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CONTENTS

EDITORIAL

Par Margaritis Schinas

2013 : le temps des architectes

Depuis le déclenchement de la crise économique et financière de 2008, les autorités européennes – nationales et communautaires – ont dû donner la priorité à leur rôle de pompier, en vue de combattre les ravages occasionnés par le déclenchement puis la propagation de cette crise. Parce que tous les moyens y ont été consacrés, l'objectif d'éteindre l'incendie est aujourd'hui atteint, ou peu s'en faut, et tant l'euro que l'Europe sortent renforcés de cette épreuve.

Surtout, les leçons de l'Histoire ont été tirées, ainsi qu'en attestent pour l'immédiat l'entrée en vigueur du pacte budgétaire européen et du mécanisme européen de stabilité, et pour le moyen terme le rapport « Pour une véritable union économique et monétaire », présenté en juin 2012 par les présidents du Conseil, de la Commission, de l'Eurogroupe et de la Banque centrale européenne.

En ce début d'année 2013, les conditions semblent réunies pour que le temps des pompiers étant presque achevé, s'ouvre maintenant le temps des architectes et que la priorité des dirigeants européens soit désormais de concevoir – puis de bâtir – une véritable union économique et monétaire, qui aille encore au-delà de ce qui a déjà été obtenu et mis en œuvre au cours des quatre dernières années.

C'est à cet objectif que répond le Blueprint élaboré par la Commission, première contribution écrite à proposer une approche intégrée et exhaustive de ce que pourrait – et devrait – être une véritable union économique et monétaire, dans toutes ses composantes – économique, législative et politique.

C'est à ce sujet, majeur pour l'avenir de l'Union européenne, qu'est consacré le premier numéro de l'année du *BEPA Monthly*.

L'avenir de l'Europe n'est pas pour autant dans la seule préoccupation de soi. Du fait de son histoire et du rôle spécifique qu'elle entend jouer dans le concert des nations, l'UE continuera à s'impliquer dans les affaires du monde; 2013 lui donnera de nombreuses occasions de se rappeler cette nécessité, qu'il s'agisse des questions de sécurité sur le continent africain ou des perspectives d'un accord transatlantique de commerce.

L'année 2013 se promet pleine d'opportunités et de défis européens à relever. La Commission sera au rendez-vous.

bepa
BUREAU OF EUROPEAN POLICY ADVISERS
EUROPEAN COMMISSION

1 Moving forward on a deep and genuine EMU

*By Marco Buti**

The Commission's Blueprint presents a comprehensive vision for a deep and genuine EMU conducive to a strong and stable architecture in the financial, fiscal, economic, and political domains. It recalls the *raison d'être* and aspirations of the EMU, presents a diagnostic of the crisis of confidence in the euro area (EA), and identifies the rationale and objectives of a genuine EMU. It aims to rectify the shortcomings of EMU's original set up by proposing necessary short-, medium- and long-term actions for lasting stability and prosperity of EMU.

The Blueprint is the first document to provide a comprehensive, coherent, and concrete design for how EMU should develop. While focusing on economic necessities, it is fully aligned to the legal requirements and political context. Thus, it offers an ambitious, realistic and pragmatic basis for a serious debate and for tackling the crisis of confidence in the EA.

Why a Blueprint

The EU responded to the sovereign debt crisis with the five-point roadmap in autumn 2011. In parallel it tackled the challenges of vulnerable countries; strengthened the banking system; aimed to enhance the growth outlook through structural reforms; put financial firewalls on a permanent and more flexible footing; and set down a robust and integrated economic governance framework. Actions taken since the 2008 financial crisis amount to a significant EMU overhaul, including strengthening economic governance through the European Semester and six-pack legislation, and creating a flexible and permanent financial firewall.

