THE BANK JOB

One of the most lobbied men in Brussels, European Internal Market Commissioner Michel Barnier, has a continent of constituents to consider

INTERVIEW BY PHILIPPE BLANCHARD, BRUNSWICK, BRUSSELS

Photograph: European Union

With 27 sovereign member states and still expanding, the European Union is a complicated political entity. So the process to repair the damage done by the financial crisis was bound to be a tortuous one. It is no surprise, therefore, to learn that Michel Barnier, the EU Commissioner for Internal Market and Services – which includes responsibility for financial services – keeps a color-coded spreadsheet to track the progress of the dozens of new financial sector reforms on his plate: green for proposed, orange for negotiating, and purple for passed.

On top of this complexity is the fact that, unlike the US, the EU is working to reform its financial services sector while also dealing with a full-blown sovereign debt crisis. It can seem, at times, like trying to change the wheels on a bus while it is still in motion. The job of steering this process and trying to keep all the disparate interested parties on board requires a deft political hand, including an ability to communicate complex and difficult issues to people with sometimes conflicting agendas.

In this interview, Barnier explains to Brunswick's Philippe Blanchard how he deals with the challenge of communicating with the public, industry lobbyists, and politicians as he navigates the labyrinth of Brussels.

Your role is central to dealing with the European debt crisis and putting in place regulations to both ensure a level playing field for banks and others to compete, and make sure that there is not a repeat of the 2008 financial crisis. With such a large program of reform, has it been difficult to keep the support of key players and the general public?

Communicating the need for such changes is a challenge because on the one hand, for companies, the new laws often mean fundamentally changing the way they work. This is never easy, even when it is in their own interest in the long run.

For European citizens, it is not easy to get across the fact that many countries have been living above their means. The fact is that many of the reforms are painful, with very real consequences on people's lives. However, I hope that we have managed to explain that these reforms are essential to create a sound financial system which can be a platform for growth.

We have worked constructively together with all institutions and stakeholders to strike a balance between strengthening prudential requirements – to ensure financial stability – and allowing the financial sector to ensure a sustainable flow of credit to the economy, so as to support growth and investment. Everybody will benefit in the end if we are successful in implementing these reforms.

The aftermath of the crisis has seen regular "banker bashing" in the media, and the image of the financial services sector is severely damaged. What do you think can be done to restore trust in the industry?

The reputation of the banking sector has suffered since the beginning of the crisis. It became clear that the sector had not been guided by the highest standards regarding transparency. It had not been living up to the highest moral standards in some respects, and overall it had not been sufficiently contributing to the benefit of society as a whole.

The fact is that taxpayers had to bail out the financial sector and they have, understandably, resented this. Of course, one should not generalize, but the behavior of certain individuals or groups within a sector can clearly contaminate an entire sector. Debates over bonuses, remuneration, and manipulation of indices have dominated the headlines and put the sector in a bad light.

I think that the industry needs to make all possible efforts to regain trust by communicating openly that mistakes have been made. Representatives of the industry also need to show that they are receptive to the policy initiatives underway to restore confidence in financial markets ... and act on those, not just talk about change.

You are one of the most lobbied Commissioners in Brussels. Do lobbyists help in the process?

The regulation of the financial sector at the EU level attracts a lot of attention inside and outside the EU institutions. This is why we have numerous contacts with all stakeholders, including Members of the European Parliament and representatives of member states, NGOs, consumers, and the industry.

There is not always a single answer to a question, and people tend to defend what is in their own interest; that is a normal part of the process. My job is to listen to everyone and then make my own mind up with all the various interests in mind.

We are sometimes confronted with the criticism that we are listening too much to sectors affected by new regulation. The concern seems to be that new proposals are in the end too industry-friendly or not sufficiently strict.

On the other hand, others argue that the new rules are far too strict and detrimental to growth. The reality is that we have to strike a balance, ensuring intelligent and appropriate regulation and at the same time make sure that the financial sector can continue to lend to companies and support the real economy. All regulation has a cost, but when it comes to financial regulation, I am convinced – and our impact analyses support this – that the benefits brought by enhanced financial stability far outweigh the initial compliance costs of the new rules. To get this balance right, we are in continuous dialogue with all stakeholders and use the results of public consultations and green papers [discussion documents], as well as cost-benefit analysis to get the complete picture before tabling new proposals.

It seems that the regulatory regimes that are now in place in the US and Europe are actually diverging (for instance on issues such as remuneration or clearing). Is this going to create a competitive gap between the EU and the US?

MICHEL BARNIER
EU Internal Market and Services Commissioner

Michel Barnier's appointment in 2010 put him in the middle of the Anglo-French "*psychodrame*" over financial services reform, as *Le Monde* described it at the time. He has handled the role with the diplomatic aplomb that might be expected of a former French Foreign Minister, winning praise for his ability to balance the push for reform with the need to protect an important European industry.

