

# WORLD COMMERCE REVIEW

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ANDRUS ANSIP WRITES  
ABOUT THE STRATEGY  
FOR THE DIGITAL SINGLE  
MARKET

JOHN DANILOVICH  
ON ENHANCING THE  
EFFECTIVENESS OF CLIMATE  
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THE MARITIME SILK  
ROAD WILL HAVE A MAJOR  
IMPACT ON GLOBAL TRADE  
SAYS FRASER CAMERON

## THE GLOBAL TRADE PLATFORM

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Occupations that deal with complexity, supervising, assessing, deciding, teaching, but also care and personal interaction, will be most relevant in the future, Werner Eichhorst writes

# Making the Digital Single Market a reality

Andrus Ansip writes that the European Commission's Strategy for the DSM lays down a marker for Europe's digital future, creating a free, fair and open digital environment that is accessible to everyone

**T**he European Commission launched its Strategy for building a Digital Single Market (DSM) on 6 May. It lays down a marker for Europe's digital future, creating a free, fair and open digital environment that is accessible to everyone.

Europe's people and companies do not enjoy the same freedoms online as they do in the existing single market - the physical one. Our plan will change all that, and give Europeans the opportunity to unlock the huge potential of the digital economy.

Our strategy has a clear timetable, with sixteen ambitious initiatives based around three inter-linked policy pillars:

- better access for consumers and businesses to digital goods and services across Europe;
- high-quality infrastructure that works smoothly across Europe. We also need to create the right and fair conditions in the underlying environment;
- preparing for the future, to maximise the growth potential of the digital economy.

I will highlight a few initiatives under each pillar. An urgent first task is to secure and guarantee free movement of goods and services in a unified digital space, and to improve online access generally. The DSM aims to boost cross-border e-commerce by encouraging SMEs to sell across borders.

One of our first initiatives will be to bring rules for online purchases more into line across the European Union. People could save €11.7 billion per year if they could choose from a full range of EU goods and services when they shop online.





# Roadmap for completing the Digital Single Market // Initiatives

## 2015

## 2016

### I. Better access for consumers and businesses to digital goods and services across Europe

Legislative proposals for simple and effective cross-border **contract rules** for consumers and businesses



A wide ranging review to prepare legislative proposals to tackle unjustified **geo-blocking**

Review of the **Regulation on Consumer Protection Cooperation**

Measures in the area of **parcel delivery**



Competition sector inquiry into **e-commerce**, relating to the online trade of goods and the online provision of services

Legislative proposals for a reform of the **copyright** regime

Review of the **Satellite and Cable Directive**

Legislative proposals to reduce the administrative burden on businesses arising from different **VAT** regimes

### II. Creating the right conditions for digital networks and services to flourish

Comprehensive analysis of the role of **platforms** in the market including **illegal content** on the Internet



Legislative proposals to reform the current **telecoms rules**

Review of the **e-Privacy Directive**



Review of the **Audiovisual Media Services Directive**

Establishment of a **Cybersecurity contractual Public-Private Partnership**

### III. Maximising the growth potential of the Digital Economy



Adoption of a **Priority ICT Standards Plan** and extending the **European Interoperability Framework** for public services

Initiatives on data ownership, **free flow of data** (e.g. between cloud providers) and on a **European Cloud**

New **e-Government Action Plan** including an initiative on the 'Once-Only' principle and an initiative on mandatory interconnection of business registers

The DSM is also about modernising today's copyright system. We want to improve people's access to cultural content online, while opening new opportunities for creators and the content industry. This will also promote cultural diversity. We will present legislative proposals before the end of 2015 to reduce the differences between national copyright regimes and allow for wider online access to works across the EU.

Then, under its second pillar, the strategy will look to improve conditions for digital networks and services to underpin the DSM. The Commission will propose an ambitious reform of EU telecoms rules. This will include more effective spectrum coordination. It will also tackle regulatory differences around EU national markets and create better incentives for investment in high-speed broadband.

The Commission will also conduct a comprehensive analysis of the role of online platforms. It will focus on transparency, liability and equal conditions for competition.

Lastly, we will build a solid foundation for long-term growth. Europe needs to take full advantage of the digital economy, where data is becoming all-important and where people have the skills needed to fill new jobs. They must also have trust and confidence when they go online.

*This is a huge undertaking. We have just 18 months to prepare and take all the key decisions. They will not solve all our problems in one go, and certainly not overnight*

Common standards and interoperability are essential to make the best of fast-growing sectors such as cloud computing and the Internet of Things. We also need them in the context of promoting e-government services around Europe and a more inclusive e-society.

Together, these initiatives form a realistic roadmap for us to work together over the next four and a half years. They will prepare Europe for a bright digital future. They will help people and companies to get the best from the online world.

I want Europeans to have better protection when buying online. Lower cost for deliveries, more choice and better access to content, goods and services from other EU countries. With the DSM Strategy, the European Commission looks at opportunities that our citizens could enjoy – to help us create a vibrant creative digital economy and society in Europe.

For businesses, the Commission will focus on bringing opportunities for them to create new innovative products for a single market of 500 million people, not 28 splintered national markets. European companies and industries must be at the forefront of the digital revolution – using the DSM to scale up, not to move out. We need equal conditions for all to compete openly and fairly in this digital market. Every company – large or small – plays by the same rules. No discrimination. No favouritism.

I do not have enough space now to go into the details of each initiative that we are planning. However, one thing I do want to say is that they must be taken together, as a coordinated and balanced package.

Europe's single market is not working as well as it should. Without the digital element playing its full part, all of us are missing out on a wealth of opportunity. The DSM is about allowing the freedoms of Europe's single market to enter the digital age. But we are not there yet.



e-commerce  
parcel delivery  
geo-blocking  
copyright  
VAT



Access

telecoms and media  
online platforms  
security and personal data



Environment

data economy  
standards  
skills and e-government



Economy and Society

Creating a #DigitalSingleMarket



We do not feel the full benefits - either economic or social. We need change. And that change is digital. Not only to create more jobs and economic growth, but also to improve the lives of people and to make life easier for our companies.

The vast majority of member states have asked for the DSM to happen. Our Strategy reflects their contributions, and also those of the European Parliament's main political groups. I hope all EU institutions will agree on a clear timeline for taking this project forward.

This is a huge undertaking. We have just 18 months to prepare and take all the key decisions. They will not solve all our problems in one go, and certainly not overnight. This is going to be long and difficult. Nobody should be under any illusions about that.

None of what we plan will be easy— modernising copyright laws, reviewing telecoms rules, tackling geo-blocking, or assessing the role of platforms. There will be vested interests fighting us all the way. Neither is any of it a 'done deal'. But it is necessary for Europe's digital future. We have to make it happen. It is essential that the DSM can become a reality, where all Europeans will gain.

The real work starts now. ■

**Andrus Ansip is Vice-President of the European Commission in charge of the Digital Single Market**



# Last chance for Europe in the digital saloon?

Europe's gradual decline in relation to the USA and Asia will be inexorable unless it adopts a bold and ambitious plan soon, states Colin Blackman

**W**ith the rise of the digital economy over the past decade and as internet platforms and over-the-top (OTT) players take centre stage, Europe has struggled to compete with other regions. The new Juncker Commission has kept its promise to propose legislative steps towards a connected Digital Single Market, but will the member states buy into this strategy and will it be enough to reignite Europe's ailing digital economy?

Over the past decade, the electronic communications landscape has been transformed into a digital IP world dominated by internet platforms and 'over-the-top' services that pay no heed to geographical boundaries. Now, Europe's patchwork of national markets and its strength in core transmission networks look increasingly anachronistic in this new world. Moreover, Europe's traditional telecoms sector, more heavily regulated for legitimate reasons, is struggling to compete and invest in next generation infrastructure.

It has long been a European refrain that, although it is inventive, it seems unable to capitalise on its creativity in the same way as the USA and Asia-for a variety of reasons. So will the European Commission's new strategy for a Digital Single Market (DSM) kickstart Europe's efforts to regain a leading position in the digital economy, or are Europe's problems so deep-rooted that changing course is practically impossible?

This commentary examines some notable features of the Commission's Digital Single Market strategy to assess the barriers to achieving a true Digital Union, looking first at the overall objectives and the ambition. Second, it highlights some of the more contentious aspects concludes with issues concerning implementation of the strategy.

### **Aims and ambition**

Overall, the DSM strategy should be broadly applauded for its aims and ambition. It recognises, implicitly, that the EU's economy is undergoing profound transformation to a service and a knowledge-based society. An ambitious vision for a dynamic social market economy is essential if Europe's economy is to grow and become more competitive while improving public services and maintaining a welfare state. A strategy to implement that vision for the digital

economy is fundamental now that information and communication technologies underpin all industrial sectors and enable their development – the digital economy is now the economy.