For measures to have a positive impact on confidence, they will need to be seen working well for some time. That is why it has not been possible to prevent the sovereign debt crises from turning into a crisis of confidence that threatens the integrity of the euro area itself. A more important factor is the gap between the sharp acceleration of financial integration under EMU and the comparatively slow progress in the integration of EU-level financial regulation and supervision. The emergence of negative feedback loops between weaknesses in the financial sector, sovereign debt sustainability, and the growth outlook aggravated the sovereign debt crisis and led to a full-blown crisis of confidence, challenging the cohesion and very existence of the EA.

The June 2012 European Council decision to envisage directly recapitalising troubled banks through the ESM on condition that an effective single supervisory mechanism (SSM) is in place, and EU finance ministers' agreement on the SSM in December, were major steps towards breaking the negative feedback loop between banks and sovereigns. The ECB announcement to introduce Open Market Transactions to counter market speculation on re-denomination risk and to intervene in secondary sovereign bond markets of member states complying with ESM conditionality also contributed to stabilising the situation since the autumn. Yield spread developments clearly indicate that the strategy has started to work in terms of increased financial market stability.

A consensus existed already in June that the EU needed to move from temporary solutions to a stable overall architecture of integrated financial, budgetary, and economic frameworks and a commensurate evolution in democratic accountability and legitimacy.

Blueprint proposals

The crisis has clearly demonstrated the increased interdependence of our economies since the foundation of EMU and has shown

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that success or failure of EMU will impact on all. The threat of the crisis of confidence is however more fundamental and requires a more fundamental response to convince that achievements in the Single Market and currency will not be undone, and that unfulfilled achievements of citizens and business will be realised and be maintained. We also need to be better equipped for the future to avoid the mistakes of the past.

To be effective and credible, the response must chart a clear and realistic path towards that ultimate ambition based on the firm commitment of the EU institutions and its member states. The resulting vision must encompass a banking union that can end the disintegration of the EU's financial market and ensure reasonably equal financing conditions for households and business across the EU; sever the negative feedback loops between member states and banks; and ensure that divergences between the business cycles across the euro area are not artificially amplified. The economic and fiscal union will deal with macroeconomic imbalances in the EA and provide the cushion for future shocks. Due to the inevitable transfers of sovereignty, such measures would require underpinning sufficient democratic accountability.

The transformation of EMU cannot be completed overnight, particularly considering the significant additional transfer of political powers from national to European level. To arrive at an EMU that ensures its citizens' welfare, decisive steps must be launched in the short-term (in the next 6-18 months) that will be built on and followed up with steps in the medium- and long-term.

The way forward needs to be carefully balanced. Steps towards more responsibility and economic discipline should be combined with more solidarity and financial support. This balance must be struck in parallel and in each phase of EMU development. Commensurate political integration, ensuring democratic legitimacy and accountability must accompany deeper integration of financial regulation, fiscal and economic policy and corresponding instruments. The Blueprint's chosen gradual approach reflects the fact that actions requiring Treaty change will not be possible in the short term and that more ambitious objectives can only be reached once the foundations are laid down and tested. The Blueprint envisages Treaty change only where absolutely necessary but favours action that can be implemented *à traité constant*.

In the short-term (in the next 6-18 months), the Blueprint suggests prioritising the full deployment of the new economic governance tools under the six-pack and two -pack regulations and the Single Supervisory Mechanism in the banking field. Proposals will also be made for a Single Resolution Mechanism (SRM) which will be in charge of the restructuring and resolution of banks of the member states participating in the Banking Union. The Blueprint also proposes the creation of a common financial instrument through which economic reform plans agreed in advance between member states and the Commission can be supported. Unifying the external representation of the euro area is also envisaged as part of the short-term dimension.

In the medium-term (18 months to five years), the Blueprint suggests closer economic and budgetary policy integration, including greater control over national budgetary policies – notably developing a dedicated fiscal capacity for the euro area, establishing a debt redemption fund, and commonly issuing eurobills.

