

BRINGING THE FINANCE INDUSTRY BACK INTO LINE

18 MONTHS OF GREEN ACTION

Pascal Canfin
Sven Giegold
Eva Joly
Philippe Lamberts



FROM JUNE 2009 TO JANUARY 2011

Table of contents

- p 3** : Tackling the multiple crises
- p 6** : Bringing the finance industry back into line
- p 8** : Supervising the financial sector
- p 10** : Tougher rules for finance
- P 16** : For a European Economy guided by solidarity
- p 18** : Fair Taxation and the fight against tax havens

ECON, a strategically placed committee to push Europe out of the economic and financial crisis



There are 20 committees in the European Parliament, each one responsible for a political area. The Economic and Monetary Affairs Committee handles the principal parliamentary work on monetary and economic issues (regulation of financial markets and services, fiscal and competition matters, free movement of capital, etc.).

In these respects, the Committee contributes to a great extent to European legislation as the Parliament is co-legislator, together with the Council of Ministers, on the majority of these matters.

Taxation and the European Stability Fund remain however the prerogative of the Council. In other words, ECON is at the heart of the action of the EU in the face of the current economic and financial crisis.

Tackling the multiple crises

The world is facing one of the major economic and financial crisis since the Great Depression. In that context, the Economic and Monetary Affairs Committee of the European Parliament (ECON) has the co-responsibility, alongside the Council under the codecision rules of the European treaties, to learn the lessons from the crisis by re-regulating financial markets and banks, and designing effective economic governance.

Our world is not only facing an economic crisis but also an ecological and social one. Simply reinstalling the old system is not an option. Guided by this conviction, and on behalf of the whole Green group in the European Parliament, Pascal Canfin, Sven Giegold, Eva Joly and Philippe Lamberts have been working on issues such as financial regulation, macroeconomic policy and taxation as well as lobbying.

Green Members of the European Parliament (MEPs) have been vocal and persuasive within the ECON committee. This document provides a selective overview of the work and the main achievements as well as lost battles of Green MEPs at the Economic and Monetary affairs Committee from the start of the new mandate in June 2009 to January 2011.



© Udo Weber



Eva Joly



Philippe Lamberts



Pascal Canfin



Sven Giegold

Eva Joly was elected as a French member of the European Parliament in 2009. As chair of the Development Committee and a member of the Economic and monetary affairs committee, she works to promote the implementation and monitoring of the development and cooperation policy of the EU. Holding both a French and a Norwegian citizenship, she is a former examining magistrate in France (specialized in financial affairs) and a former special adviser to the Norwegian Minister of Justice and Minister of International Development.

> Contact : eva.joly@europarl.europa.eu

Philippe Lamberts, trained as engineer, followed a commercial career for 20 years, whilst being involved in politics with the Greens. He served for Ecolo (Belgian Green Party) both as local and national levels, and has been very active in the European Green Party, of which he has been the co-spokesperson since 2006. As Member of the European Parliament, he focuses on economic questions (fiscal and governance issues in particular), as well as on industrial, research and innovation matters.

> Contact : philippe.lamberts@europarl.europa.eu

Pascal Canfin is serving his first term in the European Parliament after having been elected in France on the Europe Ecologie list in Ile de France. He is particularly involved in economic and financial issues as a Member of the economic and monetary committee and as Vice-president of the special committee on the financial, economic and social crisis. Pascal Canfin was formerly a journalist at Alternatives Economiques - a French economic magazine - and President of the economic committee of the French green party.

> Contact : pascal.canfin@europarl.europa.eu

Sven Giegold holds an Master's degree in Economic Policy and Economic Development. He has been working in the youth environment movement for more than 15 years before co-founding ATTAC Germany in 2000. Since then he has been present in media on globalization criticism, ecology and tax policy. Since his election to the European Parliament in 2009, he has been coordinator of the Greens/EFA group in the Economic and Monetary Affairs Committee and focuses on Financial Service Regulation and Consumer Protection.

> Contact : sven.giegold@europarl.europa.eu



© Andrey Prokhorov

→ BRINGING THE FINANCE INDUSTRY BACK INTO LINE

First responses to the financial crisis

The fall of Lehmann Brothers in September 2008 was an electroshock which seemed to make even the most diehard economic liberals realise that financial markets left to themselves run the risk of wreaking havoc on the real economy. Financial markets, or more precisely banks, hedge funds and other financial actors, generated risks, and as financial risk led to a financial disaster, enormous costs have been borne by public purse.