The strategy also acknowledges that Europe has fallen behind other regions and that there is a need for policy and regulation to shift focus from the past to the future. Fifteen years ago, EU legislation was focused on liberalising state-owned monopoly telecommunication operators to enable a competitive e-communications sector, in a world being revolutionised by mobile but still dominated by voice. The internet was still nascent at that time. Although this strategy has been broadly successful in delivering a measure of competition and relatively widespread coverage of broadband at reasonable prices, the action has shifted into the applications layer where Europe's 'telcos' (telecommunications operators) are finding it difficult to compete. Europe's telecoms sector finds itself trapped in a vicious circle of low demand, low revenue and low investment. There is widespread acceptance that something must be done to break this cycle, and the DSM strategy is in part aimed at addressing this fundamental issue.

*Unless Europe adopts a bold and ambitious plan soon, and one that is truly supportive of innovation in the digital economy rather than being protective of the past, its gradual decline in relation to the USA and Asia will be inexorable*



The DSM strategy is largely characterised by deregulating, simplifying and harmonising rules across the EU, for instance, regarding online and digital cross-border transactions, reviewing VAT rules, ending unjustified 'geo-blocking' (ie. limited access to content based on geographic location), and so on. Likewise, modernising copyright law, completing the data protection reforms currently under discussion and reviewing the e-Privacy Directive, investing in digital skills and boosting digital government, are all good for the development of a dynamic digital economy. Of course, there are important details still to be settled with some of these initiatives, such as achieving the right balance in the General Data Protection Regulation (GDPR) between protecting human rights and not stifling the innovation that Europe so badly needs. Thus, breaking down regulatory barriers is the right ambition and will broadly benefit both consumers and businesses, including innovative digital startups.

### **Re-regulation sends the wrong message**

At the same time, though, the DSM strategy heralds a more regulated approach, most notably illustrated by the proposed investigation into the role of online platforms, intermediaries and the sharing economy. This is short-sighted and, following the investigation into the abuse of dominance by Google, further smacks of 'regulate my competitor' and gives the impression that Europe is anti-American. Not only are such moves based on dubious grounds – that platforms have achieved monopolistic positions that they are abusing – it signals to the rest of the world that Europe is minded to protect its less innovative, more heavily regulated domestic industries rather than create an innovation-friendly environment to stimulate European creativity.

Why can we say this? First, because regulating platforms – and remember that many, many businesses can be defined as platforms, including e-commerce sites, cars, and shopping malls – are likely to hinder Europe's platforms even more than foreign ones. Given that US and Asian platforms will not face the same burden in their domestic markets, European regulation will simply hamper Europe-based platforms while foreign platforms grow stronger outside Europe. In this regard the DSM strategy seems rather parochial. Breaking down barriers to make a European market work more efficiently is all very well but the digital economy is a global economy and a Canute-like approach is unlikely to succeed.

Moreover, Europe's innovative businesses need these platforms – from wherever they emerge – if they are to compete in the global economy. Take the app economy, for instance, where European companies perform as well as if not better than their US counterparts, which employs about 1 million people in the EU and is worth about €20 billion in revenue. This is evidence of a thriving, innovative and entrepreneurial culture in the EU, which has been enabled rather than hampered by the rise of global platforms.

I am all in favour of gathering evidence – indeed, there is a notable lack of evidence for some of the Commission's proposals – but the mood music strongly suggests that many politicians and policy-makers have already made up their minds to regulate so-called 'global actors'. However, we should urge caution in the desire to limit the power of US-based tech-giants, as it will likely result in tougher regulation for European start-ups that operate in the sharing economy, as marketplaces or as platforms themselves. It is to be hoped that the European Commission will keep an open mind on this issue and if there is to be any 'levelling of the playing field' it should be a levelling down and a relaxation of regulation on telcos rather than passing imprudent legislation with possibly undesirable consequences.

### **Overhauling the telecom rules**

Turning specifically to the telecoms single market, which is fundamental to a successful Digital Single Market, progress on the current Connected Continent package has been disappointing, to say the least. By all accounts the current text is much watered down, with attempts to harmonise the radio spectrum dropped, the abolition of roaming charges delayed until 2018, and continuing disagreement about net neutrality.

The DSM strategy recognises that little will be achieved in the current round and believes that a major and more ambitious overhaul is necessary to address issues of isolated national markets, the lack of regulatory consistency and predictability across the EU, particularly for the radio spectrum, and the lack of sufficient investment, particularly in rural areas. Encouragingly, the DSM strategy recognises that, "There is a need for simpler and more proportionate regulation in those areas where infrastructure competition has emerged at regional or national scale".

This reflects a growing view that we should recognise that, over the past 15 years the EU's telecoms rules have largely been a success and a more nuanced approach is necessary in future.

It remains to be seen whether agreement can be reached in the current package on net neutrality. It remains a controversial topic and one where policy is being formulated without much evidence. The concept of neutrality is difficult for politicians to disagree with – it just sounds so fair. Nevertheless, there is little evidence that net neutrality will solve any of the problems that have been raised at one time or another over the past decade – whether they be anonymity, competition and fair business practices, innovation, user choice, openness or freedom of expression. In my view, the case for legislating on net neutrality has not been made and it would have been better to do nothing. However, now that some EU member states, such as the Netherlands and Slovenia, have passed national legislation, a common EU position has to be reached.

On this topic, CEPS Senior Fellow Andrea Renda has recently attempted to debunk the myths around neutrality and highlight the dilemmas and contradictions in the net neutrality debate. For instance, if strict neutrality rules were imposed, this would hamper traffic optimisation that would be detrimental, for instance, to the rollout of 5G networks likely to comprise a multi-tier architecture of macrocells, different types of licensed small cells, relays, and device-to-device networks to serve users with different quality-of-service.

At the same time, it would be ridiculous to prohibit so-called 'specialised services', such as for medical applications, connected cars or for mission-critical communications for public protection and disaster relief (PPDR) provided over commercial networks. Some traffic is just more important and sensitive than others.

Moreover, 'neutrality' as a concept was originally restricted to the infrastructure layer, but today the neutrality rhetoric is being expanded to multi-sided platforms such as search engines and, more generally, online intermediaries. The idea of neutrality applied to search is particularly nonsensical – it is precisely because online intermediaries (including search engines) sift and select the most relevant results that they are valuable to us. A neutral search engine

would be practically useless. And how can we expect online intermediaries to act neutrally and at the same time to filter traffic, protect privacy and children, combat hate speech and foster pluralism?

On a harmonised approach to the radio spectrum, the DSM strategy acknowledges that the current discussion on the Telecoms Single Market package will not resolve this, but it will be included as part of the more ambitious future review of legislation. Member states have consistently resisted the encroachment of European authority into this national competence and so it is difficult to see what will change. Nevertheless, as a first step, the DSM strategy is right to focus on strengthening the role of bodies in which the member states' authorities are themselves represented – such as the Body of European Regulators for Electronic Communications and particularly the Radio Spectrum Policy Group.

### **Implementing the DSM strategy**

Finally, the key question is whether the DSM strategy can be fully implemented. After all, the biggest obstacle with past attempts to modernise and achieve a common and coherent approach to the digital economy has been the member states themselves. For despite the rhetoric of support for the digital economy, member states all too often put their short-term interests first – the lack of harmonisation in the radio spectrum being a good example.

The Digital Single Market strategy, while it may be criticised, is at least a coherent vision around which member states could conceivably unite in pursuit of a common approach in the long-term interests of the European Union. So far, of course, it is not much more than a vision and there is a lack of evidence to support some of its direction (for example on net neutrality, and the need to regulate platforms).

What is needed next is a more detailed roadmap that will also set out how and why such a strategy is in the long-term interests of all the members of the European club. This will require leadership from the Commission and Parliament and considerable powers of persuasion to convince member states that this is in their long-term interests. To help this process, more regular contact is needed between working-level officials in the European Commission and

policy-makers and regulators in the member states to find workable solutions, as was the case with the ONP Committee which accompanied the ONP Directive back in the 1990s.