In the longer term (beyond five years), a full Banking Union comprising supervision, resolution, and deposit guarantee insurance should be completed, and a common fiscal capacity could develop to help stabilise and smooth the adverse impact of asymmetric shocks in the EA. A deeply integrated economic and fiscal governance framework could ultimately allow the common issuance of public debt, which would enhance the functioning of debt markets and facilitate the conduct of monetary policy.

Looking ahead

With its Blueprint, the Commission sought to spark a European debate on a comprehensive, coherent, and concrete design for a deep and genuine EMU. This document is also a blueprint for concrete short-term action and should facilitate the adoption of the two-pack legislation. The Commission announced legislative proposals for 2013 on the creation of a Single Resolution Mechanism, a 'competitiveness and convergence instrument', and *ex-ante* coordination of major reforms. The European Commission will also work towards a single seat for the euro area on the IMF executive board.

The December 2012 European Council was not the occasion for agreement on specific proposals but provided a valuable opportunity to develop a common political vision and plan for short-, medium- and longer-term steps. The Conclusions refer to numerous Blueprint proposals for the immediate term, such as *ex ante* coordination of major national reforms; contractual arrangements between the member states and the EU institutions; and – linked to this – solidarity mechanisms at EU level to support the implementation of reforms.

The Blueprint's medium- and longer-term ideas remain on the table for the debate that will have to take place before significant changes to the Treaties can be envisaged. The Commission will identify – ahead of the next European Parliament electoral campaign – areas of possible Treaty change.

			A blueprint for a deep and genuine EMU Launching a European debate	Secondary law	Treaty change
ALL ALONG THE PROCESS	SHORT TERM	Within the next 18 months	1. Full implementation of **European Semester** and **six-pack** and quick agreement on and implementation of **two-pack**	✓	
			2. **Banking Union:** Financial regulation and supervision: quick agreement on proposals for a **Single Rulebook** and **Single Supervisory Mechanism**	✓	
			3. **Banking Union: Single Resolution Mechanism**	✓	
			4. Quick decision on the next **Multi-annual Financial Framework**	✓	
			5. **Ex-ante coordination of major reforms** and the creation of a **Convergence and Competitiveness Instrument (CCI)**	✓	
			6. Promoting **investment** in the **Euro Area** in line with the Stability and Growth Pact	✓	
			7. **External representation** of the **Euro Area**	✓	
	MEDIUM TERM	18 months to 5 years	1. **Further reinforcement of budgetary and economic integration**	✓	✓
			2. **Proper fiscal capacity** for the **Euro Area** building on the CCI	✓	✓
			3. **Redemption fund**		✓
			4. **Eurobills**		✓
	LONGER TERM	Beyond 5 years	1. **Full Banking Union**		✓
			2. **Full fiscal and economic union**		✓
			Political union: Commensurate progress on democratic legitimacy and accountability	✓	✓

Blueprint proposals for short-, medium-, and long-term actions for lasting stability and prosperity of EMU.

2 A genuine monetary union?

*By Guntram Wolff **

At the December Summit, significant progress was made on completing the European architecture. But many urgent issues remain on the table.

First, on the positive side, the finance ministers agreed on the first important step towards a banking union: the establishment of a single supervisory mechanism (SSM). The compromise they have reached seems to be a good one.

The European Central Bank will be in a strong position and responsible for the overall functioning of the single supervisory mechanism. It will have direct oversight of euro area banks in a differentiated way, depending on the size of banks. But ultimately, all critical cases will be under the direct oversight of the European Central Bank which will also have the right to scrutinise banks below the size threshold. This is important to avoid competitive distortions but also to prevent major problems arising from small banks, which taken together still represent a large share of the EU banking sector.

Also, when financial assistance is given, the European Central Bank will become the supervisor of the banks concerned, meaning coverage can be extended to a number of Spanish Cajas with balance sheets of less than 30 billion euros. The compromise also appropriately allows non-euro area countries to participate in the single supervisory mechanism.

