Austrian section
Business lunch: «India: An Economic Opportunity for Austria», Ramachandran Swaminathan, Ambassador of the Republic of India

5 September – Paris – French section
Breakfast: «Un New Deal pour l'Europe», Michel Aglietta, Professeur sciences économiques at the Université de Paris-X Nanterre, Conseiller au CEPII

18 September – Barcelona – Spanish section
Lunch debate: «La política energética y ambiental de la UE y las peculiaridades de España», Pere Fábregas, Presidente de Honor de ESADE Alumni i Director General de la Fundación Gas Natural-Fenosa

24 September - Paris - French section
Lunch debate: «L'investissement, clef d'un renouveau de la croissance en France et en Europe», Louis Gallois, Commissaire général à l'investissement, former PDG of SNCF and EADS

27 September – Brussels – Monetary Commission
«The financial crisis 5 year on – Did we learn the lessons?»

30 September – Barcelona – Spanish section
Lunch-debate: «La Educación: factor fundamental para el crecimiento en la UE del siglo XXI», Xavier Prats, Director General Adjunto de Educación y Cultura Comisión Europea

10 October – Madrid – Spanish section
Conference: «Las prioridades de la presidencia lituana del Consejo de la Unión Europea», Audra Plepyté. Embajadora de Lituania en España, Ángel Saz-Carranza, Director de ESADEgeo

10 October – Bern – Swiss section
Speech: «The Emerging European Banking Union: Implications for Switzerland», Baron Bernard Snoy et d'Oppuers, President of ELEC International

23 October - Vienna - Austrian section
Business lunch: «Europe's perspective in a global world», Dr. Daniel Thorniley, President DT, Global Business Consulting GmbH

29 October – Gdansk – Polish section
Debate meeting: «After the crisis: return to the future», Mr. Andrzej Olechowski, first President ELEC Poland, former Minister of Foreign Affairs, former Minister of Finance

30 October – Bucharest – Romanian section
Conference: «Third Danube Financial Dialogue»

15 November - Vienna - Austrian section
Business lunch: «Europa 2020. Starke Regionen in einem wettbewerbsfähigen Europa»,
Dr. Johannes Hahn, European Commissioner for Regional Policy

18 November - Barcelona – Spanish section
Speech: «La OCDE, de embrión de la integración europea a referente de buenas prácticas en tiempos de globalización», Ricardo Díez-Hochleitner, Embajador Representante Permanente de España ante la Organización para la Cooperación y Desarrollo Económico

19 November – Paris – French section
Breakfast: «Identité européenne ou Europe sans frontière ?» Hervé Juvin, President of Eurogroup Institute

5 December – Brussels – Economic and Social Commission
«How can we ensure a full contribution of the financial sector to support an economic upturn? »
Resolution on the contribution of the financial sector to an economic upturn.

5 December – Brussels
ELEC dinner: keynote speech by Jan Smets, Director and Chief Economist of the National Bank of Belgium

6 December – Brussels - Central Council

10 December - Brussels - Belgian section
Speech: «The effectiveness and transmission mechanism of unconventional monetary policies», Professor Gert Peersman

19 December - Paris – French section
Breakfast : «Financer la transition écologique», Mrs Dominique Dron, responsible for the «Livre blanc sur le financement de la transition écologique»

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RESOLUTIONS

Resolution on Europe and energy

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Approved by the Central Council on June 7th 2013

1. The Economic and Social Commission (ESC) of the European League for Economic Cooperation (ELEC), meeting in Paris on May 28th 2013, discussed the theme " **energy in Europe** ", with several experts: Agnès THIBAULT, European Commission, Directorate-General Energy; professor Jean-Marie CHEVALIER, Université Paris Dauphine; Olivier APPERT, president IFPEN; Professor Florent FLUES, *Centre for European Economic Research* in Mannheim; Bruno REBELLE, Cabinet Transitions, French National Commission on the energy debate; Jean-Marc JANCOVICI, former Professor, Manicoré company.
   The ESC arrives at the following findings.

   a) Energy is a crucial issue for the development and the environment in a world whit a population that currently exceeds 7 billion people and could reach 9.3 billion by 2050 according to the medium scenario of the United Nations. Taking into account the needs of improving the standard of living, particularly in the countries in the South, the global annual consumption of energy around the world could double by 2050. Furthermore, despite saving efforts and the slowing down of consumption due to the economic and social crisis prevailing in many EU countries, the demand for energy remains at a high level in Europe. The fight against global warming is also a major issue which involves among other things a reduction of greenhouse gas emissions by 2 globally and by 4 in the more developed countries between 1990 and 2050.