The key question is whether it is realistic to expect the member states to unite around the DSM strategy at a time when the appetite for greater European integration seems weaker than ever. What is increasingly clear, however, is that unless it adopts a bold and ambitious plan soon, and one that is truly supportive of innovation in the digital economy rather than being protective of the past, Europe's gradual decline in relation to the USA and Asia will be inexorable. ■

**Colin Blackman is Director of the Digital Forum at the Centre for European Policy Studies (CEPS), and Director of Camford Associates**

# The EU's Digital Single Market Strategy: a worthy aim, but does it work?

Kenny Mullen writes that regulators need to be careful that the single EU market does not simply throw up new artificial boundaries between 'digital fortress' Europe and the rest of the world

**W**hen Jean-Claude Juncker, the President of the EU Commission, ran for election in 2014 the creation of a connected single digital market was at the forefront of his five key priorities. One year on and the EU Commission has now published its Digital Single Market for Europe Strategy paper.

There is little doubting the scope of Commission's ambition, with no less than 16 initiatives to create this digital single market, anchored around three general policy areas or 'pillars' headed 'access'; 'environment'; and 'economy & society'.

While statements like the 'internet and digital technologies are transforming the lives we lead' could have easily been lifted from EU policy documents written 15 or more years ago, many European consumers would not argue against the sentiments expressed by Mr Juncker in a 'high-tech' promotional video posted on Facebook to accompany the launch of the Strategy. Juncker notes that you can drive within the EU from Tallinn to Turin without facing a single passport check, but cannot then access your favourite Estonian TV shows online.

Unveiling the paper, European Commission Vice-president Andrus Ansip also stated that EU-wide GDP could be increased by £300 billion a year if such a harmonised digital market is established which, again, is difficult to argue against. But what does the Digital Market Strategy say, and is it realistic in its objectives?

It is fair to say that the Strategy document itself – contained in a 20 page communication – amounts to an eclectic mix. For a start there are a number of legislative initiatives that seek to harmonise the laws for digital business. These range from those that appear reasonably specific, such as introducing mandatory consumer laws that will apply to all B2C e-commerce transactions and the setting up of an EU-wide online disputes resolution platform in 2016, to high-level regulatory proposals that are yet to be spelled out in any detail, such as 'reducing VAT-related burdens and obstacles' for traders selling across borders.

The Strategy paper also talks about 'modernisation' of copyright law across European Union states with measures aimed at improving portability and reducing 'territoriality' of access to legally purchased content across the EU; 'clarifying' rules for intermediaries in relation to copyright protected content; and greater legal certainty of exemptions relating to use of copyright material in pan-EU research.

The Commission refers to some sweeping, but as yet non-specific, measures aimed at rectifying perceived market deficiencies or barriers to pan-European digital commerce. For example, taking steps to improve price transparency and regulatory oversight of the cross—border parcel delivery market and undertaking an overhaul of EU telecoms regulation. Most immediately for consumers, this reform of telecoms rules could mean an end to cross-border voice and mobile data roaming charges, but the Commission also talks in more general terms about 'levelling' the playing field in the communications market and incentivising investment in broadband networks.

There are also worthy sounding but more nebulous aims with very little detail being provided at the moment, such as a 'partnership with industry' on cybersecurity; a 'European data free flow initiative' to tackle restrictions on flows

*It is clear from looking at the Strategy there is a tension throughout between market-driven measures aimed at reducing regulation and a more interventionist approach that will inevitably result in more regulation*



of data between member states; and a European cloud initiative which promises to look at a system for cloud services certification. In relation to a couple of initiatives it is not clear what proposals, if any, are being put forward. First, the Commission has promised a comprehensive assessment of the role of online 'platforms' in the market which, on the face of it, appears to simply mean that existing EU competition rules be applied to Google and other powerful platform providers in the market. The Strategy paper also refers to the Commission's intention to analyse online 'intermediaries' in deciding how best to tackle illegal content on the internet, although it is not entirely clear what deficiency in existing e-commerce laws this is intended to address.

Proposals aimed at what's called 'unjustified' geo-blocking, where providers of online goods, services or content block access to their sites or material to other parts of the EU, have been more contentious. It's clear that in this instance the Commission has broadcasters and content rights holders in their sights – Commissioner Ansip, for example, previously criticised the BBC (the UK's primary public broadcaster) for only permitting access to its iPlayer within the United Kingdom. For the moment, the crucial issue of what is or is not 'unjustified' has not been addressed. The iPlayer is probably an unfortunate example for Commissioner Ansip to have chosen in this regard, since the fact that the BBC is funded by UK licence payers means it is legally barred from commercial revenue generation and arguably has more justification than most in limiting its services to within UK borders.

Ultimately, as with all proposals emanating from Brussels, the Commission has the difficult task of 'balancing the interests of consumers and industry'. It is clear from looking at the Strategy there is a tension throughout between market-driven measures aimed at reducing regulation and a more interventionist approach that will inevitably result in more regulation.


The Commission aims to deliver on its stated initiatives by the end of 2016. That said, it seems there are still many questions that need to be answered and the timescale seems improbably short for drafting, negotiating and finalising the legislation on such a broad ranging programme which, despite its 'digital' focus, will impact a wide range of sectors (telecoms, on-line retailers, e-health, energy, transport, delivery services to name a few). In meeting its

'Roadmap' of commitments over the next two years, the Commission may be partially helped by the fact that some of the announced initiatives are perhaps not all that new.

In the telecoms area for example, some proposals are recycled from previous policy pronouncements or in other cases, for example the proposal to create an EU-wide Data Protection Regulation, based on legislative programmes that are already in motion. Albeit the deadline for adoption of final legislation in this case has been pushed back a few times, perhaps illustrating the problems the Commission faces with its wider programme.

The other point to a single digital market is that creating common rules and standards cannot be seen solely through the prism of European integration. While the general goal of breaking down unnecessary technical boundaries that exist between EU member states should be applauded, as previous experiences have shown, regulators need to be careful that the single EU market does not simply throw up new artificial boundaries between 'digital fortress' Europe and the rest of the world. A single market which is created through a plethora of ill-considered, prescriptive rules which take no account of the inter-connectedness of Europe or its markets with the rest of the world, risks isolating EU digital commerce, undermining the good intentions of the proposals and harming business and consumers alike. ■

**Kenny Mullen is the EU Head of IP and Technology at Withers LLP**

The background of the slide features a photograph of the Alibaba logo, which consists of large, red, 3D letters spelling 'Alibaba'. The logo is positioned in front of a modern, multi-story building with a glass facade and a grid-like pattern of windows. The scene is captured from a low angle, looking up at the building. The entire image is overlaid with a semi-transparent blue filter. The main text of the slide is centered over the upper portion of the image.

# Are there really no barriers to electronic commerce? Electronic evidence will decide

Thomas Cavro Dupont asks how should companies best prepare for the European Commission's e-commerce sector inquiry

**3** 15 million Europeans use the internet every day. In the digital era, the internet has ultimately redefined the way we do business on a daily basis. Just the thought that today the largest online retailer, Alibaba, has no actual inventory or physical outlets; the largest accommodation provider, Airbnb, has no real estate and that many users communicate via Twitter and Facebook, two of the most popular media owners that actually do not create content, means we are amid a digital revolution.

### **Competing fairly in the digital market**

In the wake of these rapid digital developments, one of the major challenges for governments is to push legislators to keep up and adapt to these changes. One recent example which illustrates these challenges is the current situation of territoriality of rights which exists in Europe in the film industry. This ultimately means that certain video content on Youtube for example might be available in the United Kingdom but not in France due to the licensing of rights. Recently new video-sharing applications such as Twitter's Periscope or Meerkat could pose a new challenge for owners of intellectual property rights since they allow users to share online video content they have recorded anywhere in the world for free.

The newly designated Competition Commissioner, Margrethe Vestager recently mentioned that *"We have to make our European companies ready to compete in the digital economy at fair prices for consumers"*. Under the leadership of the European Commission, Vestager had stressed on several occasions that she intended to extend the Single Market for physical goods to the digital world in order to achieve a Digital Single Market. This is because the European Commission (EC) had already identified shortcomings due to the legal fragmentation and technical barriers to cross-border online trade that exist in Europe.

Most importantly, Vestager pointed out that in 2014 one European consumer in two used e-commerce but only 15% did so across national borders and only 7% of small and medium sizes enterprises (SME's) sell cross-border.

## The competition sector inquiry

As a consequence thereof, the EC decided to launch a competition sector inquiry into e-commerce on the 6<sup>th</sup> of May 2015 focusing *“particularly on potential barriers erected by companies to cross-border online trade in goods and services where e-commerce is most widespread such as electronics, clothing and shoes, as well as digital content”*. Some of these barriers include diverging e-commerce rules across EU member states and regulatory obstacles as well as technical barriers.