In reaction, the G20 have agreed on a set of principles which need to be transformed in concrete legislation. Guided by the G20 agreements and pushed by the European Parliament, the European Commission awoke from its state of denial and since then has been publishing a whole range of draft legislation.

However, whereas the crisis could have led to a consensus in favour of a reregulation of the financial sector, the advocates of *laissez-faire*, backed by a powerful financial industry, continue to argue for soft regulation, while Member States try to preserve their national powers. Greens have fought hard for the creation of European regulation agencies and rules for bonuses in the banking sector. It goes without saying that were the Greens able to obtain majorities for their positions, the rules being established would be a lot tougher.

In government or in opposition ?



The usual way a political group in a national parliament defines its own position is to say we are in a situation of government or we are in opposition.

The European Parliament does not work in this way. Majorities are formed on a case by case basis. We have chosen to try to influence the texts under discussion.

Thanks to a huge amount of negotiating and convincing, some green amendments have gone through and have become European law (examples being the power to ban dangerous financial transactions and products given to ESMA, and the necessity to comply with effective exchange of information for Hedge Funds located in tax havens to be marketed in the EU).

Although we are very active in the negotiation process it does not mean that we are automatically in favour of the final legal text. The core guiding principles of our decisions are whether the Commission's initial proposals have been improved or reinforced, whether the key demands of the EP have been taken into account, whether the EU law improves the regulation in at least a majority of Member States, and whether compared with regulatory standards elsewhere (the US for example), the EU leads the way for tougher regulation.

With these guiding principles in mind, we voted in favour of the supervisory package in September 2010 and the bonus package (June 2010), but against the Hedge Fund regulation (November 2010).

SUPERVISING THE FINANCIAL SECTOR

European Supervision for a European Financial System



*« The new EU supervisory agencies are a big step towards controlling risks at the EU level, but with time more powers and resources will have to be transferred to make sure the system works in the long run. Member states will have to realise this sooner rather than later » **Sven Giegold***

Lack of cooperation between national banking supervisors and very limited powers for the EU have been characteristic of the crisis. Risks were not detected, and when the crisis broke out national supervisors were often not capable of acting. In cross border cases cooperation between national supervisors was very poor.

In September 2009 the Commission presented proposals for the creation of three European Supervisory Authorities (for banking, for insurance and occupational pensions authority, for Securities and Markets), dealing with the different sectors of financial markets, as well as the European Systemic Risk Board (ESRB), attached to the European Central Bank, dealing with the overall risks in the financial system in Europe. Member States have been very reluctant to transfer supervisory powers to the EU level, and accordingly have tried to significantly weaken the Commission's proposals, protecting failing national authorities rather than increasing the protection against financial instability and crisis in Europe.

Hence, over 20 negotiating meetings between the Council, the Commission and the European Parliament were needed to broker a deal. In the EP, Greens (Sven Giegold) were put in charge of navigating one of the complex dossiers (securities and markets authority, ESMA) through the parliament and lead the negotiations with Council. In a spirit of almost unprecedented cross-group cooperation in the EP, Greens were able to help ensure a consistent and ambitious EP negotiating position. In the end, Member States had to accept new direct and binding powers of the EU authorities vis-a-vis national regulators and individual financial firms.

The Risk Board has a more open and pluralistic composition, this moves away from the dominant ideology which was so influential during the crisis. The EU authorities can intervene with binding powers when national supervisors are not doing their job or disagree as to how to deal with a particular cross-border institution. On top of this, Greens managed to insert new provisions such as the crucial power to ban toxic financial products or transactions at the EU level such as naked short selling. This paved the way for consistent EU action against speculation.



© Kasia Biel

TOUGHER RULES FOR FINANCE



© Isabelle Delle

« The financial rules currently in place are insufficient to avoid future risks. We cannot stop at the limited progress made so far. We need to be much more ambitious when designing future rules.

Better controls and supervision will only work if the rules for financial institutions are reformed in a way which reduces risky behaviour, reduces the complexity of the products and makes the transactions fully transparent. »

Pascal Canfin

RULES FOR FRAMING AND REDUCING BONUSES

It is widely accepted that the excessive bonus culture that developed over the past decade was a key factor in inciting traders to engage in very risky business. Beyond that it is a simple manifestation of a growing gap between the rich and the poor, and is hence a matter of ethics.

