Managing Conflicts of Interests –
Ethics Rules and Standards in the Member States and the European Institutions

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This article discusses the existing rules and standards for the Holders of Public Office (HPO) as regards conflicts of interest (CoI) within the Member States of the EU as well as within the EU institutions. It presents findings from a comparative study for the European Commission, which analyses and compares the various rules and standards contained in the laws, regulations and codes of conduct for members of government, elected members of parliament (legislators), judges of the courts of justice (supreme courts or constitutional courts), and members or directors of the courts of audit and central or national banks. By conducting exhaustive empirical research on the ethics systems of the various national and European institutions, in-depth insight into an extremely complex and politically very sensitive subject could be gained. As can be demonstrated, current reform processes relating to the field of CoI are leading to new trends and innovations that can be of great interest for national and the EU institutions which are eager to reform their policies and instruments.

At present, in the field of CoI, two conflicting trends can be observed. On the one hand, the current development is towards new transparency requirements and the emergence of new forms of accountability. On the other hand, there is a tendency towards new ethics bureaucracies and the introduction of measures which have a direct impact (at least in some countries and institutions) on privacy issues. Within this context, the trend towards more disclosure requirements in registers, and the setting up of new (independent) ethics committees and other monitoring bodies should also be seen as an ambivalent development. Unfortunately, there is little knowledge about the impact of the above-mentioned developments on the effectiveness of the different ethics regimes and ethics instruments. This is also partly due to the fact that the monitoring of the registers and the working procedures of (many internal) ethics committees are highly intransparent, and because information is not easily accessible.

The purpose of rules and standards in the field of CoI

More and better rules on Conflicts of Interest for Holders of Public Office should – at least in theory – lead to more trust, greater accountability, more integrity and less unethical behaviour and/or corruption. New rules should also provide a tool for identifying and resolving potential conflicts of interest, as well as:

• increase public confidence in the government;
• demonstrate the high level of integrity of the vast majority of government officials;
• prevent conflicts of interest from arising because official activities would be subject to public scrutiny;
• deter persons whose personal finances would not bear up to public scrutiny from entering public service; and
• better enable the public to judge the performance of public officials in the light of their outside financial interests.

Gradually, ethics policies are becoming more important everywhere. The underlying reasons for this worldwide development can be summarised as follows:

• First, society is becoming increasingly demanding as to the behaviour of the Holders of Public Office. Consequently, potential conflicts of interest may weaken public trust;
• Second, new forms of relationships have developed between the public and private sector, which give rise to increasingly close forms of collaboration between the two sectors;
• Third, new forms of mobility between the public and private sector may provoke more potential conflicts of interests as regards post-employment issues;
• Fourth, political scandals and increasing media attention put more pressure on the political actors to do even more in the field of ethics.
Throughout the last decades, the trend was clearly toward more rules and regulations in the field of ethics and conflicts of interests. In the USA and Canada, in particular, rules and standards of conduct were constantly rising. At the same time, there is no clear empirical evidence as to whether conflicts of interest and corruption are increasing or decreasing. A study by Mackenzie came to the following conclusion: “Worry about the ethics of public officials greatly exceeds formal evidence of ethical violations.”

Apparently there is a trade-off between the growing complexity of our societies and the need for better, clearer and stricter rules. Moral and ethical standards are changing more rapidly than before. In addition, concepts of conflicts of interest and corruption have changed over the years to include more types of official and private conduct. What was legal a generation ago is considered corrupt today. Because of the growing number of ethics rules and standards, “there are many more laws to be broken nowadays”.

Clearly, politicians face different conflicts of interests than judges or directors of central banks. Moreover, the media scrutiny is different for judges or directors of banks, etc. Legislators also face different accountability and legitimacy challenges. Another important difference between legislators and other categories of Holders of Public Office is the fact that, in most countries, the constitution assigns the parliament the responsibility for the regulation of its members. Because of this – and this is different to the situation in the public services – members of parliament have little interest in monitoring themselves and deciding upon the setting up of independent ethics committees. Instead, rules of conflicts of interest for members of parliament are generally enforced through a system of self-regulation.

Conflicts of interests may also occur because, in most countries, legislators decide on essential parts of their own remuneration. In addition, politicians deliberate on laws and regulations, on party and election financing as well as on lobbying issues. Finally, they also legislate on behalf of their own interests when defining their own rules and standards in the field of conflicts of interest. Furthermore, parliamentary immunity is an issue for the parliament itself. In many countries, this constitutes a sensitive issue, since parliamentarians are almost exempt from any civil or criminal prosecution. Moreover, enforcing sanctions implies the starting of time-consuming procedures (whereas the public may ask for quick responses to political scandals).