The common supervisor will play an important role in overcoming the financial market segmentation that is currently observed in the euro area. Part of the segmentation is a direct result of the actions of national supervisors, which limit the liquidity operations within banking groups located in different countries. Anecdotal evidence indicates that this situation has been a constraint for a number of large banking groups in Europe. This constraint has *de facto* aggravated the segmentation of the interbank market, which the European Central Bank via its liquidity operations had to compensate for. The first task of the new European Central Bank supervisor will therefore be to end current supervisory practices that lead to a segmentation along national borders.

Second, the Council Conclusions stress the need to move ahead with a common bank resolution authority and acknowledge that a purely national system of resolution would not be effective. This is a major and very important change in the European policy position: until very recently, many member states, and the European Commission, argued that national resolution would suffice. However, a banking union without a common resolution authority would not be a genuine banking union. Without a common form of resolution, there can be no form of risk-sharing because the moral hazard issues could not be contained otherwise. Also, without risk-sharing, one of the main aims of the banking union – to break out of the vicious circle linking bank debt and sovereign debt – cannot be fully achieved. The single financial market would remain fragmented.

Centralising resolution powers entails a major transfer of sovereignty, which in turn requires very deep reforms and clear thinking about democratic accountability. The European Commission's *Blueprint for a deep and genuine economic and monetary union* claims that such a resolution mechanism can be created without changes to the

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European Union Treaty. At first sight, it is difficult to see how this could be possible. It is certainly of major importance to explore in the coming weeks what would be feasible in the current framework and what other options exist besides Treaty change. One option may be to agree on a new intergovernmental Treaty.

So on the banking front, the December European Council made quite a bit of progress even though much remains still to be settled. Regarding fiscal union, the summit was a disappointment. The founding fathers of the euro were aware of the need to complement monetary with fiscal union, but left difficult choices for future decision-makers.

The time has come to address a series of unanswered questions. Should there be a proper euro area budget? Should a new system be conceived as an intergovernmental transfer scheme? Or should the ability of sovereigns to borrow be restored through some form of mutual guarantee? What should be the degree and type of conditionality? What kind of sharing of sovereignty is needed? What institutional changes need to be put in place before more fiscal integration can be achieved? What does a euro area fiscal union mean for the European Union as a whole?

Europe needs to think more deeply about how to organise the deleveraging of its debt. It is unlikely that prolonged high levels of savings would alone be enough to do the trick. However, the proposals that have been floated, such as for eurobills and the redemption fund, all insufficiently reflect on the institutional foundations that such solutions require. The European Commission could make a greater effort to consider on the institutional basis that more risk-sharing would involve.

It was evidently too early to take any decision at the summit given the limited technical and political consensus on the issues. However, a reflection process should have been initiated. European Council President Herman Van Rompuy was willing to oversee it. The European Commission was right in its pre-summit Communication on the Blueprint to highlight the important issue of how to deal with the debt overhang in the euro area. Had Europe's leaders agreed to work further on these issues, they would have demonstrated that they are able to think strategically.

A further criticism can be made about the Council's and Commission's analysis of the macroeconomic situation. While a relatively detailed timetable for a banking union exists, no specific steps to restore growth in Europe quickly are currently on the table.

There is obviously a major structural component to Europe's weak growth that needs to be addressed urgently. Structural action however, would produce growth in perhaps three years' time; so the outlook for the next two years would remain bleak. This holds true particularly for the countries of southern Europe.

The European Commission and the Council need to use the European Semester procedure more sincerely to agree on the truly important macroeconomic policies that Europe should enact now to overcome its dramatic decline in growth. The European Commission as the initiator of the European Semester will have to take the lead and argue for a comprehensive position on how Europe's macroeconomic policy should be shaped in the next few years. Long-term reforms are no substitute for this need, because anaemic growth in Europe will undermine them. Pro-forma, across-the-board policy recommendations as currently set out in the European Semester do not constitute a strategy.

