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Financial and Economic Crisis: Interview with David Wright

Commission proposes new initiatives on:
- Alternative Investment Funds
- Remuneration
- Retail Investment Products

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EUROPEAN COMMISSION

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Dati Bendo and the European Commission

Editorial

Jörgen Holmquist
Director General for Internal Market and Services, European Commission

In this edition of Single Market News, we take a close look at the Commission's vision for improving the EU's financial framework in light of the global economic crisis. In developing its work programme the Commission benefitted from the report of the High Level Group on Financial Supervision chaired by Jacques de Larosière. The Commission's ideas were outlined in its 4 March Communication and provided very important input to the London G20 summit on 2 April. In a wide-ranging interview with David Wright, Deputy Director General of DG Internal Market and Services, we examine the Commission's response to the crisis.

We also look in detail at three new proposals from the Commission following the G20 – on Alternative Investment Fund Managers (p.16), which aims to create a comprehensive and effective regulatory and supervisory framework for 'Alternative Investment Funds' in the EU, such as hedge funds and private equity; on remuneration (p.20), addressing the way remuneration and incentive structures are determined for executives and other employees in particular of financial institutions; and on Packaged Retail Investment Products (p.14), to help consumers get a fair deal when buying investments.

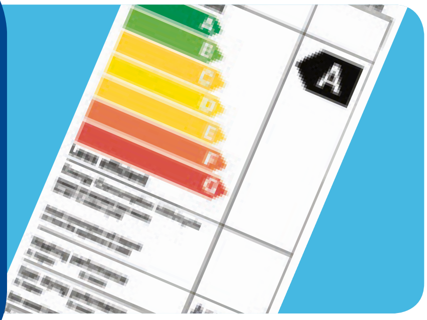
In the field of counterfeiting and piracy, we have now launched the 'European Observatory' following a second successful high-level conference on 2 April (p.8). The Observatory will be a platform to collect data, raise awareness, facilitate dialogue, exchange views and share best practices between business and national authorities on enforcing intellectual property rights. In the article you will find some interesting views from conference participants on how counterfeiting and piracy affects their business. DG MARKT will of course also take the views of consumer organisations into account on this important issue.

Finally, in the context of the forthcoming European elections between 4 and 7 June, we look at how the current European Parliament has played a crucial role over the past five years in driving the Single Market forward and securing agreement on important legislation. Tthe Services Directive and of course recent initiatives in relation to the financial crisis are prime examples of this.

News in Brief

Member States support new eco-design label

TVs, washing machines and refrigerators will be more energy efficient in the near future as EU Member States have given the green light to a new energy-labelling system. The new energy consumption standards for large electrical home appliances are expected to cut the EU's electricity consumption by 51 terawatt hours by 2020, which corresponds to the combined annual electricity consumption of Portugal and Latvia. Building on the well-known "A-G" energy efficiency classes, the new system allows consumers to judge how much better a product is "better than A". "A-20%", for example, would mean that the product consumes 20% less energy than an "A" model product. The measures will take effect by 1 April 2012.



European telecom sector is weathering the economic downturn, Commission report says

In 2008 the EU telecoms sector was 1.3% above the overall economy's real GDP growth of 1%. The sector also continues to dampen inflation, with prices of phone calls and web surfing still dropping. These are just some of the findings from the Commission's Single Telecoms Market Progress Report that was presented on 25 March. While the EU telecoms market remains dynamic, mainly due to a growing mobile market and a steady increase of fixed and mobile broadband connections, the Commission report also warns that divergent regulation in different EU countries continues to hinder a real Single Market for telecoms for both operators and consumers. There are still notable competition problems, while not all Member States have independent national telecom regulators.

All EU Member States now signed up to combat illicit trade in tobacco products

The United Kingdom has joined the 26 other EU Member States and the EU as a signatory to anti-contraband and anti-counterfeit agreements with tobacco manufacturers Philip Morris and Japan Tobacco International. Every year, the EU and the Member States lose hundreds of millions of euros in unpaid taxes from contraband and counterfeit cigarettes. The agreements include a guarantee by the participating producers to make payments in the event of future seizures in the EU of its genuine product. The agreements also oblige tobacco producers to step up their efforts in the fight against illegal trade and counterfeiting of their products. "With all Member States now on board, it will be more difficult for illegal traders to find loopholes," said Commission Vice-President Siim Kallas, responsible for anti-fraud.

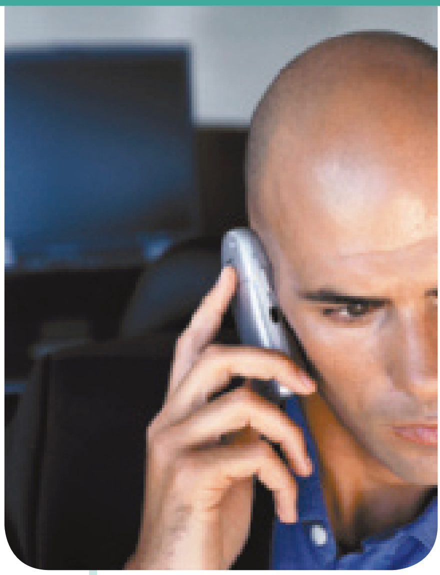
Recently held: Conference on financial reporting in a changing world

On 7-8 May 2009 the European Commission held a Conference on "Financial Reporting in a Changing World" in Brussels. With the current financial turmoil having put financial reporting at the forefront, the conference addressed a broad range of accounting issues from both a political and a technical angle.

The first day focussed on overall policy issues in financial reporting. The second day was dedicated to accounting issues raised by the financial crisis. One example is the pro-cyclicality of financial statements and possible remedies such as dynamic provisioning. The conference concluded with a debate on the future direction of financial reporting.
http://ec.europa.eu/internal_market/accounting/conference_052009_en.htm

EU cuts costs of roaming texts, calls and data services

At its April plenary, the European Parliament voted in favour of new EU rules on calls, SMS and data roaming. From 1 July onwards, a text message sent from abroad will cost no more than €0.11, compared with €0.28 today. Also, a cap of €1 per megabyte will be introduced on internet data roaming, which will further decrease to €0.50 by 2011. Finally, mobile calls made abroad will progressively drop from €0.46 to €0.35 per minute by July 2011, and from €0.22 today to €0.11 for mobile calls received while roaming abroad. "This marks the definite end of the roaming rip-off in Europe," said EU Telecoms Commissioner Viviane Reding after the vote.



More dangerous products withdrawn from EU shelves

According to the annual report on the EU's rapid alert system for dangerous non-food products, the number of dangerous consumer products withdrawn from the EU market rose by 16% in 2008 compared to last year. A total of 1866 notifications were reported by the system, 261 more than in 2007. Toys, together with childcare products (such as baby walkers, cots and soothers), electrical products and motor vehicles were among the most frequently reported products in 2008. Also, the number of alerts on products of Chinese origin increased: from 52% in 2007 to 59% in 2008. The report shows a trend that less and less dangerous products are slipping through the net. According to the Commission, this is mainly the result of more investment of resources and training by the EU and the Member States.