Thus, legislators are – at least partly – regulating themselves. This is problematical, as it raises suspicion and doubts about independence, fairness, and accountability. As a consequence, more countries are thinking about the introduction of external inter-institutional ethics committees or independent offices. “This is because traditional systems of self-regulation are more and more discredited. They can no longer command public confidence.” However, trends differ widely. Whereas many parliaments have, at least, established different forms of self-regulation, others do not even have this. In the European Parliament (EP), the quaestors are responsible for monitoring the ethical conduct of MEPs. However, to date, little is known about the modalities of the internal control of ethical standards by the quaestors.

Since potential conflicts of interest are abundant for legislators, they need specific rules and standards in the field of Col. In addition, they need to be trained on Col and must be made aware of (un-) ethical issues. At the same time, legislators need less rules and standards in specific fields (such as post-employment, the regulation of political
outside activities, etc.). Thus, clear rules and standards in the field of gift-taking, nepotism and lobbyism may be very relevant for this category of HPO.

**Rules and standards in the EU institutions**

At present, the EU institutions have entirely different and separate rules and standards in the field of conflicts of interests for the Holders of Public Office. By studying the regulation density amongst the six EU institutions, it can be seen that the European Investment Bank and the European Commission occupy the first rank of issues regulated, followed by the European Central Bank (ECB) and the European Court of Auditors (ECA). The institutions with the highest number of unregulated issues are the European Court of Justice (ECJ) and the European Parliament.

Surprisingly to many observers, most of the European institutions are regulated more strictly than the different institutions at national level. Only some new Member States have a higher regulation density as regards the regulation of some CoI issues.

Because of the lack of secondary law, the most important regulatory instrument of the EU Institutions is codes. In total, the EU institutions have adopted more than ten different codes which regulate the different HPO. Thus, the existing rules and standards for the Court of Justice stem almost exclusively from existing rules in the Treaty articles and from the Protocol to the Statute of the Court of Justice. Apart from these rules, the European Court of Justice had, until September 2007, no other rules (and no codes) that governed the behaviour of the Judges and Advocates General, etc., of the ECJ.

The situation is different for the European Parliament. With regard to this institution, the European Constitutional Treaty (ECT) does not contain any rules as to CoI of HPO in the European Parliament. The existing rules of the EP are only those that are mentioned in the Rules of Procedure of the European Parliament (and especially in Annex I). Thus, because it was not possible to classify the Rules of Procedure of the EP as a law, we have decided to classify the Rules of Procedure as a code within the meaning of this study. From a methodological point of view, this was the only way to recognise that the EP has specific ethical standards. In general, however, rules of procedure can not be classified as codes of ethics.

These codes are very different and range from statements on governance, codes of good administrative conduct and codes of conduct, to codes of ethical criteria. In some cases, there are even differences within one institution. For example, the Management Committee Code of Conduct in the European Investment Bank (EIB) differs from the Code of Conduct for the Members of the Board of Directors of the EIB. In addition, the Code of Conduct of the European Central Bank is different to the Code of Conduct for the Governing Council of the ECB. These few cases show that each code is designed towards the proper structure of the organisation in question.

Differences can also be seen as to the length and content of the different texts. Compared to the codes of the EIB and the ECB, the code of conduct for the members of the Court of Auditors is relatively short. Another specific case is the Statement on Governance of the EIB which introduces the function of Chief Compliance Officer at the EIB. No other institution has introduced such a function.

As recently as September 2007, the Court of Justice also introduced a new code of ethics, which leaves the European Parliament as the only EU institution without a proper code of ethics.

Commissioners, for instance, are bound to respect the duties of independence, impartiality, the duty to behave with integrity and discretion as regards the acceptance of posts, appointments, benefits, and functions after they have ceased to hold office (Article 213 ECT), as well as the duty of confidentiality (Art. 287 ECT). The Code of Conduct for Commissioners adds that “they shall refrain from disclosing what is said at meetings of the Commission”. Since different categories of Holders of Office must have specific ethical standards which are designed for their specific tasks and duties, it does not seem recommendable to design one detailed code of ethics for all Holders of Public Office in the different institutions.

Because of these specific CoI regulations in the different EU institutions, the other EU institutions should not be used as simple benchmarks for the EP. However, over the past fifteen years, the institutional weight of the European Parliament has increased, and its powers have been strengthened, especially with the introduction of co-decision and control rights over the Commission. Therefore, there is no longer any reason to manage CoI in the EP differently than in the national parliaments.