These barriers erected by companies include geo-blocking which prevent consumers from accessing the best priced products over the internet based on their physical location (eg. an online clothing retailer might either deny a consumer based in Germany access to their UK retail website or re-route them to a German local store where retail prices are considerably higher compared to their UK website). Geo-blocking might identify a consumer's location via their internet IP address, residence or credit card details.

In addition, according to the EC, European consumers could save €11.7 billion each year if they could choose from a full range of EU goods and services when shopping online. Moving from 28 diverse national markets to a single digital market could also contribute €415 billion per year to the European economy and create 3.8 million jobs. Hence, the e-commerce sector has become one the main focal points for the EC within the framework of the Digital Single market.

*E-tailers should be sufficiently prepared from a technical standpoint... since most of the evidence relating to the e-commerce inquiry will be electronically stored information*

The EC inquiry which started on 6<sup>th</sup> of May 2015 will most certainly affect major corporations including Amazon, eBay, Paypal, Zalando as e-tailers and Apple (via their Apple Store) and Google (via Google Play) as providers of digital content through apps and e-books. As indicated by the EC, this competition sector inquiry will cover all current 28 EU member states.

Although several sectors in particular have been mentioned by the EC, it seems there will be a particular focus on the online sale of consumer electronics and consumer electrical products where the EC has already carried dawn raids on 10<sup>th</sup> March 2015. Market tests have also been recently carried out by several national competition authorities in the online hotel booking platforms sector although the EC has not yet opened its own investigation. The EC will also attach importance for its inquiry to the consumer complaints that have been reported to the ECC-Net (European network that reports on cross-border consumer transactions).

To this effect, most of consumer complaints referred to the distribution of goods and services (namely, electronic goods, clothes, books, music and data downloads), tourism and leisure (travel agencies and accommodation providers) and rental and leasing services (eg. online car rental services).

What form will this investigation into the e-commerce sector take? The EC can be expected to make use of its investigative powers and send out numerous information requests to the e-tailers, suppliers and internet platforms. Pursuant to Regulation n°1/2003 the EC is entitled to request any corporate documents, both in paper and electronic format that are related to the investigation. The EC also has the power in the context of a sector inquiry to carry out dawn raids or unannounced inspections at the premises of the company being investigated.

In the context of a dawn raid, the EC is empowered to: (1) to enter any premises, land and means of transport of undertakings and associations of undertakings; (2) to examine the books and other records related to the business, irrespective of the medium in which they are stored; (3) to take or obtain in any form copies of or extracts from such books or records; (4) to seal any business premises and books or records for the period and to the extent necessary

for the inspection; (5) to ask any representative or member of staff of the undertaking, or association of undertakings, for explanations on facts or documents relating to the subject matter and purpose of the inspection and to record the answers.

### **What will the investigation mean for companies and how should they prepare?**

In practice, companies affected by this investigation will have to rapidly identify within their corporate repositories the requested documents in order to comply with the frequently tight deadlines set by the EC. Most importantly, if companies fail to supply the requested information before the deadline or supply incorrect or misleading information, they could risk fines of up to 1% of their total turnover in the preceding business year which could well cause financial distress for many companies. The EC is also empowered to impose periodic penalty payments (eg. fines levied on a daily basis until the EC request is complied with) on companies that fail to provide the necessary information. Periodic penalty payments can reach up to 5% of the average daily turnover of the company in question in the preceding business year.

How can companies who sell goods and services online best prepare for this? It is crucial for companies to be fully prepared for these potential information requests with the necessary technical means to identify and analyse information currently under scrutiny within tight timeframes. To this effect, document review platforms that include keyword searching and other advanced analytics such as predictive coding can be a very useful tool and ally for companies in these situations since potentially relevant information will be identified more rapidly and high fines will be avoided.

### **How technology can assist companies**

In this vein, predictive coding is a document review technology that allows computers to predict and suggest particular document classifications (such as 'responsive' or 'hot document') based on coding decisions made by human subject matter experts. To this end, an expert 'trains' the system using a representative sample of the entire document set by categorising different documents. Once the system has been correctly trained it will be in a position to

apply its 'learned knowledge' to the rest of the universe of documents by making suggestions as to how documents should be categorised.

In the context of electronic discovery and requests for information by authorities, this technology can find key documents faster since it prioritises potentially relevant documents in a document set thereby allowing reviewers to address potential concerns in a timely fashion. Predictive coding also enables the identification of potentially relevant documents with fewer human reviewers, thereby saving hours, days, and potentially weeks of document review and of course legal costs.

Interestingly, the Antitrust Division of the US Department of Justice has already embraced the full advantages offered by ediscovery technologies through the use of TAR (Technology Assisted Review) also commonly known as predictive coding or Computer Assisted Review (CAR) in US merger cases – namely in second requests. Furthermore, many judgments have been issued in the US in an array of different matters whereby Judges have recognized the advantages of using predictive coding both in terms of accuracy, time and costs savings.

As concerns the acceptance of predictive coding in Europe, an Irish Court (High Court of Ireland) has also recently approved the use of this technology saying *“The evidence establishes, that in discovery of large datasets, technology assisted review using predictive coding is at least as accurate as, and, probably more accurate than, the manual or linear method in identifying relevant documents”*. In this judgment, Judge J Fullam also underlined that *“If one were to assume that TAR will only be equally as effective, but no more effective, than a manual review, the fact remains that using TAR will still allow for a more expeditious and economical discovery process”*. Judge J Fullam concludes his reasoning stating that *“I am satisfied that, provided the process has sufficient transparency, Technology Assisted Review using predictive coding discharges a party’s discovery obligations [...]”*.

Although the EC has not yet taken an official and public stance on the use of predictive coding it has encouraged the use of ediscovery technologies and electronic evidence tools by companies in the context of investigations. In



this sense, the European Competition Network, which is composed of all national competition authorities of the European Union, has recently called for increased powers for competition authorities to gather digital evidence in the context of antitrust investigations as well as a closer co-operation in terms of ediscovery of companies being investigated. Many national competition authorities in Europe such as the CMA (Competition and Markets Authority in the UK) have also increased their digital and forensic capabilities to uncover anticompetitive behaviour by using data analytic tools.

In practice, this means the EC and European national competition authorities in general expect that companies have the appropriate technology and forensic tools to identify electronic evidence efficiently and rapidly. The fact remains that the EC and other authorities in Europe and around the globe use review platforms and advanced analytics (including predictive coding technology) to identify key documents more rapidly, most of the time in cases where datasets are composed of millions of documents. Sometimes it is really about finding 'a needle in a haystack' or an incriminating document in an immense dataset within a timeframe of several weeks. This means if companies do not use the same tools as the Authorities they would be at a competitive disadvantage in terms of identifying electronic evidence rapidly.

The information requests issued by the EC in this e-commerce inquiry will most likely require companies to submit electronic evidence directly to the EC and to use electronic evidence tools to identify electronic documents in their corporate repositories.

To this effect, since December 2009 the EC introduced a web-based application or 'eQuestionnaire' in its market investigations. Although this questionnaire was originally conceived for merger investigations it can also be used in the context of antitrust investigations. This application provides respondents with a modern, secure and efficient web-based workspace to submit their replies to the EC. Companies are able to fill in the questionnaire directly online or, if preferred, export the questionnaire to a text editor, complete the responses there and upload the replies as well as relevant files (if needed) and into the application afterwards.

### **Be sufficiently prepared from a technical standpoint**

In summary, all of the developments described above underline that e-tailers should be sufficiently prepared from a technical standpoint with forensic tools for identifying and mining relevant data and sophisticated (including the use of predictive coding) to locate and analyse data within their repositories since most of the evidence relating to the e-commerce inquiry will be electronically stored information (ESI). This will allow them to respond to potential information requests within the prescribed time-limits and avoid heavy fines.

### **ABOUT THE AUTHOR**

*Thomas Cavro Dupont is a Discovery Services Consultant at Kroll Ontrack. The views expressed herein are personal*

# Turning the cruise ship

Alan Brown asks what can business and government learn from each other about innovation in a digital landscape

**W**hen was the last time you stepped inside a branch of your bank? For millions of people in the UK, the answer would probably be 'months ago' or perhaps 'last year'. That's because they do all their banking online, along with a host of other everyday tasks such as ordering the weekly shopping, checking a train timetable, paying their gas bill, and filing a tax return. Britain has gone digital in a big way, and many, if not most, people now automatically turn to online services as their first port of call.