3 Completing the EMU governance jigsaw puzzle

*By Iain Begg **

The severity of the crisis and its progression from the banking sector to sovereign debt exposed numerous shortcomings in the design of EMU, so that a comprehensive recasting to achieve a 'deep and genuine economic and monetary union' was, arguably, unavoidable. The question now is whether the range of measures taken and the proposals for further reform summarised in the Commission's *Blueprint for a deep and genuine economic and monetary union* will suffice to put economic and monetary union back on track.

Blueprint steps for actions

As explained in section 2 of the Blueprint, the reforms enacted are far-reaching, encompassing various measures aimed at assuring fiscal discipline, better policy coordination and more effective crisis resolution, alongside a strengthening of financial regulation and supervision. The Blueprint is correct to emphasise the progress that has been achieved and the coherence of the further measures in the pipeline, but it is regrettable that financial markets and many commentators have been slow to appreciate their scope. A possible metaphor is a jigsaw puzzle in which all the pieces were scattered over the table early in 2010. These pieces have progressively been assembled into a picture which, while still having some gaps, looks coherent.

The Blueprint contains a number of more contentious elements, such as macroeconomic conditionality and the notion of a 'contract' between the member states and Commission, both of which reinforce the controlling role of EU governance. While the rationale for such measures is well explained, it is acknowledged that the corollary must be strengthened accountability. The Commission, in particular, will have to be very sensitive in how it approaches the use of sticks and carrots in performing this role. To take one example, the suggestion (page 23) that 'under certain conditions, consideration of relevant factors may lead to not placing a member state in EDP', could be provocative where a member state simply reaches a different conclusion based on credible alternative analysis. So far so good, but will it be enough? There are three areas in which what is proposed risks falling short, all of which exemplify the messy political economy of transforming EMU.

Gaps and challenges

The first is that the proposals in the Blueprint for an EU level stabilisation capacity seem rather too tentative. The discussion of fiscal capacity is couched in terms of supporting economic coordination in the short- and medium-term, and refers for the long-term, to supporting 'member states in the absorption of shocks'. The focus on asymmetric shocks suggests that the trickier question of EU level stabilisation policy is not being countenanced and that monetary policy will remain the primary instrument to deal with a future symmetric shock. Will this be enough? While the collective fiscal stimulus agreed in 2009 in the wake of the steep recession was a timely – and necessary – response, it was *ad hoc* and the absence of a genuine EU level stabilisation capability could be construed a gap in a genuine EMU.

Although even a limited instrument to support member states in difficulty would, nevertheless, be valuable and revives a debate held in the early 1990s about buffer funds or similar approaches, how it is constructed will matter. The Blueprint explicitly distinguishes such a capacity from the existing EU budget, but in the public mind, the distinction is likely to be problematic. Consequently, efforts will be needed to explain and justify an increased call on taxpayers. Equally, this could be an opportunity to rethink what might – somewhat pompously – be called the fiscal constitution of the EU, revisiting the power to tax in the

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multilevel governance system as well as the scale of EU budgetary policy.

The Blueprint argues that a new fiscal mechanism should be funded by 'own resources' and should eventually have the right to borrow, but suggests that its size should be determined by being able to 'provide sufficient resources to support important structural reforms in a large economy under distress'. This line leaves it unclear whether the motivation would be about stabilisation or purely allocative, and therefore risks being a source of confusion. Compounding the problem is the continuing reluctance by member states to accept the idea of EU taxes other than the very limited financial transactions tax agreed on 21st January 2013. It is therefore useful to consider what other own resources (but let's call them what they are: EU taxes) could be adopted and how they would be set.

Since the EU budget was last substantially reformed in 1988, there have been repeated attempts to identify new revenue streams that could be used to fund the EU budget. Various credible instruments have been identified and their respective attributes carefully dissected, but these efforts have – so far – come to nothing, with the result that a quarter of a century later, the share of national contributions in funding the EU budget has grown. Moreover, the European Parliament has the dubious characteristic of exercising representation without taxation, in stark contrast to the slogan of the Boston tea party. As part of the EU governance reforms, the case for assigning certain tax streams to the EU, or at least to the euro area, is worth a fresh look.