   b) Energy has been at the heart of European integration from the outset: ECSC in 1951, Euratom in 1957. It remains today an important community issue: participation of the European Commission on behalf of all Member States in the negotiations on climate change; emission trading policy; Community objective of 3 x 20% by 2020; gradual opening up of the European energy market; financing of networks for interconnection; fight against dumping of some non-European countries; development of standards (such as the EURO 5 pollutant emission standard), etc.. The Treaties (TFEU 4, art. 194) make energy an area of shared jurisdiction in a spirit of solidarity between Member States: this to ensure the functioning of the energy market; to ensure the safety of energy supplies of the Union; to strengthen energy efficiency and savings of energy and the development of new and renewable energies; to promote the interconnection of energy networks. But this European energy policy is fragmented and the results are clearly below the objectives: collapse of the price of emission permits; long delays in the objectives of the 3 x 20% standards. The growing energy dependency of Europe, - already spending 3% of its GDP (500 billion €!) on imports of oil, gas and coal - remains a major concern in a geopolitical context that is unstable and faces strong growth of Chinese demand that competes with our needs.

c) The cost of energy is a serious handicap for European competitiveness: Compared to the United States (lower energy cost thanks to the exploitation of shale gas), the European price of gas is 4 times higher and the price of electricity paid by companies 27% higher. This extra cost brings our companies in a worrying state of trouble against their competitors. Energy is also responsible for higher inflation in the European Union.

d) In the current state of the European treaties, the energy policies of the Member States are still largely national and little coordinated. The negotiations with major suppliers of gas such as Russia or Algeria are conducted in a spirit of "every man for himself". The energy mix is very diverse. Strategic decisions are made unilaterally, without taking into account dependencies: decision to get out of nuclear power in Germany and Italy, much more limited and slow reduction in France; extensive use of coal in Germany; decision in principle in favor of shale gas in Poland, freeze in France; opposition to big interconnections; national taxation of hydrocarbons; differences in het level of support for renewable energies from one country to another, leading to contrasting levels of development; uncoordinated - or even competing – research on renewable energy, storage of CO_2, treatment of nuclear waste, decentralized storage of electricity, etc. Industrial production is in difficulties in some strategic areas: photovoltaic production, batteries, nuclear industry after Fukushima, etc. No European industrial policy emerges in the strategic field of energy, in particular because of the primacy of competition policy.

2. The CES supports those who advocate the establishment of a genuine European energy policy. In line with the conclusions of the European Council of May 22, our Committee makes the following recommendations.

a) The most effective action in ecological and in cost-effective economic terms is **looking for energy savings**. This supposes a selective policy of encouraging energy savings: particularly in housing, where an extensive thermal renovation program is needed and that must be combined with the development of "smart grids", eco-areas and renovated town planning; but also in transport (supply of public transport, improving the performance of internal combustion engines, electric cars); the progress already made by the industry on energy savings and pollutant emissions should be pursued. Idem in the agricultural sector.

b) The competitiveness of the European Union is a crucial issue. Therefore **the cost of access to energy must be maintained as low as possible**. This implies:

- Arbitration between consumers and producers, e.g. in regard to the price of electricity (electricity is charged at very different prices in different countries, ranging from 30 cent/KWh in Germany to 8 cent/KWh in Bulgaria). At the same time a safety net should protect the poorest of 'fuel poverty' (defined as spending more than 10% of their household income on energy);
- Narrowing of gas price differences between Europe and the United States; this could be favored by renegotiating long-term contracts with suppliers (the Commission could potentially, as suggested by J. Delors, negotiate contracts procurement frameworks, which would be then be resold internally), by the intensifying competition, and by a European policy more favorable to shale gas, nuclear energy and clean coal.

c) Also with a goal to increase diversification and to decrease energy dependency, **European shale oil and gas production capabilities cannot be neglected**. We need to learn more about our potential reserves, in quantity as well as in quality, and to proceed as soon as possible to cost-effective and more environmentally friendly extraction methods. This requires an important research effort, which must be authorized and contemplated in regions where exploitation of shale gas is currently prohibited. Our Committee recommends a major European program to be put in place to coordinate and fund efforts in this field, just as it is done for example for carbon storage.