Commission approves merger between Swedish Posten and Post Danmark

On 21 April, the European Commission cleared the merger between "Swedish Posten" and "Post Danmark", the first merger between incumbent postal operators in Europe. However, the Commission gave the green light subject to certain conditions. In order to address competition concerns, both parties are required to sell off all the assets and customer contracts that constitute an overlap in their business-to-business parcel-delivery services in Denmark. Competition Commissioner Kroes admitted that the merger did raise some problems, but was pleased that they could be resolved quickly and in full: "Liberalisation can move forward just as before," she said.

Commission envisages free circulation of judgments in commercial and civil matters

On 21 April, the Commission launched a consultation on the functioning of the existing rules on the jurisdiction of courts and the recognition and enforcement of foreign judgments in civil and commercial matters. While these rules, known as the "Brussels I Regulation", aim at providing legal support for the correct functioning of the Single Market, this consultation seeks to address two key questions arising in the event of a dispute between natural or legal persons from different Member States. The first question concerns which Member State court should have jurisdiction to rule in a dispute, while the second one focuses on how the judgment given by a given court can be recognised and enforced in other Member States. All interested parties are invited to submit their views before 30 June 2009.

Interview with David Wright
I - Causes of the financial crisis

David Wright has been working in the Commission for 32 years. Currently the **Deputy Director General of DG Internal Market and Services**, he has contributed to many other areas, including forecasting and modelling of energy markets, the trade round and the "Cellule de Prospective" of Jacques Delors in the late 1980s. He was also responsible for trade issues and industrial issues in the Cabinet of Sir Leon Brittan and was advisor to President Santer until 1999. Since then, Wright has been in DG Internal Market and Services, first as Director of financial markets and securities markets and now as Deputy Director General for the last 18 months.

The financial and economic crisis is putting businesses, jobs and livelihoods at risk. The EU and the rest of the world are joining forces to find solutions. Two recent summits - the European Council of early March and the G20 of 2 April - brought world leaders together to deal with the crisis and to prepare the road for recovery. The Commission had a central role to play at both.

In an extensive interview, ***Single Market News*** *talked to David Wright about (I) the causes of the financial crisis, (II) the measures that the Commission has taken and the latest proposals in its recent Communication to the Spring European Council. (p.12), (III) the global response to the crisis and the Commission's role in it , (p.18) and (IV) the importance of safeguarding the Single Market against protectionism while upholding the values of Europe's social model, (p.22)*

"Strong signals from the Heads of State will help us to move forward"

"There are many causes(…), we didn't have the tools for crisis management that were adequate"

We're here to talk about the Commission's new initiatives regarding the financial crisis. What, in your opinion, is at the core of the financial and economic crisis as we experience it today?

I think there are many causes. I would invite everybody to look at chapter 1 of the de Larosière Report([1]), because I think it gives a very good description. Clearly there have been causes due to the imbalances in the global financial system. Lax monetary policy, particularly in the United States; bad regulation, particularly in the United States; weak supervision; and especially appalling incompetence in many firms, who did not know what they were doing and misjudged risk, assuming the world would never change… and property prices would forever increase.

The problem was the selling of those mortgages in the US. Some of it was catastrophic. Loans were given to people who were poor, who couldn't possibly have paid back these loans, so the default rates on the loans went up and this affected the value of the securities sold into the capital market.

Only in the United States?

No, everywhere, including in Europe. We still haven't got the complete picture, but as far as we know, our banks and financial institutions purchased at least one trillion Dollars worth of US sub-prime assets and probably a lot more. So there are a lot of firms who made some very bad decisions. The supervisors and regulators, whether they were in the US, or anywhere else, didn't pick these risks, and act appropriately.

They didn't fully understand the connectivity of the markets between how risk would be propagated between different segments of the markets. That surprised everybody. We underestimated the importance of liquidity in the banking system. We didn't have the tools for crisis management that were adequate and fit for purpose.

On the regulatory side, we didn't have proper rules in place to regulate credit rating agencies, which we have now dealt with. Bank capital was inadequate, the system was what we call pro-cyclical; in other words it amplified the shocks. That's what's alarming, just how many complex things that went wrong at the same time. Things were too complex, too opaque, people who should have understood didn't understand, presumptions were made - and we know the result.

(1) http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

The European Parliament
A vital partner in making the Single Market work

Between 4 and 7 June 2009, EU citizens will have the opportunity to elect their new representatives in the European Parliament (EP). According to Eurobarometer data as recent as January of this year, three quarters of Europeans were not aware that EP elections were taking place and more than half did not care. Yet the last five years have shown that the EP does make a difference and that it does matter who your Member of the European Parliament (MEP) is.

The work of the European Parliament has been a vital element of European decision-making, perhaps nowhere more decisively than in driving the Single Market forward to bring direct benefits to citizens and businesses. During this mandate, the EP has passed a number of significant pieces of legislation in its capacity as co-legislator together with the Council of Ministers. MEPs have often managed to forge effective agreements above national divisions at times when Member States risked reaching a deadlock. This is invaluable in a Union of twenty-seven.

The Services Directive: A major achievement

One of the greatest accomplishments of the current mandate in this respect has been the adoption of the Directive on services in the Internal Market. When implemented by the Member States, this legislation will facilitate both the temporary provision of services across borders and the establishment of service providers. The Directive provides for a ban on discriminatory practices by national administrations and requires Member States to actively screen their legislation for provisions limiting the freedom of establishment and the freedom to provide services. MS have to set up «points of single contact» allowing service providers to have easy electronic exchanges of information.. The proposal for a Services Directive gave rise to much debate and the European Parliament was instrumental in finding compromises on some of its key elements. This was consolidated in an innovative move by the Austrian Council Presidency, who invited key MEPs to an informal Council meeting to resolve differences.

Speedy adoption of legislation during financial crisis

The onset of the financial and economic crisis further highlighted the need for an effective partnership between the EU institutions, so that necessary legislation could be agreed speedily. Highly complex proposals addressing the weaknesses of the financial system at the heart of the present turmoil have recently been adopted or will be adopted soon. These include important revisions on Deposit Guarantee Schemes and Capital Requirements rules; a groundbreaking reform of the regulatory framework for insurance companies known as "Solvency II"; and a Regulation on Credit Rating Agencies. Incoming MEPs will have to tackle further proposals in the financial services area after the summer, as efforts to tackle the crisis continue.

Info
http://www.europarl.europa.eu/elections2009/default.htm?language=en

Setting the political agenda

The Parliament plays a big role beyond its formal legislative functions outlined in the EU Treaty. Crucially, it is a place of public debate. As directly elected representatives, MEPs, strive to keep close to the pulse of everyday life in their constituencies. This makes them uniquely positioned to bring the concerns of European citizens to the table in Brussels and Strasbourg. The Parliament can be a place where agendas are set. This was evident recently when Gordon Brown, the British Prime Minister, debated with MEPs his vision for the G20 Summit on the global economic crisis, which was due to take place only a few days later in London.