In particular, corporate taxation at EU level, which would be consistent with a more closely integrated single market, should be a contender, especially if a macroeconomic stabilisation role is envisaged. The scale of resistance is easy to anticipate and the complications of agreeing a common tax base are considerable. Nevertheless, a crucial property of corporate taxation is that it would provide a degree of automatic stabilisation of asymmetric shocks, for the simple reason that tax yields tend to fall in areas hit by economic downturns and to rise in areas experiencing booms.

A second challenge, one that will not disappear soon, is the disjunction between EU and euro area membership, exacerbated by that fact that there are differing positions among the ten current 'outs'. While it is tempting to think that, in the long-term (that is beyond the five years used to delineate it in the Blueprint), the number of 'outs' will have dwindled to two or three, the accession over a similar time horizon of more new member states will inevitably prolong the dilemma. Even if only Sweden and the UK continue to stand outside the euro, there would remain a governance problem. It is understandable that a Commission Blueprint should want to soft-pedal the notion of variable geometry in future, but as the Cameron speech of 23rd January 2013 makes clear, it is a problem that cannot be overlooked.

Third, the crisis has been dogged by a number of episodes of flawed communication in which careless language has 'spooked' markets. Central bankers have learned over decades the importance of careful use of language and the same lessons have to be learned in other domains of economic policy where economic stability could be compromised by unfortunate language or public airing of differences. It is an aspect of governance that is not directly addressed in the Blueprint.

Overall the Blueprint offers a careful and comprehensive basis for debate. It is, perhaps, a bit too circumspect in relation to the longer-term, with too much use of terms like 'could' or 'might also be considered' which make it hard to discern which ideas are central to the proposed framework and which are more speculative. The challenge for the Commission may therefore be to follow it with a clear statement of 'here is what we want the outcome to be'.

4 Think Tank Twitter

Think Tank Twitter (TTT) aims to provide regular information and updates on what is produced by think tanks and research centres across Europe (and beyond) on EU policy issues. As an analogy to the original Twitter, each summary – or tweet – does not exceed 140 words, rather than characters. Those who wish to signal new publications for possible inclusion can send them to the email address bepa-think-tank-twitter@ec.europa.eu

What is Political Union?

European leaders must make three choices about the type of political union they want. The first choice is between a limited economic federation aimed at stabilising the euro and a full economic federation taking on traditional nation state tasks, such as taxation, social welfare and redistribution. The second choice is between a rules-based federation with a very small margin for policy innovation and one with discretionary powers and policy instruments. The third choice is between a political system that relies on indirect legitimacy and is governed mostly through intergovernmental mechanisms and one that draws on direct legitimacy instruments and confers executive authority to supranational institutions. The authors state that a balance must be struck between these three options that allows the EU to retain legitimacy and be flexible, while still based upon rules.

http://**ecfr**.eu/page/-/ECFR70_POLITICAL_UNION_BRIEF_AW.pdf

Democracy in Europe

The author contends that democracy in Europe is facing a multi-layered crisis affecting several, if not all, levels of government. He argues that politics is currently at the service of private or partial, rather than general, interests. The discrediting of the functioning of democratic institutions entails a devaluation of democratic values, such as anti-discrimination, equality, and fundamental rights. Values such as coexistence and solidarity, in short, have come to be associated with a system that does not perform and deliver to everyone's satisfaction, so that defenders of an open society end up being seen as representatives of only a few. This anti-democratic drift has many expressions: a sharp drop in confidence in institutions, voter radicalisation, social mobilisation, particularly in Southern Europe, and disengagement through sheer alienation.

http://www.**cidob**.org/en/publications/queestions_cidob/n_122/democracy_in_europe_the_expressions_of_a_european_disease