The Greens were able to strengthen the EP negotiating position. The final compromise with the Member States was below our expectations (the remuneration cap at 500 000 Euros per year for the heads of banks still backed by public financial support voted by a majority in the EP on a green proposal had to be given up during the negotiations with the Council), but at the global level these rules are still the toughest existing today.

Cash bonuses will be capped at 20- 30 % of the total bonus, 40-60 % will not be paid straight away, and 50% will be paid as «contingent capital» (which has to be paid back in case the bank gets into troubles). Furthermore, EU wide guidelines will be established to reduce bonuses in relation to salaries.

For Greens this compromise is a first step in the right direction. Furthermore, EU wide guidelines will be established to reduce bonuses in relation to salaries.

RULES FOR SPECULATIVE FUNDS (HEDGE FUNDS AND PRIVATE EQUITY)

Because they are not subject to the same rules and transparency obligations as banks and insurances, and since they are mostly located in tax havens, Hedge Funds are tools used by the financial industry to maximise short term profit. Their dangerous and damaging role has become evident for example in the Greek crisis, which is one of the reasons to impose very strict rules.

Under the pressure of the European Parliament, the Commission presented in spring 2009 draft legislation covering Hedge Fund managers as well as managers of Private equity firms. The latter have become (in)famous for their leveraged buy-out strategies, whereby the firms bought see huge debts imposed on them and assets stripped for the benefit of the private equity firm. Greens were able to reinforce the EP position, but resistance by member states like the UK - backed and influenced by a powerful lobby - meant that the overall compromise leaves too many loopholes allowing speculation to continue to thrive.

After the vote in November 2010 the Hedge Fund industry publicly expressed relief at the weak regulation adopted. European investors will still be able to invest in funds that do not comply with the rules set out in the legislation. Furthermore, funds outside the EU can obtain a «passport» for the EU market, but the European authorities are not entitled to check on the ground whether EU rules are truly complied with. As for financial leverage (borrowing), no adequate regulation is foreseen.

And concerning private equity, nothing is foreseen to prevent the break-up of businesses by private equity funds. For all these reasons we decided not to support the final version of the text. One of the positive steps of the directive is a provision empowering national authorities (like AMF, Bafin, FSA...) the right to ban the marketing of funds located in countries which do not respect an effective exchange of information.

Greens fought very hard and successfully for this provision to survive the negotiations. In cooperation with civil society we will do our best to ensure that this provision is being implemented by the respective national authorities.



© iilly3

NEW AND COMPREHENSIVE RULES FOR BANKING

One of the key issues in banking regulation is how much and what kind of capital a bank must retain as compared to its overall lending, i.e. how far it can indebt itself. Low capital requirements have paved the way for risky activities.

The EU has been translating international agreements (of the so called Basel Committee (1)) into directives (Capital Requirements Directives CRD). The first reform of capital requirements revolved around highly complex financial products. While there is a widespread agreement that high capital requirement and other requirements are needed, the view of the Greens to simply ban the most complex products such as those created through re-securitisation was not shared in the EP. The result would be a less complex financial system, easier to supervise which is less inclined to generate risk.

The upcoming major reform (2011) will reflect the newest developments of the Basel Committee which are tantamount to a comprehensive review of international banking. Issues range from capital requirements (weighted against risk), leverage (fixed capital requirement), the definition of capital and liquidity, to the creation of capital buffers in the pursuit of counter-cyclical policy.

Consequently, in this debate Greens have emphasised that, if needed, the EU should go further than what is being agreed internationally. Transition periods must be reasonably short and a meaningful leverage ratio, meaning a fixed capital requirement independent of risk assessments by rating agencies or internal ratings should be introduced. Also, off-balance sheet activities which hide the full degree of indebtedness of a bank and hence the risks it takes, must be fully incorporated into the balance sheet for supervisors to be able to take preventative measures. Institutions which are too big to fail must be reduced in size. Last but not least, international banking needs to be subjected to social and environmental sustainability criteria, i.e. the financing of the ecological and social transformation of our economies should be the primary goal of the financial sector.

1 : The Basel Committee, comprising banking supervisors from 27 key countries, drafts guidelines on banking supervision implemented nationally, or in the case of the EU, through the CR directives, which then in turn are transposed into national law.

Finance Watch

Independent expertise vs. the lobbying of the financial industry

There is no Greenpeace or Amnesty International when it comes to finance. Unlike for example in the field of environmental policy, expertise and lobbying concerning new rules for finance is very one-sided, essentially dominated by the financial sector itself.