Intellectual Property Rights

Less visibly, but with equally unfailing determination, MEPs have contributed to keeping the protection of Intellectual Property Rights (IPR) high on the EU agenda. They have worked in partnership with the Commission in order to put the spotlight on such vital issues as the European patent, copyright and the fight against counterfeiting and piracy. They have given both visibility to these questions and a forum for discussion between sometimes conflicting interests. They have also challenged the Commission, for example when they demanded more coherence in its approach to problems of IPR. This has led to the creation of a dedicated unit dealing with enforcement within the Commission's DG for Internal Market and Services.

Keeping in touch with the citizens back home

Beyond leading and participating in broad political debate, MEPs are often the first port of call for citizens struggling to have their professional qualifications recognised in another Member State or for businesses wanting to operate across borders that are hindered by disproportionately burdensome or plainly discriminatory requirements. Individual MEPs have passed many of these queries on to the SOLVIT network, which has become highly effective in solving such problems. Not only has SOLVIT benefited from the attention MEPs have brought to its services; it has also benefited from increased budget allocations proposed by the Parliament.

The next five years will without a doubt be filled with new challenges for the EU and its Single Market. MEPs elected this June will play a big part in addressing these. This is why the June European election matters far more than the Eurobarometer's results on EU citizens' awareness would suggest.

Counterfeiting and Piracy
New European Observatory launched

At the second high level conference on counterfeiting and piracy held on 2 April, Internal Market and Services Commissioner Charlie McCreevy, together with Members of the European Parliament, launched a European Observatory on Counterfeiting and Piracy. By enhancing cooperation across the EU, the Observatory will be at the forefront in the fight against fake goods. Commissioner McCreevy said: "Last year we met to discuss measures needed for the fight against fake goods. This year we are delivering concrete solutions. I am confident that the Observatory, alongside other initiatives we have launched, will significantly help us to step up the fight against intellectual property theft."

The conference gathered a total of 400 stakeholders, representing business, public administrations, enforcement services and civil society. Grouped in 4 panels representing the future 4 'pillars' of the Observatory , participants gave their views on issues such as reliable data, successful counterfeiting strategies, cross-border enforcement responses and potentially successful anti-counterfeiting campaigns. All agreed that the establishment of a European Observatory was indispensable if the fight against counterfeiting and piracy is to be taken seriously.

Questions arose as to how the Observatory will be organised: The Observatory will be run by the Commission services, where each Member State and some of the key representatives of private sector businesses affected by counterfeiting and piracy will have a delegate. In this way, the structure of the Observatory will enhance effective cooperation between public and private sectors. In the next few weeks, a structure will be created for the functioning of the Observatory. The Observatory's first meeting is planned to take place under the Swedish presidency.

Counterfeiting and piracy; a growing threat to our health, our jobs, our economy

Counterfeiting and piracy, or the infringement of intellectual property rights such as copyright, trade marks, designs or patents, is becoming an alarming problem for our economy and society. Over the past ten years the global explosion in counterfeiting and piracy has become one of the most devastating problems facing world business. Twenty years ago, counterfeiting might have been regarded as a problem chiefly for the manufacturers of expensive handbags. But nowadays, counterfeiters have broadened their manufacture to include not only fake electrical appliances, car parts and toys or pirated software, but also medicines. Therefore, counterfeiting and piracy have devastating effects on the economy, including on job creation and the health and safety of citizens. International trade in counterfeit and pirated goods is estimated to have reached USD 200 billion in 2005. This figure does not include goods produced and consumed domestically or pirated digital products that are distributed via the internet. If these items were added, the total magnitude of counterfeiting and piracy worldwide could well be several hundred billion dollars more.

How counterfeiting feeds crime and eats into government budgets

Due to its growing size, combined with a high return on investment and relatively light penalties when operations are detected, piracy and counterfeiting have become an attractive investment for organised crime. Counterfeiting and piracy affect the public budgets of the Member States. Every year, millions in tax revenues are lost as a result of pirated and counterfeited goods smuggled through customs and sold on grey markets. Counterfeit products are often 'manufactured' by the hands of children who, instead of being at school or playing, spend their time in dirty, dark factories producing the fakes. Meanwhile, Member State governments often bear the costs associated with addressing the consequences of counterfeiting through higher expenditure on consumer health and safety as well as on law enforcement.

> "You cannot download a Gucci bag yet, but one can download and upload films..."
>
> Ted Shapiro

Views from conference participants

Single Market News interviewed representatives from industry on how counterfeiting affects their business. Do they think the Observatory will help them to address the problems they encounter?

John Jacobsen, Film Producer, Norway, President of AGICOA, Association for the international collective management of audiovisual works, Geneva

Your recent film Max Manus, which has been a great success, has been a 'victim' of piracy on the day of its release. Can you tell us how this happened and what consequences it had?

Someone ran the film at the cinema without an audience, filmed the image on the screen and then distributed the film on the internet to Pirate Bay in Stockholm. We estimate that we may have lost 100 000 tickets. What we lost in turnover would have been sufficient to make another film.

How do you see the project of the Commission to set up the European Counterfeiting and Piracy Observatory?

I think the observatory is a great idea. As an industry we have been concerned that there has not been a unified movement against these pirates. This is the first I have heard of an attempt to get a total grasp on this problem. There is a connection between fake medicine, fake mechanical parts and stealing contents of books, films, music etc.

But starting the observatory is one thing. It is important to get results and then to act. We need to get the politicians behind the problem to finally put in place effective legislation.

Ted Shapiro, Senior Vice-President, Motion Picture Association (A trade association that represents the major producers and distributors of films, DVDs, home entertainment and television programming.)

What are your views on the Commissioner's statement on launching the stakeholders' dialogue on piracy? Do you think the parties are ready for this dialogue, in particular the Internet Service Providers (ISPs)?

We think it is quite good. We hope that this dialogue will extend current cooperation with some platforms and create a level playing field. Some platforms are more cooperative than others, and why should those that are more cooperative suffer from unfair competition by others who turn a blind eye to illegal acts occurring on their sites?

At this stage, the Commission is starting to look at the sale of counterfeit physical goods over the internet. Obviously we would love to see the dialogue move on. You cannot download a Gucci bag yet, but one can download and upload films and we're particularly worried about release groups and others that are putting "early window" films (films that are still in the theatre) on the internet. So we welcome a more constructive dialogue with ISPs on ways to educate consumers. We are already in dialogue with ISPs in a number of Member States, but it is great to see something organised at European level.

We think the Observatory is a great step. Obviously, getting a handle on the scale of the problem, sharing information between law enforcement authorities and perhaps establishing best practices will contribute to confronting the wide range of illegal activities taking place on the internet. The problems that right holders and others face on the internet of course are multi-territorial so we think any kind of observatory or forum that includes 27 Member States to facilitate cross-border dialogue would be quite constructive, and we view that positively.

Rory Macmillan, Government and Public Affairs Director, Nike Europe, Middle East, Africa

Nike and other leading consumer brands are moving extensively into digital commerce and digital consumer communications. What needs to be improved or changed as all brands look to leverage the digital opportunities for the future?