Governing Risky and Uncertain Financial Markets

Policymakers should take a 'macroprudential' approach to financial systems, the author maintains, because it takes uncertainty and risk seriously and thus is a route to a more robust financial system. This approach limits the systemic fallout from a crisis by obliging financial institutions to build large buffers during strong economic times. Therefore, when banks have to pull themselves out of a crisis, capital adequacy requirements can be loosened. The macroprudential agenda also gives a more active role to regulatory authorities as well as greater attention to new methods for simulating the performance of models in worst case scenarios. The infrastructure for implementing macroprudential policies is already in place. Ultimately however, the culture of risk management must be reengineered, so that participants recognise that markets are environments characterised by both risks and uncertainties.

http://www.**swp-berlin**.org/en/publications/swp-comments-en/swp-aktuelle-details/article/governing_financial_markets.html

Southern Europe in Trouble: Domestic and foreign policy challenges of the financial crisis

Each author examines the effects of the crisis on the policies of Italy, Spain, Greece and Portugal, analyses the impact of the financial predicament on relations with the US and advances proposals on how to respond to the crisis while avoiding negative transatlantic fallout. To respond to the crisis and retain influence on the global stage, the authors suggest that Southern European countries create a new regional cooperation framework and support stronger EU economic governance. In regards to transatlantic interests, they should support a FTA with the US, help forge a common transatlantic strategy to facilitate the process of democratic change in the Mediterranean, and finally, work towards increasing NATO's projection through the Mediterranean dialogue and individual partnerships.

http://www.**iai**.it/pdf/mediterraneo/GMF-IAI/Mediterranean-paper_18.pdf

The Arctic: A region of the future for the European Union and the world economy

The EU should continue its bid for permanent observer status within the Artic Council as well as strengthen its relationship with Greenland to ensure that it is able to take advantage of climate change in the Arctic region. Via Greenland, the Artic is a new frontier, offering new maritime routes, easier access to off-shore natural resources and expanded fishery resources. With Greenland moving towards independence, the annual block grant from Denmark will be withdrawn. Since the financial repercussions of this are unknown and there is growing competition with Asian economies for access to resources, the EU should offer Greenland an economic 'safety net' and follow up on a 2012 letter of cooperation signed with Greenland that would secure its supply of rare earth materials.

*http://www.**robert-schuman**.eu/doc/questions_europe/qe-263-en.pdf*

The Changed Geopolitics of Energy and Climate and the Challenge for European Commission

The world energy system is undergoing a transition in which three agendas collide: an economic agenda; a security agenda; and a sustainability agenda. While Europe has pursued enlightened energy objectives, it has ignored major inconsistencies, massive government intervention and disappointingly small gains. Putting the market back at the centre, eliminating subsidies and learning from strategies that work among other 'E7' players would bring Europe closer to its objectives of sustainability, security and competitiveness. A transatlantic initiative to promote deeper integration of the world's three major regional gas markets around a common price discovery system could be a key stepping stone in developing broader architecture. This initiative should also include a better managed pricing system for carbon emissions in Europe and globally.

*http://www.**clingendael**.nl/publications/2012/20121217_ciep_bressand.pdf*

When the Rising Dragon Sees Fading Stars: China's view of the European Union

Due to the growing negative perception of the EU in China, Europe should work to improve Chinese public opinion as well as foster a deeper relationship. The EU should engage the new Chinese leaders on how China can help solve the European debt crisis; know which PSC members are in which factions to enable cooperation in policy fields; work with the Chinese to improve their position in multilateral organisations; and launch negotiations for an EU-China Investment Agreement. Finally, although the crisis has discredited the European model in some aspects, the EU should work to remain a model in areas such as consumer protection standardisation, ecological and sustainable urbanisation, education and research systems, as well as peaceful integration and cooperation with neighbouring countries.

*http://www.**ceps**.eu/book/when-rising-dragon-sees-fading-stars-china%E2%80%99s-view-european-union*

EU Democracy Promotion in the Eastern Neighbourhood: A turn to civil society?