Compared to the EU institutions, only few Member States have established independent ethics committees or an Office of Government Ethics. At EU level, the EIB has created the position of an independent compliance officer. As regards the latter, no (public) evidence that clearly defines this position and its work in practice actually exists.

Concerning the Commission, it seems questionable (especially in the light of the institutional architecture defined by the EC Treaty, Article 217), as to whether it would be legally possible to establish an Ethics Committee with sanctioning powers and the authority to decide upon specific conflicts of interest concerning the EU Commissioners. Despite these legal restrictions, the existing Ad hoc Committee has a too limited role. It is only responsible for post-employment issues. In order to improve the situation, it should be recommended to establish an ethics committee with a broader mandate (advising HPO, restricting monitoring role, public role, etc.).

Registers of interest that are open to the public are a popular and widely-used instrument in the Member States. However, in reality, little is known as to the effectiveness of registers, or about the potential political abuse of public registers. On the other hand, HPO have access to a great deal of power and influence. In addition, people are supposed to place a tremendous amount of trust in HPO. Therefore, they should also be the subject of public scrutiny.
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...and not only by being exposed to the voters’ verdict. Thus, it should be welcomed that the European Court of Justice has (recently) established a register of interest (which should be easily accessible to the public). We would also suggest that the ECJ introduces its own ethics committee and/or participates in the setting up of an Independent Standards in Public Office Commission. At present, not all institutions have credible monitoring and enforcement mechanisms regarding their registers of interest. In most cases, the declarations of interest are sent to the president of the institutions. However, it is questionable as to whether the office of the president has the necessary means and resources to “manage” the monitoring of registers. Thus, this form of self-regulation may lack both credibility and deterrent effects.

Ethics rules and public trust

Critics (Anechiarico and Jacobs,7 Mackenzie,8 Stark,9 Saint-Martin and Thompson,10 Behncke,11 Bovens,12 etc.) argue that more rules of ethics do not necessarily provide a more efficient response to the decline of public trust and integrity issues, but may cause even more cynicism regarding public and political institutions. The problem, critics say, is that the expansion of ethics regulations and more public discussions about the need for more and better (conflicts of interest) rules have not contributed to the rise in public confidence in government. In fact, the calls for more and better ethics have the opposite effect. More “ethics regulations and more ethics enforcers have produced more ethics investigations and prosecutions..... Whatever the new ethics regulations may have accomplished...they have done little to reduce publicity and public controversy about the ethical behaviour of public officials.”13

Behncke argues that “in spite of the individual rationality of these strategies, the collective irrationality lies in the fact that ever more transparency, ever higher standards and tighter regulations create ever more violations of ethical rules, more scandals and more investigations, and thus undermine the legitimacy of the institution, destroy public trust and create collective costs that far outweigh the individual benefits. In addition to the individual irrationality leading to collective irrationality, the last element that makes the situation a real Prisoners’ Dilemma is the fact that no built-in mechanism can stop this arms race”.14 The assumption on part of the legislators and the members of government who favour the adoption of new rules and standards is that this will have a positive effect and increase public trust in government. However, a strong focus on ethics, too strict an approach, too much publicity and too many rules may also undermine public trust.

The more rules and standards are introduced, the more often rules and standards can be violated. Consequently, media and the public may interpret this as a sign of declining ethical standards. “Thus, rather than decreasing the number of cases of unethical behaviour, by declaring behaviour which was formerly in accordance with the rules to be unethical, the absolute number of scandals and cases of unethical behaviour increases, thus creating the appearance of public officials becoming more unethical. In reality, however, higher ethical standards lead to an overall more ethical public service.”15 From a political point of view, it is difficult to be against new initiatives and new rules in the field. Regulating ethics policies is popular. On the other hand, ethics policies are becoming more and more politicised. Ethics is slowly emerging as a perfect policy field in electoral campaigns. Politicians can be sure that calls for new initiatives will be applauded by the citizenry because these calls reflect a widespread perception in European societies that levels of corruption and conflicts of interest are increasing and that something must be done. From the perspective of a Holder of Public Office, it would be detrimental to be against new or even higher ethical standards, even more so, since the call for higher ethical standards and tighter rules of ethics are increasingly the subject of election campaigns in many countries.

The downside of this development is that it becomes increasingly difficult to avoid ethics – as a policy issue – being abused (including media abuse) by way of moral stigmatisation. This danger is, indeed, especially relevant for EU institutions although (or, even, because!) they are relatively-strictly regulated. Ethical violations in the EU institutions, in particular, are quickly made public and enhance the image that the EU institutions and the

Holders of Public Office (mainly in the European Commission) are very vulnerable to corruption and CoI. At national level, too, more and more politicians use “accusations of unethical conduct as a political weapon...”.16 Rules of ethics, in particular, are resources that politicians mobilise to attack and discredit their opponents. Consequently, ethics is increasingly used as a moral instrument with the aim of denouncing political opponents.