Pascal Canfin, followed by 22 MEPs in charge of the legislation on financial markets and banks, launched in June 2010 a call for finance watch (www.finance-watch.org) to pave the way for counter-expertise to be developed and made heard. This initiative gained the support of 160 MEPs and national MP's from five political groups, and concrete work with NGOs, trade unions, consumer organisations, academics, etc. is underway to set up Finance Watch during the course of 2011.





TACKLING TOXIC PRODUCTS AND ACTIVITIES

Derivatives, commodity speculation and short selling

Much of the complexity and opacity of global financial markets manifests itself in the derivatives markets and the failures such as those of AIG are attributed to their derivatives activities. Unregulated derivatives trading (over the counter - OTC) amounted to US \$ 605 trillion in 2009. So called credit default swaps (CDS), but also commodity derivatives have recently attracted considerable public attention.

Putting an end to commodity speculation

The latter poses huge problems in particular for farmers in developing countries. The aim of the forthcoming legislation, to be adopted in 2011, must be a significant reduction of the volume of trading and of the complexity of the products, while the lack of transparency and high volatility need to be tackled. In the preliminary debates in the EP, Greens have been insisting on comprehensive standardisation and full transparency through central clearing parties - an effective end or at least marginalisation of OTC (which at the same time paves the way for taxation of derivatives, see Financial Transaction Tax below). The European Supervisory Authorities (ESAs) should be empowered to supervise central clearing parties. The ESAs and national authorities should also have far reaching rights to ban products if deemed toxic.

Limiting the speculation on sovereign debt

A particularly dangerous activity is called naked short selling, whereby bets are being made to speculate on falling asset prices by trading assets the seller does not have in its possession and has not even borrowed. The Greens (Pascal Canfin) secured responsibility for this legislation and lead the negotiations to be concluded in 2011. This particularly risky and speculative behaviour should be banned permanently. Greens will also try to secure under this legislation that when a financial actor buys a CDS - a form of insurance against the default of a country or a company - it is required to actually be in possession of the underlying asset. This would prevent the speculation on CDS as observed on Greek debt in spring 2010.

Greens in the European Parliament

There are 736 seats in the European Parliament. With its 55 members from 14 member states, the GREEN/European Free Alliance group is the fourth largest. The group consists of 46 greens, 7 regionalists and 2 independent members such as the member from the Swedish Pirate Party. In contrast to the other groups, the Green/EFA group is the only one to have a double-headed presidency shared between Dany Cohn-Bendit (French «Europe Ecologie-Les Verts») and Rebecca Harms of the German Greens (Die Grünen).



Action of Greens Members of European Parliament in Plenary Session to show their support to Roma People, 9 September 2010

→ FOR A EUROPEAN ECONOMY GUIDED BY SOLIDARITY

New rules to ensure solidarity and prevent the blowing up of the Eurozone



« Simply reinforcing sanctions won't be enough. A comprehensive reform is the only way to get Europe out of the crisis. » **Philippe Lamberts**

The Eurozone is in deep crisis. To overcome the profound problems and for the European economy to be at the service of the citizens and the environment, a comprehensive macro-economic governance framework is needed.

Apart from financial market regulation (see above) and taxation (see below), Greens have persistently called in resolutions (including responsibility for an own-initiative report), hearings, a visit to the ECB, exchanges with commissioners and ministers, and the press to address macro-economic imbalances in Europe.

This implies complementing the Stability and Growth pact by introducing mechanism inciting countries with account surpluses to stimulate internal demand. Not only countries with deficits need to adjust to make the European Economy work. It is also crucial to factor in private debt when assessing the state of the economy, as well illustrated in the case of Spain.

Furthermore, enhanced articulation between Member States' budgets, as well as with the EU budget with the aim of orchestrating counter-cyclical responses to economic instabilities, is to be striven for. To ensure Members states can finance themselves (sovereign debt financing), Eurobonds need to be introduced, and a permanent debt resolution mechanism be created. We will continue to make this case in the upcoming legislation on economic governance (to be adopted in 2011), a policy field under co-decision since the adoption of the Lisbon treaty.

Last but not least, Greens have been trying to get the message across that climate change and resource depletion are macro-economic issues par excellence. Although everybody acknowledges that energy prices are key factors for economic development, the reluctance of the mainstream actors to integrate the natural environment in macro-economic policies is somewhat unsettling.