Nike recognises the value of the internet and e-commerce as a growth sector and is extremely active in the digital world, either directly or through retail partners. However, Nike does not supply its products to retailers selling on the internet, if the latter are not qualified, just like it does not sell its products to unqualified brick and mortar retailers. Our current rules allow us to impose quality standards on online sales by our retailers to ensure that products are distributed in an appropriate, professional manner. In this way we guarantee the protection of consumers from counterfeit or illegal grey market products, which also means guaranteeing consumer safety and compliance with local regulations.

Nike and other sporting goods brands are at risk from the activities of illegal counterfeiters. Do you think the European Counterfeiting and Piracy Observatory could make a difference?

Nike continues to work in partnership with customs and authorities across the EU on counterfeit issues. We are aware of counterfeit products in the sporting goods market and work with local authorities towards eliminating this problem. We would advise consumers always to purchase products from authorised Nike retailers. We support the establishment of the new Observatory and believe that it will bring committed stakeholders together to agree on enhanced policies and new innovative approaches in the fight against counterfeiting.

"The enemy is out there. We should stand united and hopefully the Observatory will be that platform."
Steven Liew

Mr. Steven Liew, Director, Government Relations for the Asia Pacific Region, eBay

eBay is currently in court proceedings with several companies. It has been stressed that the Observatory will require cooperation from all stakeholders; can you cooperate with them in light of the ongoing litigation?

Litigation is ongoing so I am not going to comment on it, but the Observatory will provide a neutral platform for all parties involved. Stakeholders can come together and have a frank discussion, exploring new ways to create synergies, to create ways to work with one another to fight a common enemy. The enemy is not one of us here. The enemy is out there. We should stand united and hopefully the Observatory will be that platform. There still is a lot to do; there are a lot of unanswered questions as to what exactly the mission statement of the Observatory will be. What are the mandates? Those are areas that need to be covered over the next few months, but up until now I am feeling pretty positive about it.

Mrs. Christine Huber, Senior Director, anti-counterfeit projects, Sanofi Aventis

The pharmaceutical industry seems to be very interested and involved in setting up the Observatory. For some sectors, this question has been rather sensitive. Some don't want to scare consumers; others don't want to associate themselves at all with counterfeiting. Is the pharmaceutical sector ready to give data to the Commission and to the Observatory?

We welcome the principle of the Observatory. We need information, statistics and cooperation. What we are worried about is what resources will be given to the Observatory. How will the information be handled, once collected? Will the statistics be reliable?

Another issue for us is what kind of results will be published. Some information concerning ongoing investigation is sensitive and confidential and should be handled as such. Nevertheless, we agree that statistics can be made public and we would be happy to share data with the Observatory in order to contribute to producing relevant statistics and information. This would certainly help the fight against counterfeiting.

Conclusions

The conference concluded that efforts of all those affected by counterfeiting and piracy must be joined. Until now, different enforcement agencies have argued over their mandates, Member States have tried to combat counterfeiting and piracy in 'solo actions' and businesses have been fighting among themselves. Meanwhile, the common enemy has got away and worse, successfully established a growing counterfeiting and piracy market.

The Observatory aims to put all parties concerned together in order to construct a powerful engine pulling an anti-counterfeiting and anti-piracy train. The Observatory's delegates take on an immense responsibility in their commitment to helping the EU step up its fight against illegal, dangerous and low quality competition from pirates and counterfeiters worldwide. However, the time for all stakeholders to put their heads together to ensure that all is done to prevent innovation and creativity from being compromised was long overdue.

"Last year we met to discuss measures needed for the fight against fake goods. This year we are delivering concrete solutions."

Charlie McCreevy

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"The Communication, and the de Larosière report on which it was based, have largely been endorsed by the Member States. This is a big move forward for us. Many things we have been wanting to do for many years are now possible".

The Commission's plans for reform, how do they help to repair distressed financial markets?

We have just come forward with the Commission's March report, a Communication for the European Council and that outlines in a lot of detail where the Commission is going to act. It is going to act on the de Larosière report; it is going to act on improving the capital system for banks; it is going to make the financial system safer, with less macro and micro risk. It is going to improve the coherence of our selling of retail investment products, which is too diverse today. The Commission has acted also globally through the G20, where we have been a major player. This is a huge agenda.

What has been the importance of the de Larosière report? How was it received in the European Council of 20 March?

The de Larosière report has 4 chapters. The first is a very good description about the problems. The second is about regulation; the third issue is supervision and that is where the real interest lies. What is the future supervisory system in Europe, how are we going to supervise our financial systems? And the fourth is about what are we going to do on a global level.

We have received a very strong signal from the European Council that they support the basic principles of the de Larosière report. They have indicated they want to take first decisions in June. Many people in DG MARKT were the organisers and writers of the report. This is a big move forward for us. Many things we have been wanting to do for many years are now possible. Both our March report and the de Larosière report have judged the political and the possible very well in my opinion.

Supervision is where the real interest lies, explain……

Yes, on the supervisory side, there are two pillars according to the de Larosière report. It says there must be a new macro-prudential function. This will be called the European Systemic Risk Council acting under the auspices of the European Central Bank. It would consist of all the governors of the central banks, the supervisory heads of the new authorities and the Commission. The power of this body would be to analyse the risks in financial markets and their interconnectivity. Their task is to issue alerts, risk warnings; to say that for instance there is a risk in the Netherlands or there is a risk in Latvia – and be precise about it. These risk warnings must then be acted on.

Then the second part of the system is the individual supervisory agencies, we call these the current level 3 committees, CEBS, Committee of European Banking Supervisors, CEIOPS, European Insurance and Occupational Pensions Supervisors, and CESR Committee of European Securites Regulators. These committees are currently consultative committees to the Commission. De Larosière says we have to make these committees much more powerful and transform them into what he calls authorities with real regulatory powers. So for example, once there is a risk warning on the macro-prudential side, these new supervisors have to act, they have to look at the risk warnings. They have to act if they feel it's necessary and if they do not act, they have to explain why they do not want to act. So here you have a strong linkage being made between macro-prudential analysis and micro-prudential action, which is absolutely new, very innovative. In the USA, interestingly enough, they are working on a similar type of construction, with the US Federal Reserve possibly becoming the risk regulator and a similar reconstruction of their micro-supervisory bodies.

The March report is not the first set of actions proposed by the Commission. What other initiatives has the Commission taken since autumn 2008?

Well, in DG MARKT, we have changed some of the accounting rules(1), which I think were very important. It gives more flexibility for banks to deal with complex valuing financial assets in distressed markets, to account for them in a different way. That helped.

I think Commissioner McCreevy's innovative initiative on credit rating agencies(2) is going to bring much-needed discipline to the credit rating agency model.

We have made amendments to the Capital Requirements Directive(3), where we encourage less concentration of risk; setting up colleges of supervisors for complex institutions who will meet on a regular basis and exchange information. And getting the right capital incentives for the securitisation market(4), as well as improving the flow of information between supervisors of big cross border banks.

But that is not going to be enough, we are going to have to go well beyond that, and in a sense that is what's in the March Communication. But I think we have done some important things already, which will have positive effects.