The authors argue that the EU needs to review the way it implements civil society support in the Eastern neighbourhood if its initiatives are to effectively contribute to demand driven, bottom up reform. The EU must improve the balance between aid going to state and non-state actors; continue reforming funding procedures; develop modes to support civil society initiatives; and increasingly involve civil society actors in designing and implementing its aid programmes to governments in the regions. It should build bridges between civil society, political society and state authorities, and use other international aid organisation's successes as examples to ensure better use of resources provided. Finally, the EU needs to devise its own evaluation tools to assess the state of civil society in those countries where its aid is destined.

*http://www.**fride**.org/publication-newsletter/1088/eu-democracy-promotion-in-the-eastern-neighbourhood:-a-turn-to-civil-society*

6 BEPA News

Arrivals and Departures

BEPA is pleased to welcome new additions to its team. Inês Sérvulo Correia joined the Outreach Team from the President's Cabinet on 1 January to work on the pilot project on a new narrative for Europe. Jim Dratwa also joined BEPA in January from DG RTD to lead the Ethics Team and the European Group on Ethics (EGE) Secretariat. Didier Schmitt, a Seconded National Expert, joined BEPA from the European Space Agency on 1 December to work part-time with the Chief Scientific Advisor. Finally, BEPA is pleased to welcome Lynn Scavée, assistant in the Analysis Team.

João Marques de Almeida left the BEPA Outreach Team in January to pursue new opportunities at the Holdingham Group in London. We wish him all the best in his new endeavours.

Events

On 3 December, the EGE had its final Rapporteurs meeting of the year to examine the adoption of *Opinion No. 27 – An ethical framework for assessing research, production and the use of energy*, followed by a plenary EGE meeting on 11-12 December which led to the adoption of the Opinion No. 27 on 16 January.

On 14 December, BEPA hosted a seminar on the European Social Market Economy in partnership with the Church and Society Commission of the Conference of European Churches (CEC) and the Commission of the Bishops' Conferences of the European Community (COMECE). Topics discussed included the social and competitive aspects of the European social market economy, its development in member states, and challenges of youth unemployment in the EU. The discussion concluded with presentations of best practices and a call for deeper solidarity across country borders.

The three ESPAS Working Groups on economy, society and governance and power met for the first time on 18 December to discuss the respective winning bids and convene a working programme. The interinstitutional ESPAS Task Force also met on the same day to reflect on the overall ESPAS work programme, discuss the organisation of the ESPAS conference and the development of the project website, as well as give the external contractors the opportunity to present and discuss their proposals.

On 22 January, BEPA organised a seminar on public investment banks to exchange views and learn lessons on best practice. Panellists deliberated on the rationale of public investment banks, the role of the European Investment Bank and lessons to be drawn from experience in Germany, the EBRD and Brazil. The event was opened by BEPA Director-General Jean-Claude Thébault and participants included Arnaud Oseredczuk, Economic Adviser to President Hollande. Jonathan Faull, Director General of DG MARKT, gave a keynote speech over lunch.

Upcoming events

The European Group on Ethics will hold its next meeting on 19-20 February and will start working on a new Opinion on the ethics of security and surveillance.

On 18 February, the three ESPAS Working Groups will meet again with the contractors to discuss the first results emerging from their research on economy, society and governance and power.

On 18-19 February, BEPA will host the annual ESPAS conference titled "Developing Strategic Thinking in the EU-Global Trends 2030". A distinguished line up of international speakers from policy, think tanks, government and the EU institutions will be present and/or discuss global trends and the ESPAS project. President Barroso will give the opening speech. Topics to be discussed include ambitions for Europe, global trends, the challenges of prosperity, the empowerment of the individual as well as governance and power.

On 28 February, BEPA in partnership with Carnegie Europe, will host the 4th EU-Russia Forum. Participants – including 50 experts from Russia, the EEAS, the Commission, member state representatives, and think thanks – will discuss the political situation in Russia, bilateral trade issues, energy and the neighbourhood.