Today's service-based economy is fundamentally dependent on IT. Through these computer-based systems, the critical interactions at the heart of service delivery are defined, managed, recorded, and governed. Furthermore, in recent years, IT systems have moved from being hidden back-office solutions used to process the mountains of human-maintained paperwork, to being directly exposed to users of those services through front office applications accessed through internet browsers, mobile apps, and the growing plethora of tablets and internet-enabled devices. This digitization of service delivery has been one of the most rapid and compelling trends of the past two decades, and has spurred a revolution in how to most effectively bring transactional solutions to end users.

While most attention is focused on domains such as retail, banking, insurance, and pharmaceuticals, these changes are not confined to the private sector. Public sector agencies across the world are attempting to transition from closed, top-down, bureaucratic, and paper-based transactional models towards online, integrated digital services that encourage a new kind of interaction between citizens and the state.

This journey towards digital public service management appears to be reaching a critical point where the confluence of citizen demand for greater speed and more transparency in service delivery is being met with an increased appetite within the public sector to deliver services in more innovative ways through the use of open technologies, a diversity of delivery agents (including the increased involvement of smaller companies), and more agile delivery practices that help to demonstrate meaningful progress earlier in a project's lifecycle.

Most of us don't think about government as a business, a platform, subject just like everything and everyone else to the radical changes that technology has enabled. We may, for example, have recently voted at a polling station in a village hall, and found the entire process locked in the 1950s in terms of both technology and attitudes; thus, we conceptualise government in its traditional incarnation as one of the great constants, like death and taxes.

In a similar way, many of us still conceptualise business according to the structure codified by the Industrial Revolution. Business is business, we muse – how can the very foundations have changed?

But, for both business and government, that is precisely what has happened, and both sectors are worryingly sluggish to respond. By discussing the digital transformation in a government context, we can shed light on the distance business has yet to go.

### **Digital transformation**

The UK Government provides a particularly interesting example of digital transformation. The current economic, technical and social context is driving UK Government to review its service delivery strategy, and specifically the

*Public sector agencies across the world are attempting to transition from closed, top-down, bureaucratic, and paper-based transactional models towards online, integrated digital services that encourage a new kind of interaction between citizens and the state*

way in which its software-intensive IT systems support those services. The Government wants to tap into the public's digital mind-set with its new strategy for bringing services online, which it's calling '*Digital By Default*.' Its aim is to make government services more accessible, while also encouraging users to view the Government's online environment as a platform for wider public debate and collaboration.

A major part of this review is the recent publication of the *Government Digital Strategy*, a key element of the UK Government Digital Service (GDS). Essentially, GDS is intended to play a fundamental role over the coming years in defining how UK citizens will access the most critical government services, such as claiming benefits, applying for a driving license, and submitting tax forms. The GDS is a baseline on which future core IT practices, systems, and services will be delivered. As it stands, the activities of GDS represent the first few steps on a much more fundamental journey. This new era of government service delivery – sometimes referred to as 'Government-as-a-Platform' (GaaP) – opens up a new world of companies offering services based on government data, and citizens actively participating in government decision-making.

It is not a new kind of government, but a complete reimagining of government interaction with its citizens, and citizen-to-citizen interaction enabled by government. It is precisely this crossover that digital technology is enabling – nay, compelling – across all areas of society and business.

GaaP is a widespread change, driven by the use of technology, especially collaborative web 2.0 technologies, to better solve collective problems at a city, county, national, and international level. Through this platform, government is seen as the manager of a marketplace, an open interchange of information, goods, and services among citizens.

This represents a dramatic shift for government. Thus far, the role of the Internet in how the UK Government delivers services and information to citizens has been to allow the government to control the end user experience and bring paper-based activities online.

The idea of government as a service platform assumes a very different role for government: as open data steward or common service manager to enable access to shared information as the basis for new government relationships with citizens. Government is rubbing shoulders with the business world.

These directions offer an exciting indication of what may be possible. But what is missing from today's debate is a deeper and more provocative statement on the future of UK Government service delivery and the technology that will enable it. Today we have the opportunity to reimagine government service delivery for the digital age and bring some focus to GaaP as a necessary destination for several currently disparate ideas.

A vision needs to be painted that helps all stakeholders – government procurement agencies, technology providers, academics, and citizens alike – to realize the enormity of the change, to gain an understanding of the possibilities this brings, and to enumerate the challenges to be overcome to move effectively toward delivery. In times of great social and economic uncertainty, when the ground is shifting underneath us and the way forward is unclear, it is vital to construct a vision around where we as a society want to go, which in its turn allows us to begin taking steps toward it. In the absence of this kind of vision, each stakeholder takes their little nugget of understanding and runs off with it in completely the wrong direction – and invariably in the opposite direction to everyone else. Valuable time, energy and opportunities are lost: 'the best lack all conviction; and the worst are filled with passionate intensity.'

In practical terms, what does this vision for government service delivery really mean? We can highlight three emerging themes that dramatically change economic models for government, and offer major opportunities for entrepreneurs to innovate in products and business models:

Open government data: open access to government data is seen as the fuel for innovation, ranging from the federal datasets such as healthcare data and energy usage statistics to local datastores in cities such as road usage, schools enrolment, and crime hotspots;

New government-focused technology infrastructure: in spite of contracting challenges, governments need new service providers for their infrastructure offering innovative, web 2.0-style services. Open standards are driving these infrastructures and new government-focused enterprise companies with significantly different business models that will drive major disruptions in this market to drive down cost and improve efficiency;

Easier interaction with government services: bringing existing services online is an easy place to start, but it is only a first step. Existing services may need to be radically altered, and completely new services now become possible (in fact, essential) to meet changing citizen expectations. Innovative solution will help drive new forms of community activism and citizen empowerment.

These themes are clear motivation for a significant change in government-delivered services, and a revolution in the business opportunities that are emerging as a result.

Their potential impact on both society and the economy cannot be overstated. The digital technology revolution has pushed us to the edge of a fundamental reform of government service delivery, and massive opportunities for innovation in products and services for the public sector.

But it is not all plain sailing. Many businesses have been burned when attempting to introduce innovative products and business models into the public sector. The opportunities and challenges of digital service delivery are explored in detail in a new book, *Digitizing Government: Understanding and implementing new digital business models*, published by Palgrave MacMillan in December 2014. Co-authored by experienced industry, government, and academic leaders Alan Brown, Jerry Fishenden, and Mark Thompson, the key message of the book is that digital transformation in public or private sector requires open, honest debate on the major principles and practices for the digital age.



Bringing this ideal to ground is not straightforward, however. It requires analyses, observations and recommendations based on in-depth experiences with the UK Government's transformation efforts, where the authors have detailed insight over past decades. Using these examples, common problems and solutions that face almost all public agencies across the world are highlighted. Indeed, these challenges are not exclusive to governments and the public sector, but are shared by any large enterprise struggling to adapt to the digital age.

A variety of 'online' and 'e-Government' approaches have been tried before and yet have largely failed. Delivery and execution must be on a much broader front than technology alone. There are already proven models that the public sector needs to adopt – most fundamentally, the move to a digital, 21<sup>st</sup> century organisation. Here, the cross-pollination between successful digital businesses and the public sector will prove vital. This will require cultural, capability, and leadership improvements across people, communities, and clients; organisation and delivery; platforms and interfaces; infrastructure and technology.

Ultimately, the digitisation of public services needs to be built on the application of open technical standards and a shared set of platform-based architectural principles. Sustainable and meaningful reform and improvement will only be achieved when there is an equal relationship between internal organisational and digital services transformation – driving innovation across the public and private sector, and significantly improving our public services in the digital economy. ■

### ABOUT THE AUTHOR

*Alan W Brown is Professor of Entrepreneurship and Innovation in the Surrey Business School where he leads activities in the area of corporate entrepreneurship and open innovation models. In addition to teaching activities in entrepreneurship and global strategy, he focuses on innovation in a number of practical research areas with regard to global enterprise software delivery, agile software supply chains, and the investigation of 'open commercial' software delivery models.*

*For more, please see: AW Brown, J Fishenden, and M Thompson, "Digitizing Government: Understanding and implementing new digital business models", Palgrave Macmillan, December 2014.*

A group of four children are gathered around a tablet computer, looking at the screen with interest. The children are of various ages and are dressed in casual clothing. The background is slightly blurred, showing what appears to be an indoor setting with a green wall and some furniture. The text is overlaid on the image in a large, white, sans-serif font.

# Bringing free WiFi to South Africa's low- income communities

Project Isizwe has made tremendous strides in closing the digital divide and expanding internet connectivity

## Introduction

Every South African citizen has a right to access good quality, affordable internet. That access should not be determined by the socio-economic conditions of the individual, but should rather be based on the principles of social solidarity, equality and fairness.