(1) http://ec.europa.eu/internal_market/smn/smn31/24-modernise_en.htm
(2) http://ec.europa.eu/internal_market/securities/agencies/index_en.htm
(3) http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm
(4) http://ec.europa.eu/internal_market/securities/agencies/index_en.htm

The Commission has put forward some new initiatives recently, could you tell us a little bit about them?

Yes, on hedge funds and private equity(5), executive remuneration(6) and retail investment products[7].

There has been a long debate about the hedge funds, but the decision has been made by the Commission that we are going to come forward with proposals on hedge funds and private equity. Now, there's been a long argument about whether hedge funds played a major role in this crisis or not. Views differ, but hedge funds have potentially big impacts in financial markets, particularly when they all act sequentially together. For example when you have a failing market and all the hedge funds act in the same way - selling assets for instance - which can make the situation worse. We are looking at the possible regulation of the managers of these funds, because the hedge funds themselves are very diverse and difficult to define.

Private equity is very different from hedge funds. Private equity is taking long-term leveraged financial positions in other firms. It is less systemic in nature, but it does have some important social effects for example. If the loans or the way of financing of a firm is over-leveraged, markets change and of course the firms which have been invested in can become stressed or bankrupt. So in all of these we'll be looking to improve transparency. We'll be looking to make sure that the EU supervisors have all the information they need to properly evaluate this business. They're going to be registered.

On **executive remuneration,** what has happened in financial markets is that in many firms and banks for example, the way financial remuneration has been paid to senior people in the firm has encouraged short-term risk-taking, in other words bonuses have been paid on the basis of short-term profits and not on the basis of investments being profitable throughout the whole economic cycle. So the issue here is how we get the right sort of incentives for executive pay in Europe and indeed globally in financial institutions. That is what the Commission is looking at. We already have a recommendation on executive pay. We are looking at how we can adjust that or add another one for financial markets, for financial firms; again to try and get proper incentives, so that managers, owners and chief executives will make sure that when they're paid, they're paid on the basis of real results and not on the basis of fictitious paper profits.

How you are planning to help retail customers?

A retail customer is an ordinary person, who can lose his or her job. The best way we can help retail customers is to guarantee financial stability. That's what all governments in the world are now working towards, both in Europe with our fiscal stimuli and support of the banks.
The amount of potential support for the European banking sectors so far has been enormous, over 3 trillion euros (>28% GDP) in bank guarantees, 300 to 400 billion euros in direct capitalisation and now more recently some huge insurance schemes have been added for various banks - ING, RBS in the UK and also Lloyds/HBOS. These are huge numbers, not all of which will be spent of course but it gives an indication of how much governments in the EU have had to pledge.

We all need financial stability and we need to make sure that retail customers in the EU are properly advised, buy the right types of products and understand the risks and costs of these products, do not buy speculative instruments which are far too dangerous for their needs, and that there is the provision of products and mortgages and so forth available at reasonable and competitive prices. It's important that retail customers can understand the products they buy and know what to expect from them.

We are working on all of that. I think that the Single European Payments Area (SEPA) will help drive down the cost of sending money, when paying our bills between one Member State and another. Why do we have to have banks in every country that we might live in? We can have one bank with a payment system and we can pay all our bills through a standardised simple set of forms, a simple set of procedures, which will greatly reduce the cost of "inter-state banking" in the European Union in the future.

Finally, we're doing a lot to help Member States to improve financial education.

(5) http://ec.europa.eu/internal_market/investment/alternative_investments_en.htm
(6) http://ec.europa.eu/internal_market/company/directors-remun/index_en.htm
(7) http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm

Better EU standards for investment products

The Commission published on 29th April a Communication on Packaged Retail Investment Products, announcing an important initiative to help consumers get a fair deal when buying investments.

A wide range of ‘packaged’ investment products are sold to consumers in the European Union. These products include investment funds, unit-linked life insurance products, and certain kinds of ‘structured products’. Many of these products are complicated and difficult for investors to understand. Their risks can be opaque and their charges far from transparent. Also, those selling the products are sometimes paid by the product originator, leading to conflicts of interest.

More consistent EU standards, an identified need

To create more transparency, there are existing EU standards on the information that must be provided about the products and the ways in which the products can be sold. The aim of these standards is to ensure investors receive the information they need when they need it, and in a form they can understand. Moreover, these standards aim to ensure that investors are treated fairly by the banks or other financial institutions that are selling investment products.

So far, these standards have been developing in a piecemeal way. They differ depending on the kinds of products offered and the people who sell them. This confusion is exacerbated by the fact that there are some gaps in the system, where some products are not covered by any EU standards at all. There is also evidence that some of the existing standards are not effective enough: some products are not well explained and investors are not always treated fairly. For instance, information can still be too long and contain too much jargon, or it can be difficult for investors to separate key information from less important information. Moreover, investors can sometimes be advised to buy products which are not appropriate for their needs.

Another problem with inconsistent standards is that investors often find it hard to compare different products when deciding how to invest. Variations in standards could distort the retail market. For instance, firms might try and avoid more onerous standards by purposefully making products that are subject to lighter standards. This could increase risks to investors, as the lighter standards might be less effective.

Some Member States have already introduced rules to address these problems, but the differences in the existing EU legislation mean these rules can only go so far. Also, Member States have tackled the problems in different ways, and not all have acted, leading to even bigger differences for investors across the EU.

The Commission has been looking at these problems for a number of years, and launched a “Call for Evidence” in 2007, followed by a workshop and open hearing for concerned stakeholders in 2008. As a result of this consultative work, the Commission has concluded that improvements are necessary.

The financial crisis has made this work even more urgent: it has exposed poorly performing investments, where retail investors were taking on more risk than they intended. In some cases the guarantees on products have unexpectedly failed.

Investor’s needs to take centre stage

The Communication on Packaged Retail Investment Products starts a process of making the laws on the different investment products consistent, to raise standards and to ensure that investors are guaranteed to get the key information about these products. Information will need to be written so that investors can understand the products and their risks and costs, and presented so that they can better compare different products. Another important part of this work is that when an investor buys one of these products, consistent and high standards will also always be applicable to whoever sells the product to them. The needs of the investor should always take centre stage.

These changes should help consumers to be more confident about the information and services they receive. The changes should also help consumers to make more informed choices about the kind of investments that suit their needs.

However, these improvements are not likely to be enough on their own. Work on financial education and training will also be important in helping investors to better protect their own interests.

Additional research and consultation will help the Commission fine tune the detail of the necessary changes. A first orientation on the form and content of the changes will be published by the end of 2009, paving the way for formal legislative proposals in the course of 2010.