Green Solidarity with Greece and Ireland

Although the EP has no direct influence on the negotiations about the rescue of Greece and Ireland, the Green ECON Team has developed and advocates the following proposals. In a spirit of solidarity, financial assistance for countries in a situation like Greece and Ireland needs to be extended. It must be made sure that the wealthiest in the countries concerned contribute in a significant manner. Conditions must be designed in a way to reduce inequalities rather than making the poor pay. The reduction of public spending must not lead to the choking of economic development nor hit public services. Measures to combat the accumulation of risky private debt, for example through housing bubbles, must be put in place. As for debt restructuring, banks and private investors must be asked to contribute adequately through a coordinated burden sharing approach, especially given that the Greek and Irish emergency responses also represent a second and third round of bail-outs for the European banking sector. And last but not least, countries like Ireland which have been practicing unfair tax dumping, contributing to the erosion of public finances elsewhere in Europe, must commit themselves to EU tax cooperation by raising low rates and stop blocking EU tax harmonisation.



Demonstration in Athens (Greece) against austerity measures, May 2010

→ FAIR TAXATION AND THE FIGHT AGAINST TAX HAVENS



e. joly

« All countries are affected by so called transfer mispricing strategies of multinationals to reduce taxes through what are essentially bookkeeping exercises, but it is developing countries that are hit particularly hard. To tackle this massive problem, the EU can and should swiftly introduce country- by country reporting obligations. »

Eva Joly

For a long time the Greens have been advocating steps towards the medium term aim of a common European tax policy, without which a fair European economic model cannot be achieved. The eradication of tax havens is indispensable to reach this objective. Elements for a fair tax policy are

FINANCIAL TRANSACTIONS TAX

Recently exposed in the media, the Financial Transaction Tax (FTT) has been supported for a long time by the Greens, who have been persistently inserting amendments into a variety of European Parliament resolutions in favour of FTT as a means to regulate financial markets (in particular derivatives' markets) and to generate much needed revenue for the EU budget.

In a vote in October 2010 for the first time a majority in the EP could be found to insist on the introduction of such taxes at the EU level as a first step towards a global FTT. Greens have also presented a text detailing how such a tax could be introduced (http://www.greens-efa.org/cms/default/dokbin/354/354830.financial_transaction_tax_paper@en.pdf) and could levy up to 190 billions Euros per year, which would translate into a significant contribution to EU and member states' budgets as well as financing for global public goods such as development and climate change goals. It is high time that the Commission produces concrete legislative proposals.

COUNTRY-BY COUNTRY REPORTING

Multinational corporations are currently not required to disclose their financial performance on a country-by-country basis. Neither corruptive practices nor transfer mispricing activities to illegitimately reduce the taxes paid, can be easily discovered and oversight is rendered difficult.

Transfer pricing is a major conduit for illicit financial flows, affecting developing countries particularly hard, but also contributing to the erosion of the tax basis in the EU.

By over-invoicing imports and under-invoicing exports wealth can be accumulated outside the country where it was earned.

Economic activity and taxation do not match. Greens have inserted amendments to this respect in several EP resolutions, and in the context of the supervisory package the Commission accepted our demand to adopt a Communication on the issue with a broad scope by September 2011, exploring the various possibilities to insert the principle in legislation such as the EU transparency and accounting directives.

FIGHT AGAINST TAX COMPETITION AND FISCAL FRAUD

Greens are fighting against both tax competition which enables companies to legally avoid taxes, as well as tax fraud, which combined lead to significant financial losses for European countries.

To tackle tax practices which lead to a race to the bottom of company taxation, the EU has both a code of conduct working group (soft) and competition law (hard) as instruments available. Greens have been pushing the commissioners in charge (taxation and competition) to revitalise these instruments. Greens are also preparing documentation on concrete cases.

Besides reducing tax evasion from individuals and companies, more pressure needs to be asserted on Austria and Luxembourg, which are still reluctant to sign up automatic information exchange as part of the Savings Tax Directive, which would effectively end bank secrecy and make tax fraud more difficult. In addition the scope of the Savings Tax Directive must be enlarged to encompass trusts and foundations etc.

At the same time, the internationalisation of automatic information exchange needs to be once again put high on the agenda of international negotiations. Last but not least, Greens have also successfully introduced amendments to the 2011 draft budget to provide more money for measures to combat tax fraud in the EU and for international tax cooperation.



The Greens | European Free Alliance
in the European Parliament