Access to the internet should be treated as an essential service, like water or electricity. And just like water and electricity, it should be available to everyone, regardless of circumstance.

The potential benefits of the internet for the developing world are extensive, and the World Bank estimates that for every 10% penetration of Internet access, a country's GDP grows by 1,28%.

The problem is not so much access or content, with 3G coverage prevalent, but rather affordability. Poor communities need free Internet access.

Project Isizwe believes that the best means of achieving this goal is the deployment of government-funded free WiFi throughout public spaces, including schools, libraries and public parks, in low-income communities.

We work with governments (local, provincial and national) and private sponsors to facilitate the roll out of Free Internet Zones (FIZ) in low-income communities for the purposes of access to information, education and job creation.

Our non-profit structure allows us to pool bandwidth, utilise local installers and co-operate with local and provincial governments, without the traditional excessive mark-ups.

Through our network of Telecom partners, we have a range of expertise and patents pending for all key elements of the required infrastructure. These factors combine to allow us to deliver a world-class service at an affordable price.

Project Isizwe wants to give all South Africans the power to access information, educational content and jobs online and help to bridge the digital divide that exists in South African society.

*“The internet is a primary tool of empowerment; it helps people find jobs, learn and become socially included”* says Project Isizwe CEO Alan Knott-Craig Jr.

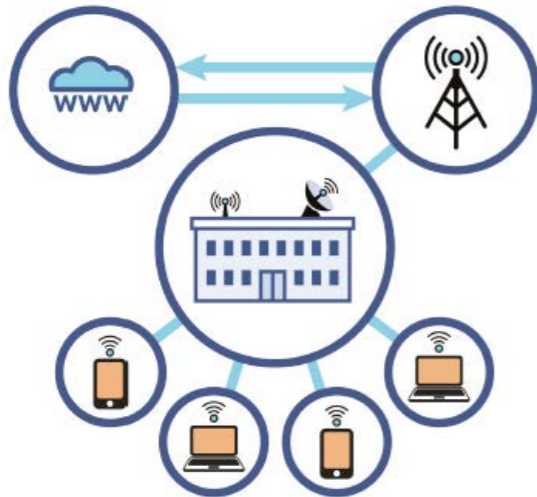
### **Free Internet Zones (FIZs)**

The Free Internet Zone or ‘FIZ’ has a network design suited to enable a simple user experience, thereby facilitating an affordable and robust product.

*Project Isizwe is an incredible example of the local innovation required to build products and services to deliver on those desires. The public/private/community partnerships that are the hallmark of Isizwe will scale to many townships across South Africa. Building on this base, there are many exciting information-based services that can be provided. Things are just getting started*

A FIZ is an outdoor WiFi hotspot that allows multiple WiFi-enabled devices to connect simultaneously. From these access points a connection to the Internet or any local and cached content is enabled through well-engineered network design and architecture solutions.

Here's how it works:



WiFi devices connect to the access point that connects to the internet

### **End User Service**

The following fair usage and service rules apply:

1. 250MB per WiFi enabled device per day for internet access
2. Unlimited access to on-net content
3. Up to 1mbps download speed
4. Up to 256kbps upload speed
5. No bulk data protocols allowed over the internet

## The model

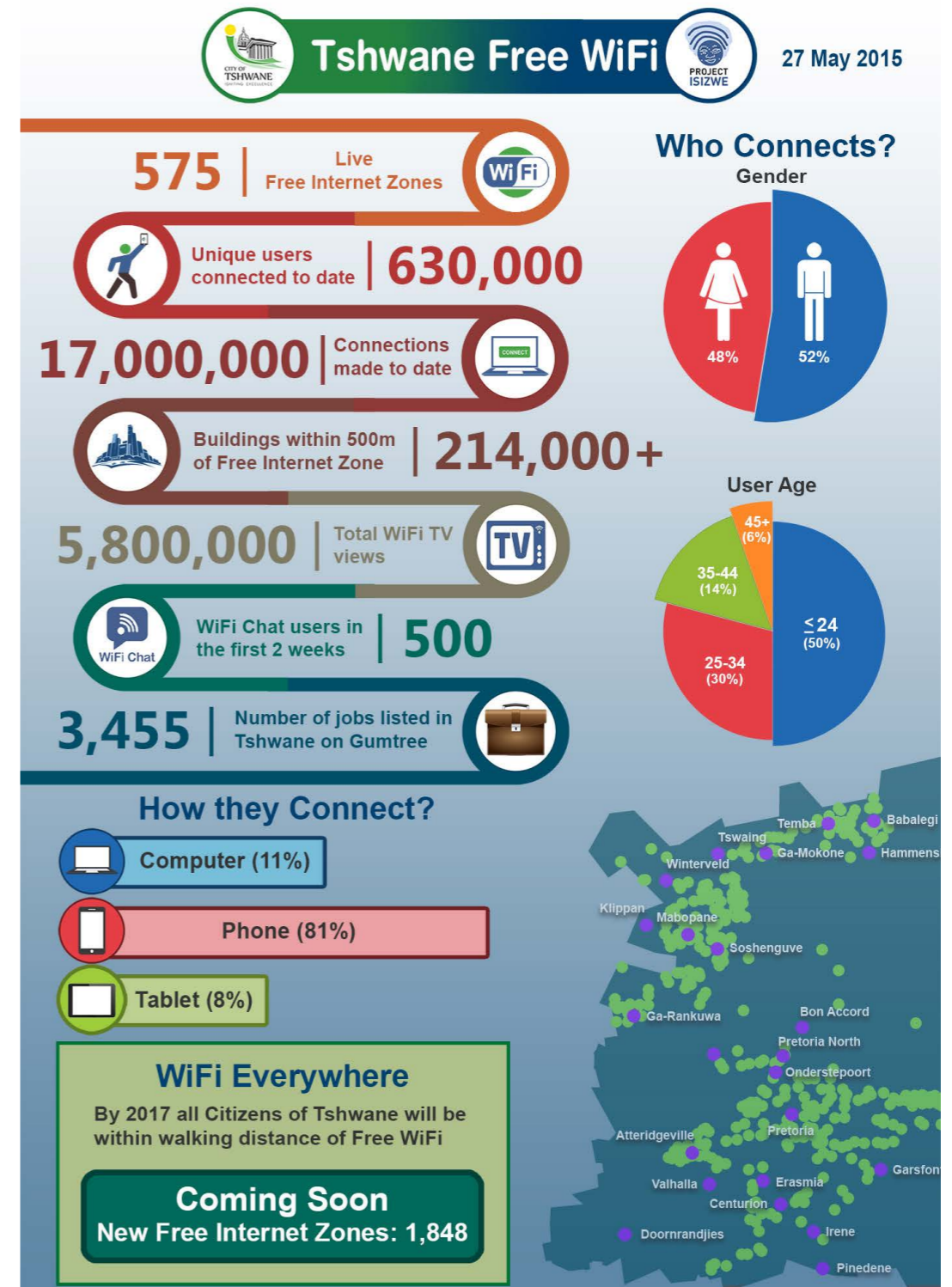
The traditional telco model is to price services for what the market can bear. Spend as much as possible, add a mark-up, sell to the customer. That's why data rates in Africa are so expensive. It's because telcos are spending too much money building their networks.

At Project Isizwe, networks are designed the other way round. No unnecessary frills. No expensive extras. No big head office building. And all savings are passed in the form of ultra-affordable connectivity.

Due to the proliferation of WiFi-compatible devices throughout South Africa, WiFi has become the most commonplace form of connectivity after 3G. WiFi also has significantly lower capital costs compared to 3G. (WiFi base station costs R2,500 vs 3G cost of R250,000).

Coupled with low overhead costs and the use of public unlicensed spectrum, WiFi is the most appropriate access medium for rolling out public access networks.

Project Isizwe also partners with a local WISP (Wireless Internet Service Provider) wherever WiFi projects are rolled out, saving on transport and other related costs and keeping money in the local community.



Due to partnerships with hardware suppliers such as Ruckus Wireless, Project Isizwe is able to procure equipment at wholesale and/or discounted prices.

Furthermore, our partnership with Neotel allows us to access their extensive fibre footprint in the country and get bandwidth sponsored or at significantly reduced rates.