d) It is important to continue progress towards a **genuine European energy market unification.** A reduction is necessary in the share of tariffs administered at the national level and subsidies that exist in many European countries at the expense of the freedom of movement of goods and that distort the price signals of markets. Enhanced cross border transportation grids, with open access to each country, also are of the essence to reach this objective.

e) To promote saving fossil fuels and reducing emissions of CO_2, **it is important to provide a significant and predictable cost per ton of fossil consumed carbon**. Such was the object of the European quota market that is overwhelmed today by overabundance. The European authorities must have the courage to take the decisions (freeze or postponement of allowances) that are required to animate this market. On the other hand, safeguarding European competitiveness and fair international trade rules require a system of neutralization at the borders of the Union (a "carbon added tax"), paid by importers and by local producer, and export deductible).

f) **The development of new and renewable energy** (wind, photovoltaic and thermal solar, marine, biomass, but also hydraulic energy) **is a priority**. This requires considerable investments, which must be assured by individual countries but in a coordinated way and partially funded by Community framework loans (EIB, Project Banks). Furthermore, to reach technical market standards (progress on the '*learning curve* ') a substantial part of the European program for research and technological development should be devoted to research, development, innovation and the development of processes for the production of energy and for developments such as transport networks, storage of CO_2 and storage of electric energy (pumping, batteries, compressed air, hydrogen, nanotechnologies, metal hydride).

g) **Nuclear energy which is cheap and operates continuously, will remain necessary for long time** in the European energy *mix*, even if some countries stay on the sidelines (Italy, Portugal, Austria) or decided to leave (Germany, Spain) at a significant extra cost for their population. It is nevertheless essential to further enhance nuclear safety, waste treatment and counter-proliferation precautions. It is also necessary to make progress on evaluation, encryption and provisioning of dismantling costs.

h) New and renewable energy and nuclear power are not enough to cope with demand peaks (e.g. in winter). **A partial reliance on fossil energy is necessary, permitting power plants to start up faster and pollute less (gas turbines) rather than as is the current trend, by coal-fired plants**. Finally, a considerable effort of investment needs to be done to advance the CO2 storage technology, develop new transport networks that are interconnected to electricity and gas. The goal should be to distribute the power produced by renewable energy, to better spread peak periods (which are not the same in EU countries) and also to deal with possible failures. These transport networks could even be intercontinental, as in the Desertec project, which would contribute furthermore to the common development of both shores of the Mediterranean.

i) The consequences of the different economic benefits of the different choices in energy activity, should be more fully evaluated at the European level.

j) All of the foregoing considerations indicate **the absolute necessity to develop a global and ambitious common energy policy**. It requires institutional changes allowing to suspend the rule of unanimity. Short of this, the (second-best) approach of an "enhanced cooperation" (coopération renforcée) could be followed. This policy must aim to ensure that producers have in a level playing field access to energy at competitive prices, while encouraging consumers to a save energy. To achieve this, substantial investments must be made in research and innovation and at the same time networks and facilities (including new and renewable energy) and energy saving programs should be developed. They must be co-financed by a community resource - possibly anticipated by a European loan - such as a tax on energy or on pollution (greenhouse gas emissions), the sale of carbon quotas or a tax equalization at the borders.

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Resolution on the crisis in Europe and on the relations with Armenia

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Approved by the Central Council in Yerevan on June 7th 2013

The Central Council of the European League for Economic Cooperation (ELEC) met in Yerevan, Armenia, on 7 June 2013 at the invitation of the new Armenian section of ELEC (ELEC-Armenia).

The Council was briefed about and expressed support for the ongoing negotiations towards the signing of an Association Agreement (AA), including a Deep and Comprehensive Free Trade Agreement (DCFTA), between the European Union and Armenia. The Council encouraged ELEC-Armenia as well as the other national sections of ELEC to sensitize their members and the private sector in general about the opportunities the AA will provide for a stronger integration between the European and Armenian economies. It expressed the hope that this AA will help Armenia overcome its difficult geo-strategic environment and pave the way for the reestablishment of trade connections over borders that are currently still closed.

With regard to the ongoing financial, economic, social and political crisis in the EU, the Council called on the national and European authorities to make a fuller use of the existing instruments available at the EU level and to adopt new ones such as those advocated in the Roadmap "Towards a genuine economic and monetary Union" prepared by Mr. Herman Van Rompuy, President of the European Council. In particular the application also within the EU of the "more for more" principle should lead the EU to provide more support to EU countries implementing deeper structural reforms.