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For your diary

14-15/05 Brussels Economic Forum:

This year the Commission's flagship economic conference will debate the new economic landscape emerging from the financial crisis and the critical economic challenges that the EU is facing. Commissioner Joaquín Almunia will give the opening speech on the morning of 14 May.
More information on: http://ec.europa.eu/economy_finance/events/event14177_en.htm

15-16/05 8th People Experiencing Poverty (PEP) Meeting Brussels

This year's PEP Meeting is called "Where we live. What we need."
It is organised by the European Commission, the Czech Presidency and the European Anti-Poverty Network (EAPN). It is a forum where people who are experiencing poverty and are threatened by social exclusion meet the people behind policies and measures at national and European level. The meeting will include discussions on the realities of everyday life: access to adequate and affordable housing; financial inclusion (also indebtedness) and access to basic services. The places where the participants live and practical examples of how these issues are affecting their everyday lives will be the starting point for the meeting.
More information on: http://www.eapn.eu/content/view/879/lang,en/

19-20/05 Data Protection Conference

The conference will give the opportunity to various stakeholders to express their views and questions on the new challenges for data protection and the need for an effective information management strategy in the EU. The conference is part of the Commission's open consultation on how the fundamental right to protection of personal data can be further developed and effectively respected. Commission Vice-President Jacques Barrot will be giving a speech at the conference.
More information on: http://ec.europa.eu/justice_home/news/events/conference_dp_2009/draft_programme_en.pdf

Info
To find out more on these and other EU-events, please consult the EU calendar on http://europa.eu/eucalendar/

27/05 Public Hearing on Solvency:

The Commission is organising a Public Hearing in Brussels on the harmonisation of Solvency Rules applicable to Institutions for Occupational Retirement Provision (IORPs) covered by Article 17 of the IORP Directive and IORPs operating on a cross-border basis.
More information on: http://ec.europa.eu/internal_market/pensions/commission-docs_en.htm

18–19/06 European Council:

The June European Council will bring together the heads of state or government of the European Union and the President of the Commission. This is the last European Council to be held under the Czech Presidency, before Sweden takes over on 1 July 2009.
More information on: http://europa.eu/european-council/

06-14/05 SME week:

The first European SME Week was organised as a campaign to promote entrepreneurship across Europe and to inform entrepreneurs about support available to them at European, national and local level. The SME week will be followed up by **EU Finance Days** for SMEs across the EU throughout to shed light on EU financial instruments available to SMEs. The aim is to raise awareness about different sources of finance and to provide a forum for sharing good practices in helping innovative SMEs get easier access to finance. Next EU Finance Days for SME's are in: Sofia (28 May); Dublin (16 June) and London (30 June).
More information on: http://ec.europa.eu/enterprise/policies/entrepreneurship/sme-week/index_en.htm

4-7/06 European Elections

736 Members of the European Parliament will be elected on these dates to represent almost 500 million Europeans, making it the biggest trans-national election in history. European elections are held every five years in all the EU Member States.
More information on: http://www.europarl.europa.eu/elections2009

EU framework for managers of Alternative Investment Funds

On 29 April 2009, the European Commission adopted a proposal for a Directive on Alternative Investment Fund Managers (AIFMs). The proposed Directive, an important part of the EU's regulatory response to the financial crisis, aims to create a comprehensive and effective regulatory and supervisory framework for 'AIFMs' in the EU, in particular those managing hedge funds and private equity funds. It is the world's first regulatory response proposing fundamental changes to the Alternative Investment Fund (AIF) sector. Investors and national authorities will be provided with better access to information about the activities of AIFs. It will also enable Member States to improve the monitoring of this sector and to take any coordinated action necessary to ensure a the proper functioning of financial markets. With the proposed Directive, the EU provides a rapid response to a growing global political consensus on the need for tighter regulation, underlined recently by the High-Level Group on Financial Supervision of Jacques de Larosière and agreed at the G20 summit.

The proposal – the result of a wide consultation

The Directive will introduce harmonised requirements for entities engaged in the management and administration of Alternative Investment Funds (AIFs). For the purposes of the Directive, these are defined as all funds that are "not harmonised under the UCITS Directive(1)" – i.e. not already covered by EU rules on investment funds. The AIF sector in the EU is relatively large, with around €2 trillion in assets at the end of 2008. It is also diverse: hedge funds, private equity funds, commodity funds, real estate funds and infrastructure funds, among others, all fall within this category.

The Directive builds on an extensive consultation and on the numerous insights and research on the functioning of the non-harmonised investment fund segment that the Commission has gathered in recent years through studies and impact assessments. The latest round of consultations took place in February 2009 and concerned the activities of hedge funds.

Inconsistencies in the current regulatory framework

The activities of AIFMs are currently regulated by a combination of national financial and company law regulations and general cross-cutting provisions of EU law. These are supplemented in some areas by industry-developed standards. However, recent events have indicated that some of the risks associated with AIFMs have been underestimated and are not sufficiently addressed by current rules. Moreover, the existing regulatory environment does not adequately reflect the cross-border nature of the risks.

Reducing cross-border risk

Given the global nature of their activities, many risks posed by AIFMs have an important cross-border dimension. The impact of risks crystallising into the AIFM sector in one Member State will therefore also be felt beyond its national borders. In recognition of these vulnerabilities, the Commission, in its recent Communication to the Spring European Council on 'Driving European recovery'(2), has committed to ensuring that relevant market actors are subject to appropriate regulation and oversight.

Effective regulation and supervision

This Directive, therefore, forms an important part of the European Union's regulatory response to the financial crisis. The overarching objective of the proposed Directive is to create a comprehensive and effective regulatory and supervisory framework for AIFMs in the EU. *It is the world's first regulatory response proposing fundamental changes to the alternative investment sector.* It captures significant risks that, as we have seen recently, can be transmitted rapidly across the financial system. Once spread, these risks have serious consequences for market participants and jeopardise the overall stability of the underlying markets.

In order to ensure the secure functioning of the AIFM sector, competent authorities of the Member States will be required to cooperate whenever necessary so as to achieve the aims of the Directive. Given the cross-border nature of risks arising in the AIFM sector, a prerequisite for effective oversight will be the timely sharing of relevant data, at European, or even global, level. The competent authorities of the home Member State of the AIFM will thus be required to transmit relevant information, in a suitably aggregated format, to public authorities in other Member States.

1 Directive 85/611/EEC on Undertakings for Collective Investment in Transferable Securities (UCITS)
2 European Commission Communication for the Spring European Council: Driving European Recovery, COM (2009) 117

The key features of the proposed Directive:

- The proposed Directive follows an *'all encompassing'* approach to ensure that no significant actor falls outside the regulatory net, while at the same time recognising the legitimate differences in existing business models. The proportionality of the proposal is ensured through application of thresholds that would exempt managers from the strict authorisation and operating requirements or from additional reporting and disclosure obligations.

- It addresses the need for increased transparency by key actors towards supervisors, investors and other key stakeholders. Supervisors will thus be able to monitor the sector and take any coordinated action necessary to ensure the proper functioning of financial markets. Investors and other stakeholders will have better access to information about activities of AIFs, in particular after they acquire controlling stakes in companies.

- The Directive ensures that all regulated entities are subject to appropriate governance standards and have robust risk management and liquidity systems in place.

- The proposed measures regulate all major sources of risks in the alternative investment value chain, with all of them subject to strict regulatory requirements. AIFMs have to be authorised and registered and will also be required to provide relevant information on funds they manage. Moreover, depositaries can be only credit institutions as defined by EU law and valuators must be independent and subject to appropriate standards.

- Subject to compliance with high and stringent regulatory standards, the proposed Directive will give AIFMs Single Market rights in return: It will permit AIFMs established in Europe to provide their services in the Community and market European AIFs across the EU.