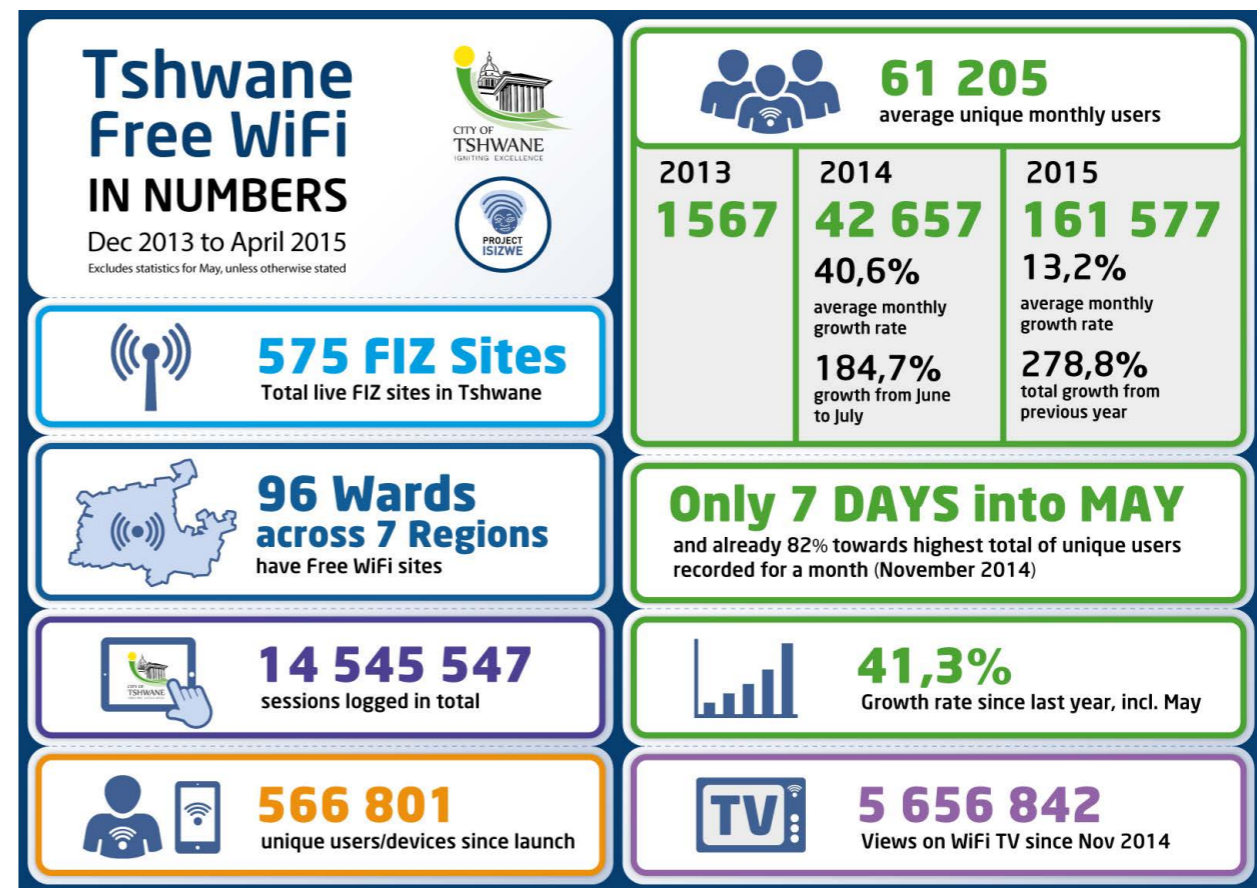
The result of the combination of these factors is carrier-grade performance at a fraction of the cost.

### Current projects

In early 2013, Project Isizwe CEO Alan Knott-Craig was introduced to the Executive Mayor of Tshwane, Kgosietso Ramokgopa.

After laying out his idea to provide municipality-funded WiFi to public spaces, the Mayor immediately concurred, explaining that like most administrations, universal internet access was part of his strategic plan for the city. The challenge was to find a financially feasible way to deploy a network.

Given the reasons outlined above, Project Isizwe provided a model to make government-subsidised free WiFi a reality. But the most important ingredient to progress has been a relationship of trust between the Project Isizwe team and the City of Tshwane.



Starting with an initial pilot project of 5 Free Internet Zones (FIZ) in key areas in the City, the success of the project has been staggering.

After having successfully deployed Phase 1 in November 2013, and Phase 2 in mid- 2014, Isizwe is currently rolling out Phase 3 of the Tshwane Free WiFi project. As of May 2015, there are in excess of 575 FIZs deployed across the City of Tshwane, covering a number of key locations including schools, community centres, University Campuses and other public spaces.

Internet speeds recorded by independent media practitioners consistently exceed 5mbps symmetrical, and user volumes continue to grow, with more than 620,000 unique users connecting to the service and more than 40,0000 unique users recorded in a single day.

The Tshwane Free WiFi project continues to go from strength to strength, and the Mayor announced in his recent State of the Capital address, the plans to bring 'free WiFi within walking distance of every individual in the City.'

This will entail a further 1848 sites, to be completed by the end of 2016, with a capacity to connect over 2 million people in total.

Project Isizwe also has live projects in the Western Cape (both government and privately funded) and Limpopo, with major deals in the pipeline with the Department of Higher Education and the City of Johannesburg.

In addition, Project Isizwe is actively engaged in discussions to enable free WiFi services in many other areas of South Africa, including engagements with various municipalities and other parties within the provinces of Limpopo, Free State, Eastern Cape and KwaZulu-Natal.



## Beyond free WiFi

Besides allowing users 250MB per day of free browsing, Project Isizwe has developed a content portal, 'Tobetsa', designed to give users access to uncapped curated content, which gives local communities the power to access information, educational content and jobs online. Tobetsa (a sotho word meaning 'click') is the default landing page and 'digital headquarters' of Project Isizwe's Free Internet Zones and curates some of the most useful local and international content for our free WiFi users.

The key content pillars identified are as follows:

WiFi Jobs – jobs portal, CV building, skills development.

WiFi Learning – online textbooks, learning videos, research, literacy.

WiFi TV – video-on-demand news service covering range of topics produced by young community journalists.

WiFi Health – pregnancy, HIV, TB information.

WiFi Entrepreneur – small Business training, admin and finance tools.

WiFi Fun – entertainment, games, social.

Government Resources – maps, transport services, health and emergency.

## WiFi TV

Included in the 'Tobetsa' curated content is 'WiFi TV', a hyper-local video-on-demand service produced by young community journalists. WiFi TV is an IP-TV network that helps governments communicate and entertain citizens in low-income communities via the free WiFi network and is also available to any resident via an Internet connection.

The WiFi TV service enables delivery of hyper-local news content via channels dedicated to low-income communities, creating a platform to promote service delivery priorities, local news and community issues. Within each chan-

nel, a variety of categories is available for users to find content most relevant to them across themes such as news, sport, education, entertainment, faith and more.

WiFi TV has so far proven to be the most popular content on the portal, with over 5.5 million video downloads since launch in November 2014. This will be further enhanced by integration with further value-added-services such as WiFi Chat, a free communications platform over the free WiFi network.

Local crews find the best, most relevant stories to inform, educate and entertain their communities. Content can be delivered via a free WiFi content portal such as 'Tobetsa' or through any regular internet network.

### **WiFi Chat**

As Project Isizwe looks to further add value-added services over the free WiFi network, a free messaging and forum service became a necessity.

Piloted in the City of Tshwane, WiFi Chat is a localised social network that allows the City to have real-time conversations with citizens and obtain feedback and information of service delivery priorities.

WiFi Chat is a bespoke public communications platform for government to solve its own communication challenges, providing a real-time, secure and easy to access medium for informing citizens of new developments or topics and receiving feedback, input and comments.

Users are able to create their own profile on the platform in which they can upload an avatar (picture) and some basic information about themselves (bio). Government will be able to create chat rooms for any discussion topic that they would like discuss with citizens. This could include information relating to service delivery, community projects or surveys.

This service will soon add further functionality such as one-to-one messaging and service delivery fault reporting and will integrate with additional VAS services in development such as WiFi Learning (educational portal), WiFi Voice (free calling over the network) and WiFi Drive-In (blockbuster movies available on-demand).

Through Tobetsa, WiFi TV, WiFi Chat and further VAS offerings we are striving to execute the same low-cost, high-impact approach to digital content. The aim is allow those unable to access digital content to connect to information relevant to them and their communities over a free access network. ■

*“Tshwane has made history by becoming the first metro to roll out free Wi-Fi and this is indeed a ground-breaking achievement for an African city. Access to connectivity must be viewed as a basic human right, analogous to the provision of basic services such as water and electricity. We have made tremendous progress in closing the digital divide and expanding internet connectivity.”*

*Executive Mayor of Tshwane, Kgosietsa Ramokgopa in his State of the Capital Address July 2014.*



# Building a culture of entrepreneurship and innovation

The Bermuda Department of E-Commerce writes about  
Bermuda's month-long celebration of entrepreneurship  
and innovation

**T**o the untrained eye, Bermuda may be a tiny dot in the Atlantic. To the tech-savvy investor and to the twenty-first century employer, it is a hub where technology and innovation are often a way of life.