This is the second time at the EU for Barnier, having been Commissioner for Regional Policy and Reform from 1999 to 2004. He was elected to the French National Assembly at 27 and has served as Minister of European Affairs (1995-97) and of Foreign Affairs (2004-05).

I do not think that we are in the process of creating a competitive gap between the EU and the US. On the contrary, we have an open and constructive dialogue where we try to deal with the relevant matters as rapidly as possible.

Financial markets are global. That is why regulatory reforms need to be implemented and coordinated internationally. The G20 has taken the lead to ensure that there is regulatory convergence. International forums like the Basel Committee on Banking Supervision [which sets global standards], or the Financial Stability Board [which coordinates at a global level] provide for international membership and discussion of solutions. Otherwise, new room for regulatory arbitrage – [taking advantage of lighter regulatory regimes] – will be created.

All members of the G20, including the US and the EU, are committed to putting in place the measures that have been agreed. We in Europe are well on track to meet all our commitments. Others need to do the same. In many cases, new regimes are developed by international bodies, for example the Basel Committee. This is helpful since it ensures that all the jurisdictions concerned are part of the process from the beginning. We realize that in certain areas, jurisdictions outside the EU are not always moving in the same direction or at the same pace. I am in constant dialogue with my international counterparts in order to ensure that we move in parallel.

How is the EU's relationship with the US? Do you think the EU-US free trade agreement negotiations will be a good forum to address these regulatory divergences?

It is not always easy but we have a very close working relationship and both sides are committed to avoiding new areas for regulatory arbitrage. Furthermore, the upcoming EU-US free trade agreement negotiations will provide an important opportunity to discuss certain financial regulation issues and to make sure that the room for regulatory arbitrage is further minimized.

The "European idea" is not as vibrant as it used to be. Recent elections in France, Italy, and in northern Europe demonstrate disenchantment with the European idea (which is now perceived as synonymous with austerity and external control) and the renewal of nationalistic agendas. What do you think can be done to communicate the European agenda to voters?

First of all, let's not forget that the story of Europe is a success story. Despite the current difficulties, we have achieved a lot over recent decades and EU citizens are living in much better conditions today compared to 50 years ago.

However, the common achievements are under threat due to the economic difficulties that certain member states are facing. The financial crisis and the austerity measures put in place so far have triggered debates and concerns about the 'European idea' and I understand why. It can also be observed that in times of crisis, national interests are more prominent. It is our responsibility to build trust and confidence in the European idea among European citizens, in particular the younger generation, which is facing serious difficulties in terms of unemployment. We need to communicate better, and emphasize that Europe and its single market are part of the solution, not the problem.

How do you see the next few years in terms of institutional changes?

In order to be convincing, a number of structural changes are needed: the democratic legitimacy of EU institutions needs to be improved, the benefits of EU harmonization in certain areas needs to be better explained to the voters, and we need to accept that we can only operate in a single market with a single currency if we all play according to the same rules and respect them.

What does the European Union stand for in 2013?

The EU has a lot to do in terms of communication. EU citizens have the feeling that Brussels is too remote from their day-to-day lives and does not resolve but rather creates burdens. EU institutions must improve their acceptability by getting closer again to the needs of EU citizens. Europe is and will remain the largest area in the world where people can live together in freedom and democracy, surrounded by high standards of tolerance and security and, last but not least, in peace.

All the reforms we are working on will contribute to the reestablishment of confidence in the European financial markets and will help to get Europe back on track for sustainable growth.

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A NEW RULEBOOK

Commissioner Barnier has outlined three streams of reform

- Building new rules for the global financial system
  "The main initiatives are a new single rulebook of prudential requirements for banks; enhanced frameworks for securities markets; market abuse prevention; management and resolution of bank crises; deposit guarantee schemes; rules on hedge funds, private equity and derivatives trading."
- Establishing a safe, responsible and growth-enhancing financial sector
  "The major initiatives are the establishment of European Supervisory Authorities; the development of risk-based prudential and solvency rules for insurers (including a new European supervisory framework for insurers); improved investor information for complex financial products to protect consumers, together with safer rules for retail investment funds."
- Creating a banking union to strengthen the euro
  "This is the area where the most fundamental changes in the supervisory system for European banks have to be implemented. The responsibility for banking supervision will move from the national to the European level through a Single Supervisory Mechanism, under the European Central Bank. The structure will ensure strict and objective supervision of cross-border banking activities. The single supervisor is key for breaking the link between sovereign and banking risks. We have to develop a single resolution mechanism to address the need for a more centralized and stronger crisis management capacity to tackle the failure of banks within participating member states."