- The Directive also allows the marketing of third-country AIFs in the Community, but on the condition that these third countries comply with stringent requirements on regulation, supervision and cooperation, including on tax matters. In order to allow for the necessary preparation with respect to third countries, rules allowing marketing of third-country AIFs will come into force three years after the rest of the Directive.

Next steps

The Commission believes that it has tabled a sound proposal which can serve as a good starting point for negotiations on a robust EU legislative framework for AIFMs. This proposal now passes to the European Parliament and the Council of Ministers for consideration.

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"The priority now is to reform the global regulatory and financial system"

Given the financial crisis, what was the role of the Commission at the G20 summit of 2 April?

The G20 was stimulated and in a way proposed by President Sarkozy and the President of the Commission, Mr Barroso. They were the ones who persuaded the US and the rest of the world that we need to have global coordination on how to deal with this massively dangerous financial crisis. I think that has been a very welcome initiative.

What were we trying to do at G20 level, we were trying to agree the basic parameters of reform, whether it is on the supervisory side, the regulatory side, the fiscal and economic side or whether it is dealing with non-cooperative jurisdiction, off-shore centres or whatever.

G20 is a huge grouping of countries; not all of our Member States are there. The Commission was there, so DG MARKT had a huge task in the run-up work. A number of my colleagues here represented the Commission in G20 working groups.

What was in it for the EU?

We have been trying to converge as much as possible globally on the diagnostic and the policies that we have to implement in the near future. On the regulatory side, more capital in the banking system, regulating credit rating agencies, improving the accounting system and so forth, those are just some of the examples. Now, where we have seen some slight differences of points of view is that the United States seem to be more interested in pressing the need for big fiscal responses, injections of capital by governments into their economies, whereas the Europeans are arguing that we have done enough already and that the priority now is to reform the global regulatory and financial system. The two views can be made compatible.

For emerging countries, China, Brazil, Russia, India and so forth, their big interest is to have a bigger role in global policy-making, whether it is having a much more prominent role in the IMF or indeed the FSF and to ensure that the support programmes at global level become more efficient. So that's where some of their understandable primary interests lie.

Let us remember here that the EU and the US are still 70% of the global capital, so it is critical for our bilateral relations that we have a good understanding with the Americans of what needs to be done. We work very hard at that. And we need this more than ever now.

What about supervision at global level?

At global level, we will see the International Monetary Fund (IMF) playing a much bigger role in the global financial framework as the analyser of global risk and with more resources to assist countries in difficulties. We'll have the Financial Stability Forum (FSF), which means that all the micro-supervisors will have to be acting much more closely with the IMF. By the way, in early March the European Commission managed for the first time to become a formal member of the FSF and I think this says a lot for the work done in DG MARKT. That we have managed to get in there, is a major move forward. Our Director General Jörgen Holmquist will represent the Commission in this very important body.

"...we have to be very rigorous and make sure that the principles of the competition and Single Market policies are fully respected."

Excerpt from the G20 communiqué:

We, the leaders of the Group of 20, have today (...) pledged to do whatever is necessary to:

- restore confidence, growth, and jobs;
- repair the financial system to restore lending;
- strengthen financial regulation to rebuild trust;
- fund and reform our international financial institutions to overcome this crisis and prevent future ones;
- promote global trade and investment and reject protectionism, to underpin prosperity; and
- build an inclusive, green, and sustainable recovery.

By acting together to fulfil these pledges we will bring the world economy out of recession and prevent a crisis like this from recurring in the future.

The agreements we have reached today, to treble resources available to the IMF to $750 billion, to support a new SDR allocation of $250 billion, to support at least $100 billion of additional lending by the MDBs, to ensure $250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale.

Remuneration Policy: Getting it right

In the light of the financial crisis and public concern over inappropriate pay packages for the executives and certain categories of employees (such as traders) of failed financial institutions, the Commission is coming forward with two Recommendations on remuneration. They update the Commission's 2004 Recommendation on executive remuneration and also cover remuneration across the financial services sector. The Commission will follow these up with legislative amendments to the Capital Requirements Directive to be announced before the summer.

Causes of the financial crisis

Remuneration and the financial crisis

Over recent months, there has been considerable public outrage at cases of senior executives and traders in a number of banks being given large bonuses and generous termination packages at the same time as their businesses are being bailed out or are performing poorly.

These cases have highlighted the way that far too many companies' remuneration and compensation packages have been geared to short-term success at the expense of long-term profitability, and worse, often rewarded failure. There is widespread consensus that this contributed to the financial crisis. As part of its ongoing response to the crisis, the Commission is moving to tackle these poor incentives.

Tackling the root causes: the Commission approach

In 2004, the Commission issued a Recommendation on directors' remuneration in listed companies. Despite this, few Member States have fully implemented the Recommendation. Furthermore the financial crisis has shown that the problem goes much wider than executives of listed companies, with traders and others in financial service providers having poor incentives that encouraged excessive risk-taking and short-termism.

The Commission has therefore come forward with two new Recommendations: one to update its 2004 Recommendation and the other to address remuneration in the financial services industry. The Commission decided to begin with Recommendations rather than a legislative proposal because of the urgency of common European action. By acting now in this way, the Commission has balanced the need for consistency across the EU with flexibility for companies and Member States in tailoring the principles to companies of different size and sectors. In particular, the Recommendation in financial services will provide a starting point for dialogue between financial undertakings and supervisors and enable them to move forward now rather than having to wait for legislation to be agreed, transposed into national law and implemented.

Nevertheless, mindful of its experience with the 2004 Recommendation, the Commission intends to increase monitoring mechanisms to enhance effective application of EU rules on directors' remuneration. The Commission is also intent on following up the Recommendation in financial services with legislative action. As a result, as a second step, it is including remuneration in the package of changes to the Capital Requirements Directive which it will adopt this summer. These changes will bring remuneration policies and their link with risk management clearly within the prudential oversight of banks and investment firms. The Commission is also working with its global partners in the G20 process to ensure that the EU approach is consistent with and complements work done globally.

Recommendations

On directors' pay, the new Recommendation sets out principles and practices on the structure and governance of remuneration policy:

- On structure, the Recommendation introduces proportionality of remuneration within the company by benchmarking directors' remuneration to the other executive directors in the board and the (senior) employees; it sets a limit on severance pay and provides for no severance pay in case of failure it requires a balance between fixed and variable pay and links the award of variable pay to pre-determined and measurable performance criteria; and provides for a balance between long and short term performance criteria.
- On governance, it sets out principles aimed at improving shareholders' oversight of remuneration policies, and to avoid conflicts of interest, it provides for non-executives directors' remuneration, not including share options, as well as other obligations.

On remuneration in the financial services sector, the Recommendation acts in a number of ways:

- On the structure of remuneration policies, it sets out new principles including ensuring that staff do not rely exclusively on bonus payments, and that a major part of their salary is deferred and if necessary clawed back if the longer term performance of the company deteriorates.
- On governance, it introduces new principles requiring policy to be transparent internally, clear and properly documented and to contain measures to avoid conflicts of interest.
- On disclosure, it requires remuneration policies to be adequately disclosed to external stakeholders in a clear and easily understandable way.
- It requires supervisors to ensure that financial institutions apply the principles on sound remuneration policies to the largest possible extent and have remuneration policies consistent with effective risk management.
- On the scope, a financial institution must adopt this new remuneration policy for directors, senior staff members, and other risk-takers whose remuneration is performance related.