The Council expressed concern that the proposed EU Multiannual Financial Framework for 2014-2020, unless seriously revised, would not provide sufficient room to the EU institutions to implement the EU 2020 economic strategy, aimed at achieving a smart, sustainable and inclusive growth. A better prioritization through a reshuffling of the proposed expenditures combined with an active promotion of the subsidiarity principle would provide ways to achieve this.

To get out of the crisis, the EU needs both more leadership and more democracy, including more participation on the part of the national parliaments and the European Parliament and more broadly a reduction of the gap between the European authorities and the civil society. An important step in this direction would be a designation of the future President of the European Commission on the basis of the majority emerging from the forthcoming European elections.

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Resolution on the contribution of the financial sector to an economic upturn
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Approved by the Central Council on December 6th 2013

1. The Social & Economic Commission and the Monetary Commission of the European League, gathered in Brussels on December 5th, 2013, and debated on the topic « How to reinforce the contribution of the restored financial sector to the economic upturn in Europe ? », with key personalities : Mr. Miguel DE LA MANO, European Commission, General Director Internal Market ; Professor Jean- Paul Betbèze, former Chief Economist of Crédit Agricole, Economic advisor to Deloitte ; Mr. Bernard HADDAD, President of the Financing Commission of CGPME, Mrs. Jeanne-Marie PROST, French Credit Mediator to Enterprises, and Mr. Robert PRIESTER, Deputy General Director of the European Banking Federation. After intensive debates, they came to the following conclusions :

a) The crisis of confidence that periodically hindered the proper functioning of the interbank market is now over. Transactions are flowing again and counterparties are diversified. Nevertheless, the unconventional practices of the European Central Bank – ECB (Eurosystem) (in particular, the widening of the criteria for collaterals, the unlimited supply of fixed rate liquidity and Outright Monetary Transactions (OMT) as well as the Long Term Refinancing Operations (LTRO)) have played a great role in tempering tensions. Underlying lack of trust between operators justify nevertheless maintaining these tools fully operational.

b) Bank recapitalization efforts have been tremendous since the beginning of the crisis: prudential ratios (tightened in the context of Basel 3) have improved across the continent by several points; 2019 minimum targets are already outreached by many credit institutions. Nevertheless, these improvements need to be put into perspective with the evaluation of bank assets, the quality of which is under review by ECB. Besides, these have been achieved not only to the disadvantage of shareholders through a reduction in dividend distribution (implying a lesser profitability with a fall in ROE) but also to the disadvantage of borrowers through more limited access to credit and tightened credit conditions. Even though we cannot talk about a « credit crunch » the restriction on bank financing which is an essential source of financing for SMEs is dangerous. Moreover, envisaged liquidity ratios will strongly limit the capacities of transforming short term savings into long term loans.

c) In addition, the issue of systemic risk (even though partially covered) cannot be only tackled through prudential ratios and continues to be worrisome, all the more that fearing this risk has led member states to get exposed to the banking sector up to the level of 4 trillion euro (2 trillion in the form of guarantees) in the preceding phase. Finally, the progress to be made in the field of banking separation between retail and risky activities, as proposed under the « LIKAANEN report » is still heavily debated.

d) Views regarding the supply of bank credit to non-financial companies remain very divided: credit institutions in general believe that access to finance is not unduly restricted and that any good project can be financed; the indisputable slowdown, the decline in the volume of outstanding credit (-1.7 % over the past year for the entire euro zone) apparently rather result from the economic crisis and a spontaneous freeze of investment projects. Companies on the contrary, especially the smaller ones, complain of a strong hardening of the conditions for granting a credit and for collateral requirements, including higher rates; it seems particularly the case with regard to cash loans and to the financing of working capital . It is difficult to disentangle these views, it seems reality varies greatly from one country to the other and from one sector to another – e.g. the restriction of credit to businesses is very strong in Southern Europe and Central Europe.

e) The new European standards - primarily prudential, are designed to prevent the recurrence of mistakes and excessive risk-taking that triggered the crisis in 2007/2009. However, it seems undeniable that they exert a restraining effect on the financing of the economy including businesses; loans to States, despite the recent crisis "sovereign debt" remain favored - implying a serious risk of crowding out effect of credit to the private sector in some countries. This is much sharper in the field of equity financing, the "Basel 3" standards for banks and moreover "Solvency 2" for insurance heavily weighting the risks associated with such operations. Whereas the ability to rebound and the competitiveness of the European Union depend largely on the availability of such funds to encourage "start- ups " , innovation and business growth .