Ethics management as an effective instrument in the fight against corruption

Rules of ethics can only be one instrument in the fight against corruption, fraud and conflicts of interest. The reasons for corruption, fraud, etc., are too complex, and there are too many variables that cause corruption, which cannot be discussed here. In total, the results of our study show that particularly many new EU Member States have introduced very detailed and strict rules in the field of conflicts of interests. Often, these countries are also those with a high degree of perceived corruption and fraud. The adoption of new and stricter measures in these countries is also a reaction to important real life concerns and problems. A different question is whether these countries have the necessary capacities and skills to properly implement, manage, monitor and enforce the rules which they have adopted.

Clearly, the existence of strict rules and standards does not guarantee ethical government. In some of the new
Member States, in particular, it seems that one of the objectives of the introduction of strict and detailed rules (covering all categories of Holders of Public Office) was to prohibit HPO “from entering into an ever-increasing number of specified, factually ascertainable sets of circumstances because they might lead to inner conflict” preventively.17 Another objective was to satisfy the requirements of EU membership. The situation in some of the new Member States offers an interesting contrast with the situation in most Scandinavian countries which have much fewer rules and standards in place, but, at the same time, relatively low levels of corruption and bribery.

This supports the hypothesis that more regulations do not necessarily lead to less corruption. Instead, it seems that more regulation is not required in those situations or countries where high levels of public trust exist. This short analysis allows for two conclusions:

- First, there is no automatic link between strict rules and a low degree of corruption (and conflicts of interest). Moreover, a low degree of regulation density may be perfectly compatible with a low number of conflicts of interests.
- Second, this is not to say that countries with a high level of corruption and conflicts of interests should have fewer rules in place.

Moreover, too many ethics measures can damage the public trust, instead of enhancing it. This is the case if the introduction of more rules supports the perception that these rules were introduced because of the existing high level of corruption and conflicts of interest. The problem is that subjective perceptions of increasing levels of conflicts of interest run the “risk of reflecting the general pre-dispositions of citizens towards government, rather than actual experienced corruption.”18

Awareness creating for the existing rules and regulations constitutes an extremely important aspect of efficient ethics management. If the number of CoI rules and standards increases, the effective implementation of a conflicts of interest policy will require the on-going education and training of all HPO. Naturally, it is quite a challenge to convince ministers, legislators, judges and directors to take the necessary time and to participate in training courses. The findings of the conducted research suggest that training on conflicts of interest for HPO is highly under-developed. Many Member States do far too little in order to make HPO sufficiently aware of the existence of these rules. In total only 27% of all HPO receive training.

Ideally, HPO should not only be trained in ethics, but also have (at any time) access to organisational support, guidelines, advice and other information that will help him/her to identify and disclose a conflict of interest. In the Member States, the task of providing advice is mainly delegated to ethics committees. For example, in Ireland, the Ethics Commission is explicitly charged with providing advice to members (and may also maintain a high degree of confidentiality).

Whereas in the USA public integrity measures tend to be over-restrictive, this can not be said for the majority of the Member States of the EU.

In the United States, the House Committee on Standards of Official Conduct similarly emphasises education and counselling. Indeed, an important part of the Committee’s work “is responding to questions from, and providing advice to, House Members and staff regarding the laws, rules and standards that govern their official conduct. Committee staff are available to provide informal advice over the telephone, by e-mail, or in person, and the Committee will provide a formal written opinion in response to a proper written inquiry.”19 The Committee also distributes a lengthy House Ethics Manual to assist Members with interpreting the rules. Another example is Article 7 of the Code of the European Central Bank which provides advice on ethical matters to the members of the ECB Council. These few cases document why ethics committees are important. They should not only control and monitor CoI, they should also support and help HPO.

The importance of regulatory quality

Highly-regulated countries and institutions, in particular, face the challenge of poor quality of rules, overlapping rules and a low level of awareness of the existing rules and standards (which are mainly not codified into one document, but fragmented over several documents).