These are big first steps in getting incentives right and avoiding a repeat of the failures.

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"We have to be very rigorous and make sure that the principles of the Single Market, which are after all in the Treaty, are fully respected".

The March Communication reads: "The Single Market should be seen as the lever of recovery". Could you say a bit more about that?

The Single Market has been a great European success from the days of the Single Market programme, which President Delors triggered in the early1980s. We now have products, services, people and capital that circulate around the European Union like never before, which allows the relative advantages of different countries to come to the fore. This is how trading should take place. Sometimes we should think back a few years…. For example, how much it used to cost to make a cross border telephone call and how much it costs today!

Are Member States respecting the rules of the Single Market?

In the financial crisis we have now, the danger is that governments will try to keep their capital at home. They will be tempted to ensure that public procurement contracts are won only by their own domestic firms. We're seeing elements of fresh state aids to try and help them in these difficult competitive conditions. As I mentioned, huge amounts of money are going into the banking sector. So we have to be very rigorous and make sure that the principles of the competition and Single Market policies are fully respected. We are not going to put up with discrimination or anti-competitive behaviour. We have to be very tough. For example, we're seeing attacks now from various Member States on the whole basis of establishment for banks in the European Union. Some Member States are beginning to attack the branching concept, which is again the right of establishment under the Treaties and the basis of all our financial services passports. Once you're licensed in one country, you have a passport to do business throughout the EU. We're seeing that come under pressure. We're going to have to deal with it.

Could this be seen as protectionism?

With some of it, you never know what is protectionist and what are knee-jerk reactions. We are also seeing some banks take capital out of the branches of subsidiaries and retreat to the domestic markets. That is symptomatic in a sense of how serious the economic situation is. We might be seeing very serious declines in GDP this year. Is it protectionism? Well I suppose there are degrees of it, but I would describe it more as knee-jerk defensive reactions. But on anything that is clearly protectionist or discriminatory against the Treaties of course we would have to take out infringement procedures.

We are living a financial and economic crisis on a global level. How would you describe the challenge for Europe's social model?

The challenge for the social model is to survive and evolve. This is the worst economic crisis any of us will ever face in our lives.

Unemployment is going to go up, unfortunately. So the cost of unemployment for governments, such as benefits and so on will go up too. We have an ageing population and costs of ageing are expensive. We have huge problems in competitiveness and global trade, so there is pressure on wages and pressure on all employees. The budgets of the state are worse anyway, because they have been putting a lot of money into the banks. Governments budgets are going to be worse anyway, because the economy is doing worse, so there will be fewer tax receipts.

The famous Maastricht 3 % public sector deficits are going to be under real pressure this year. You don't want that to go on for too long, because the debts of the governments will get higher and as the economy improves, you are going to have to pay that back. You cannot have huge debts. Otherwise, the governments have to pay that debt back every year through the capital markets. If the interest rates start to rise to 2 to 3 % and you have a 100% debt, 3 % of your GDP has to be paid back every year. That's just to stand still.

It is going to be a very testing time. I think our social model will survive, because I think at the end of the day we believe in Europe in social equality and fairness; we believe in safeguards on the social system side, whether it is health or education or security. I think these are very strong European values actually and you feel them much more when you don't have them. People often take them for granted. They cost money – but they are vital for a balanced society. By all means make our social systems more dynamic – but never alter these principles that define our Union.So today there is very fierce pressure on social systems, unemployment and ageing as I said, but we have to maintain them.

Legal database services: Germany

The Commission has decided to send a reasoned opinion request to Germany concerning the conclusion of public contracts for legal database services by the Federal Government and a number of German states. The Commission takes the view that the award procedures conducted by the judicial authorities were biased in favour of "juris GmbH" and that the authorities should have been obliged to award the contracts by open or restricted procedures with publication of a European-wide call for tenders.

Recognition of qualifications for air traffic controllers: Spain

The Commission has decided, under Article 228 of the EC Treaty, to send a letter of formal notice asking the Spanish authorities to notify it of the measures taken at national level in order to comply with the Court of Justice judgment of 16 October 2008 (C-136/07). In that judgment, the Court ruled that Spain's legislation on the recognition of air traffic controller qualifications failed to comply with Council Directives 89/48/EEC and 92/51/EEC on a general system for the recognition of qualifications.

Irregularities during award procedure for interpretation services by Department of Justice: Ireland

The Commission has decided to refer Ireland to the Court of Justice over the award procedure followed by the Department of Justice for a public service contract for interpretation services. The Commission considers that by attributing weightings to the award criteria following the closing date for the submission of the bids and by modifying them subsequent to an initial review of the submitted bids, the contracting authority changed the emphasis among the award criteria that were originally advertised. This gave them a relative importance that was materially different from what a tenderer could understand from the contract documents.

Exclusive rights for vocational training in agriculture: France

The Commission has decided to send a reasoned opinion to France concerning a French Rural Code provision, adopted in 2005, which grants the 'Centre National pour l'Aménagement des Structures des Exploitations Agricoles' (CNASEA) an exclusive right to provide regional and local authorities with services relating to the management of public aid, in violation of the EU public procurement Directive (2004/18/EC). The Rural Code provision in question requires regional and local authorities to entrust the CNASEA with the management of their financial aid and accompanying measures (including the management of financial aid to trainees undergoing vocational training) if those authorities do not wish to manage the aid themselves.

Supply of management consulting services for pharmacies: Italy

The Commission has decided to send a reasoned opinion to Italy concerning the direct award of a concession for the supply of management consulting services for pharmacies. Specifically, two Italian local authorities directly awarded in 1998 and in 2002 a service concession for the supply of management consulting services concerning their pharmacies. In one case the concession was given for ten years and in the other for an indefinite term. Neither local authority had any management relationships with the concessionaire, nor any power of control over it. In the Commission's view, the direct award at issue is contrary to the general principles of the EC Treaty, pursuant to which an adequate level of transparency and publicity has always to be ensured towards all economic operators potentially interested, namely through a call for tenders.

Recognition of qualifications for manual therapists: Germany

The Commission has formally requested Germany, by means of a reasoned opinion, to amend its legislation on the recognition of manual therapists' qualifications. In Germany, all physiotherapists, who provide manual therapy services for patients insured by the health insurance funds, have to complete a post-graduate training course in manual therapy if they want their patients to receive reimbursement of the fees for those services from the health insurance funds. On this basis, the German authorities refuse to recognise manual therapists' qualifications obtained by EU citizens in other Member States, because their training is different from the German training requirements. In the Commission's view, such refusal contradicts the principle of mutual recognition established by Directive 2005/36/EC on the recognition of professional qualifications.

More information on infringement proceedings relating to the Single Market is available at:
http://ec.europa.eu/internal_market/infringements/index_en.htm
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