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INTERVIEW WITH MICHEL BARNIER

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«Preparing a second phase of the Single Market Act to remove the main obstacles that are still preventing us from achieving the internal market's full potential»

Interview with Michel Barnier, European Commissioner for the Internal Market and Services

1. The triple A entered everyday language at the same time as the ratings agencies took front stage in the media. The debate over their power, influence and lack of control is still topical. What is the Commission's advice in terms of regulating this sector?

Debate has essentially highlighted the questionable behaviour on the part of the ratings agencies. In the past they tended rather to over rate risky assets, in the same way as they did the famous American sub-primes. We might also suggest that they are pro-cyclical particularly as they were extremely hard on States that, were in fact trying, in an unprecedented manner, to reduce deficits and undertake structural reforms. States about which they were undoubtedly over optimistic before the crisis.

To regulate the ratings agencies the Commission presented a new proposal on 15th November 2011 which notably includes three points: the reduction of excessive dependency on the part of the banks, management funds and insurance companies vis-à-vis these agencies; the obligation on the part of these agencies to be more transparent, particularly in their assessment of sovereign debts; the increase in competition between agencies, notably by forcing issuers to change agency every three years.

Our proposal is now under discussion at the Parliament and the Council. I can see that some Member States are against the idea of forcing companies to change agency regularly. At the same time some MEPs have said that they want to go further, for example, by banning unrequested ratings of sovereign debts. We are following all of these debates with the greatest attention.

2. The credit crisis has highlighted the limits of the real economy's funding model and the dangers of speculation. The European Union has passed laws and has notably obliged the banking system to have more own funds at its disposal. What other levers might be put forward so that the situation we have been experiencing since 2007 does not happen again?

In a few weeks time the Commission will have tabled the last of around thirty texts, which represents all of the commitments made as part of the G20 in response to the financial crisis.

Some of these measures aim to control the excesses of speculation. Here I'm thinking of the control of short selling and certain financial tools such as credit default swaps – the famous CDS's – that played a major role in the markets' volatility in the summer of 2011. We also suggested limiting speculation on raw materials and a stricter control of high frequency trading – i.e. of the computers that send out thousands of orders per nanosecond, sometimes without any control at all.

The increase in the quantity and the improvement in the quality of own funds is indeed an important point. It should enable banks to withstand better and to continue financing the real economy in the event of a crisis.

Alongside the prudential rules, over the next few weeks, we shall be putting forward a European framework for bank crisis prevention and management so that the effects of a future crisis are taken on by the financial sector itself and not by the tax payers.

I have also asked a group of experts, chaired by Erkki Liikanen, the governor of the Central Bank of Finland, to draw up proposals on some possible structuring measures for the banking sector, notably by looking

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into the experience of the UK which has committed to separating investment and retail banks and also that of the Americans, who have chosen to target banks' speculative activities.
Finally one of our priorities in 2012 focuses on financial service consumers. We want to protect them better, for example, by demanding greater transparency regarding banking fees, and clear, detailed information for those who invest in retail financial products.
The aim really is to set up a complete regulatory agenda which leaves no player or product outside of the supervisory or regulatory framework. At the same time we are paying great attention to how it is calibrated so that these new requirements do not lead to the under-funding of the economy.

3. The completion of the Single Market is a priority for the economic development of the European Union. The Commission has suggested twelve ideas to this effect as part of its Single Market Act and has started to put forward proposals. What is the situation now? Which of these twelve ideas are priorities? Which of them are easiest to achieve?

Of the twelve key measures in the Single Market Act dated April 2011, eleven have already been put forward by the Commission.
In reality these twelve measures are all priority, because they make it possible to use the full potential of the grand market of 500 million consumers and 22 million businesses and to set the base of new, stronger, more qualitative growth.
- More innovative growth by creating a truly digital market that fosters the emergence of new on-line services and yet which protects creativity, and which will also finally lead to a single European patent;
- Greener growth, notably by using public procurement so that environmental criteria are taken on board better;
- More cohesive growth with a European passport for funds that invest in social companies and security for public service funding;
- and growth with more jobs, thanks to a better recognition of professional qualifications and many measures to support SME's, which are the source of 85% of net job creations in Europe.
All of these proposals must now be adopted as soon as possible by the Parliament and Council. I also want to take advantage of this dynamic by preparing a second phase for the Single Market Act, with twelve new key measures to remove the main obstacles that are still preventing us from achieving the internal market's full potential.

4. SOLVIT, the on-line solution network for problems associated with the internal markets designed for citizens, has been running for nearly ten years. This system deals with an increasing number of cases. Does this increase reflect the feeling that citizens are more aware of the possibilities offered to them by the EU or is it the contrary and that there are increasing impediments to the exercise of citizens' rights?

The rise in the number of cases reflects the fact that citizens and businesses are increasingly using SOLVIT when they encounter problems associated with the poor application of internal market rules.
When SOLVIT first started in 2002 it dealt with around 120 cases per year. For the last few years this has turned into 120 per month, with a peak in 2007 when we put the complaints form on line. The number of cases also increased after the enlargements of 2004 and 2007.
Having said this, it seems that in its present form SOLVIT has reached its limits: the numbers of cases processed has stabilised at around 1300 per year over the past few years. This is notably why I have just put forward ten measures to strengthen SOLVIT and to enable it to deal with more cases, more effectively. We are discussing what the best ways are to move forwards with the Member States.
Twelve million citizens live and work in another Member State. To help these citizens and businesses we must ensure that they know about SOLVIT at the time their problem arises. And so we shall continue to develop and promote the portal "Your Europe" which provides very clear information about citizens' and businesses' rights in the single market and points them in the direction of SOLVIT when they need it. Generally speaking we have to raise awareness about SOLVIT on the internet and create synergy with other tools, which help citizens and businesses, notably complaint systems addressed to the Commission have to be used better.
SOLVIT now provides us with precious information about the real situation of the single market, about its problems and what is not working. This is part of the data that enable the Commission make proposals and to act to improve the functioning of our grand common market.

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5. At present there is a great deal of talk about the creation (at last) of a single European patent. Many of the parties involved are asking for it and the Danish Presidency of the European Union seems to be giving this project some serious thought, but we have to admit that progress is slow. Does the Commission really have the means to convince Member States to take their positions forward? Shouldn't we privilege negotiations on this issue within the European Patents Organisation which is not only the competent body but which also brings together a greater number of countries including the EU's main trading partners?

At present when a company wants to protect its invention Europe wide it has to file for a patent in 27 countries and translate it in every country. This represents an additional cost of €32,000 which is not the case either in the USA or Japan. The Single European Patent would make it possible to do away with this. It would offer a more effective system and greater legal security, with the creation of a specialised jurisdiction for the entire single market. It would be a powerful .incentive for innovation and a factor in terms of competitiveness and growth.

This project is about to be finalised after more than 30 years of debate. The only point which remains to be decided upon is the location of the HQ of the specialised patents' jurisdiction. I really do hope that this issue will be settled before the summer.

As for the best adapted framework for this measure I would like to recall that those who wrote the Lisbon Treaty and the Member States which ratified it explicitly planned a legal base which enables the EU to create the single patent. This shows that in their minds, the community method, even as part of enhanced cooperation, is more pertinent in terms of achieving this goal than via intergovernmental cooperation as part of the European Patents' Office.

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