For instance, the present trend towards more regulation of ethical rules in the United States shows that highly regulated ethics regimes are not necessarily more effective (and certainly not more efficient) than other less regulated regimes. However, the tendency towards more regulation as well as the increased criticism against too many rules is still very much a US and Canadian phenomenon. Most US and Canadian officials and legislators point out the potential negative impact of too tight rules and requirements in registers as well as over-restrictive post-employment rules that have negative impact on individual careers, the attractiveness of top positions in government, and recruitment and retention policies. As the Canadian Ethics Commissioner mentioned in his Annual Report (2005): “A pitfall of this approach is that a requirement to provide a more detailed public disclosure of assets, holdings and corporate interests may deter well-qualified and experienced persons from seeking or accepting public office because of legitimate privacy concerns.”20 Another US study21 in the National Institute of Health came to the conclusion that strict obligations with regard to the duty to divest financial interests, and prohibitions with regard to outside activities had a negative impact on the ability of the different agencies to recruit and retain staff. In addition, many employees were of the opinion that it would be better to just enforce the rules better rather than strengthening them. More than 50% of employees felt that these rules had a negative impact.

These examples from the US (and partly from Canada) suggest that European institutions may learn from these experiences, and thereby avoid too many rules, too much bureaucracy and too burdensome reporting requirements, etc.
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Requirements for more transparency and for the declaration of information, etc., in particular, are supposed to discipline institutions and office-holders by making information about their potential conflicts of interest public. Therefore, transparency positively influences ethical behaviour because public exposure is presumed to act as a stimulus: the more the public knows about HPO, the better they behave. Transparency and openness requirements are also popular since they are commonly supposed to make the institutions and their office holders both more trustworthy and more trusted. Thus, many experts in the field propose that HPO should be required to disclose more personal information.

Yet, these suggestions are not without difficulties, since public disclosure requires effective management systems and may produce (depending on how strict the requirements are and how many HPO are required to make detailed reports) huge quantities of information. Another question is whether this information – which is offered for public scrutiny – is of interest and understandable for the wider public.

Furthermore, in the light of potential conflicts with privacy rights of HPO, it remains to be seen whether this trend towards more transparency requirements and reporting obligations will continue.

Conclusions

The comparative analysis of conflict of interest regulation shows that more rules do not necessarily lead to less CoI and corruption. Instead, it seems that more regulation is not required in the situations or countries where high levels of public trust exist. On the other hand, tough and strict rules are not a necessary condition for low levels of conflicts of interest. From this, we can draw the conclusion that there is also no ideal type of CoI system: the need for different CoI systems as well as the conditions for their successes and failures depend – to a large extent – on the particular socio-cultural environment. Consequently, so-called “high-trust” countries need different rules and standards than “low-trust” countries with a high level of corruption. In addition, regulation as such is only one instrument and does not solve any problem by itself. Therefore, emphasis should always be put on the need for an integrity-infrastructure which consists of a pro-active approach towards CoI (and ethics in general) including a combination of awareness-raising instruments (including leadership) transparency policies, rules and standards, as well as deterrent measures.

Generally speaking, there is no evidence that conflicts of interests are increasing as such. Therefore, asking for the introduction of more and stricter rules would send the wrong signal and would (possibly) be even counter-productive. Moreover, conflicts of interest include many different situations. Whereas some issues (for example, post-employment) deserve more attention and better rules and standards, other issues (for example, gift policies) are generally well managed. Therefore, we recommend that new policies should be designed diligently, and only after having carried out a careful cost-benefit analysis.

Whereas in the US public integrity measures tend to be over-restrictive, this can not be said for the majority of the Member States of the EU. However, the present trend in many Member States seems to point towards the regulation of an ever-increasing number of issues. At present, this is particularly the case in the new Member States. However, as this study shows, too many and too restrictive rules may have a paradoxical effect. Another challenge is the implementation and the enforcement of the rules in practice. Whereas a certain minimal set of rules is absolutely needed, too many and too tight restrictions and prohibitions can be costly, bureaucratic, and potentially even ineffective. Therefore, we recommend a finely-balanced approach between risk and regulation. In particular (some of) the new Member States should move away from the concentration on more regulatory activity. Instead, these countries would be well-advised to focus on implementation and enforcement issues.

Despite these warnings against over-regulation, the undertaken research also shows that some CoI issues may be under-regulated in some institutions and EU Member States.

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**NOTES**

1. Dr Christoph Demmke and Thomas Henökl, respectively Professor and Researcher in Unit “Public Management and Comparative Public Administration”
2. The latest example at EU level is the request by the European Ombudsman to ask Parliament (on 27 September 2007) to accept a request for public access to information of EU payments received by MEPs to cover their travel expenses and broader “subsistence” and “general expenditure”.
6. Ibid., p. 163.
7. Ibid.
11. Saint-Martin and Thompson
22. Information not available to the public, such as classified government information (e.g., on policy intention, national security, etc.), data on personal privacy as well as commercially-sensitive information (e.g., trade secrets).

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