f) However, progress towards a unified ECB supervision of large banks and towards harmonization of guarantees to depositors represents an undeniable breakthrough, even if it is not yet finalized to date. Similarly, the possibility for the European Solidarity Mechanism (ESM) to recapitalize (although ultimately) troubled banks is positive, reassuring markets and therefore likely to promote economic recovery.

g) Finally, the bank disintermediation, mainly in the form of direct issuance of securities to markets, as well as increased securitization of loans, direct loans between economic actors or "shadow banking" provide interesting new opportunities to supplement the supply of credit that would be too small, especially when rapid restart of European economies. However, these forms of financing, lightly regulated or unregulated, also pose real dangers, including distortions of competition, formation of "bubbles" and / or fraudulent transactions.

2. Wishing to contribute to appeals to help Europe escape stagnation and re-enter the path of a strong, sound and lasting growth – the only way for us to curb unemployment - our Commissions adopted the following recommendations :

a) The ECB (Eurosystem)'s role in reinstating open and efficient money markets remains crucial. We underscore the necessity of keeping open an unrestricted access to short-term Central bank financing and the opportunity to use OMT[1] and LTRO[2] whenever an excessive tension looms. Moreover, the question of asserting excess liquidity deposits of banks in the ECB's books with a negative interest rate should be seriously considered (howbeit at a low level, it would be an important signpost): additional liquidity granted by the ECB is actually meant to comfort markets and to facilitate financing of the economy, whereas their sterilization through idle deposits within the Central bank contradicts this policy.

b) Beyond the new « Basel 3 » prudential regulation, the question of controlling systemic risks should be closely scrutinized, so as to establish precautionary measures going further than the mere presence of additional« security cushions » in equity. More specifically, the ECB should be able to play its role as an early warning system and to enforce in due time any corrective measures deemed necessary.

c) The protection of bank depositors (and of public authorities, who feel compelled to rescue them, thus worsening their indebtedness) calls for a course of action much stronger than what is being presently done, so as to shield retail banking activities from speculative risk. Topically, allowing retail banks to continue to act as investment banks with no set limits seems to lead to depositors running into excessive risk.

d) The new banking and insurance sector regulations, « Basel 3 » and « Solvency 2 » should be at least partly revamped before being applied, aiming at : on the one hand, reducing the over-weighting of corporate and equity risks (in particular for SMEs) ; on the other hand, taking into account the reality of « sovereign risks » (lending to public authorities). Still more importantly, the liquidity ratios that are being considered should be conceived so as not to impair or constrain excessively the much needed « transformation » of short-term funds into medium-term financing of business.

e) Quick and concrete progress must be made in the way of putting together resources allowing to secure the guaranty given to depositors in bank accounts with an amount currently up to 100.000 euros. These resources can be mustered by earmarking, as of now, a flow of resources drawn from current retail banking revenue; these funds would accrue a Fund set at the European level. We underscore that risk mutualization at E.U. level would ascertain a much more effective guarantee of deposits, at a lesser cost – with the requisite of avoiding moral hazard. It is also most necessary to succeed in setting up a system to resolve bank failures, which should give our common institutions enough authority and means to act in due time.

f) Finally, credit disintermediation, in all its aforesaid modalities, should be encouraged, as it brings additional possibilities to finance the economy's needs. However, it also presents a high level of instability and entails strong risks of going astray ; it seems necessary, as of now, to frame and to regulate these activities, by submitting them to a corpus of rules and to supervisory authorities - while avoiding to stifle them, the aim is to allow a sound development of their contribution to growth.

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[1] OMT : Outright monetary transactions, meaning that unlimited amounts of liquidity at pre-set fixed rates are offered to banks by the Eurosystem in case of unwarranted tension on the money market.
[2] LTRO : Long Term Refinancing Operation, that the Central bank buys securities with a maturity up to three years on the market (Open market intervention).

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What is ELEC?

Created in 1946, the European League for Economic Cooperation (ELEC) is a non-governmental and non-party organization that aims to promote the economic integration and socio-cultural identity of Europe, and to enhance its role in the world.

ELEC consists of a network of national sections, whose members mainly come from the economic and financial world. Its membership also includes senior national and European officials as well as politicians and academics.

Its field of action materializes within international working commissions which meet regularly and leads to various types of publications (working documents, resolutions, series "Cahier Comte Boël", etc.).





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