The country's comfort with technology is quite obvious during Global Entrepreneurship Week (GEW), when the whole country takes part in the month-long celebration of entrepreneurship and innovation with a well-populated calendar of events and activities. One such event, which was established in 2006 by the Bermuda Government's Department of E-Commerce and has since grown into the focus of the week, is the Technology Innovation Awards.

The aim of TechAwards is to recognize the Bermuda residents and organizations who provide technology solutions that showcase Bermuda as a location that consistently acts as a launch pad for not just innovation, but for achievement as well.

The public is the driving force in the country's effort to recognise the outstanding achievements being made in Bermuda's information technology industry: nominations for the different categories come from the community.

The four TechAwards categories are: 1) Innovation of the Year – International, 2) Innovation of the Year – Local, 3) Innovative Youth Program of the Year, and 4) Mobile Application of the Year. The nominations are submitted to a panel of judges who evaluate each nominee and select the top three entries in each category for recognition during GEW's culmination event.

During TechAwards 2014, the International Innovation of the Year was presented to Trunomi, a pioneering company that has developed an online personal identity protection tool for the financial services industry. Holding a number of US and Global patent filings as well as trademarks and copyrights all registered and held by its Bermuda office, [Trunomi](#) is empowering consumers to take ownership of their own personal data and away from institutions and Big Business.

In winning this prize, which is presented annually by the Department of E-Commerce, Trunomi joins other Bermuda-based technology firms including global encryption leader QuoVadis, financial services firm First Atlantic Commerce, and software development and consultancy company Nova Limited.

Trunomi, a startup which has offices in Bermuda, Silicon Valley and London, provides software for identity verification. Its main products, TruHub and TruMobile, manage verification for customers of financial institutions and are designed for banks to manage compliance, customer onboarding, and [customer due diligence \(CDD\)](#). The B2Me solutions enable institutions and their customers to not only create auditable 'Golden Source' digital datasets comprised of customer identification data, but also to easily access and share them anytime, anywhere; securely and in full compliance with [global privacy and regulatory requirements](#).

Trunomi's TruMobile app introduced a Know Your Customer (KYC) communications platform through which consumers are able to manage their Personally Identifiable Information (Pii). TruMobile not only allows users to store Pii document bundles, but also to share them with institutions such as [banks and healthcare providers](#).

*Bermuda's TechAwards recognize notable achievements in information technology on the island and motivate and encourage the development of the ICT sector through academic, industrial and charitable pursuits*

Trunomi's TruHub is a solution for regulated entities that leverage cloud-based sharing to benefit from an efficient customer onboarding process that is 'five times faster at 20 percent of the cost of today's manual, inefficient process.' The data sets are friendly to both real-time surveillance and KYC auditing, which greatly reduces the regulatory risk as well as the time and cost that come with [training](#).

In addition to individuals controlling their own Pii and to institutions increasing their onboarding efficiencies, Trunomi's technology could empower consumers and institutions even further. When applying for products such as mortgages and credit cards, individuals can now submit the digital datasets to several retail bankers at once. The benefit of that? Receiving [multiple competitive offers](#).

In addition to winning a TechAward, Trunomi has also been selected from 800 applicants to be one of London's *Fin-Tech 50* and has been described as a 'game-changer transforming the future of finance.' The company has also, more recently, won the *Best Enterprise Solution Award* at the Benzinga Fintech Awards Gala in New York City.

Trunomi's products are timely for Bermuda, as the country is increasingly aware of the importance of privacy and of the protection of personal data, recognizing the complexities and concerns of the digital age and the global environment in which we operate. Indeed, the island is currently developing its own privacy and data protection legislation which will be designed to meet international best practice. In Bermuda, keeping personal data safe and secure continues to be equally paramount for individuals and organisations. The legislation therefore intends to address these challenges in a way that is appropriate for its size as a small jurisdiction, providing additional confidence for international businesses and their clients.

And although small in size, Bermuda is large in impact, as Trunomi's Stuart Lacey alluded to when he summed up the sentiments of many of the TechAwards winners: *"We are honoured to be recognized for our technology achievements, especially in the very early stages of our company. To be associated with such a prestigious award, one that works to promote Bermuda as a truly global, innovative and sophisticated technology and e-business hub, is quite an accomplishment."*

*“Bermuda is a fantastic location to innovate and be an entrepreneur,” says Lacey. “Top notch developers, leading edge IT infrastructure, sources of capital, and phenomenal corporate and jurisdictional governance are all well-established and readily available right on the island.”*

Truly, Bermuda is an ideal context for technological companies. It boasts excellent fibre optic connections, a talented service pool, a robust IT, legal and regulatory framework, and significant access to capital for investment and expansion. It enjoys global branding as a secure, safe and friendly jurisdiction for business and for companies, and Trunomi sees itself having a role in enhancing these strengths: by representing the best of Bermuda on a world stage, and by showcasing it as *“a center for incredible idea and technological development, and a welcoming, supportive, well-regulated and forward-looking jurisdiction,”* as Lacey concludes.

Bermuda’s TechAwards recognize notable achievements in information technology on the island and motivate and encourage the development of the ICT sector through academic, industrial and charitable pursuits. They continue to prove, year after year, that Bermuda is an epicentre of technology and e-business in the region. They also show that, perhaps more importantly, the Island remains a global leader in technology innovation and a prominent e-business jurisdiction every day, everywhere, for everyone. ■



# Managing risk, enabling trade

# Q&A

In a Q&A with Andreas Tesch future developments in  
credit insurance are discussed



Atradius Credit Insurance offers credit management solutions that protect businesses against risks inherent in global trade. We spoke with Andreas Tesch, the Chief Market Officer of Atradius NV

**Please describe the history of Atradius**

Atradius' history dates back to 1925 when the Nederlandsche Credietverzekering Maatschappij (NCM) was created to protect Dutch traders. Over the years the company has grown organically and through mergers and acquisitions of credit insurance, bonding, collections, reinsurance and information services companies across the world. In 1932, NCM became the official Dutch Export Credit Agency. While acquisitions of complementary businesses accelerated in the late 20<sup>th</sup> Century, the 2001 merger of NCM and Gerling Credit Insurance, which had been formed in Germany in 1954, represented a major step forward in defining the shape of what in January 2004 became Atradius through-

out the world. The business combination of Atradius and Crédito y Caución, the leading credit insurance and bonding company on the Iberian Peninsula is the most recent major addition to what is the second largest credit insurer worldwide.

With a uniform focus on making business to business (B2B) trade safer for businesses, no matter where they sell their products or services, Atradius has built a substantial network of offices and partner organisations that enable the company to deliver 'best in class service' across the world. 'We don't need to be the biggest to be the best credit insurer. Making our customers' experience the best we possibly can is our first priority.'

### **What range of solutions are provided by Atradius?**

Our largest product offering is credit insurance. Essentially, this is insuring that, when selling on trade credit terms in a B2B transaction, the seller of goods or services is reimbursed for the products or services if the buyer does not pay. We are able to offer credit insurance coverage to companies through our own offices, partners and insurers in which we have an ownership interest in 50 countries covering sales to buyers across the world.

Our bonding offering includes Contract, Customs & Excise, Commercial and Payment Bonds. Atradius bonds protect the buyer of products or service in a contractual agreement against the risk that the seller does not perform in accordance with the contract.

Atradius Collections helps companies, both insured and uninsured by Atradius Credit Insurance, collect overdue invoices. Whether those outstanding debts are with domestic buyers or in foreign countries, we have a network of collectors and lawyers all over the world with expertise in local business and legal practices as well as the ability to operate in the local language and culture that can increase the likelihood of recovery.

AtradiusRe is one of the world's largest specialist credit insurance and bonding reinsurers serving customers on five continents for over 40 years.

Credit management information is available on millions of companies across the world. Our information services offering enables companies to make smarter decisions about who they offer trade credit to and how much trade credit they offer.

In Belgium, France and Luxembourg we also offer instalment credit protection against short and medium-term risks involved in multiple instalment agreements with private individuals and businesses (business-to-consumer).

### **What expertise does the group have?**

Our strengths lie in credit management, more specifically underwriting and debt collection. Our underwriting enables our customers to make better decisions about how they use trade credit and protects them financially when

*Credit insurance is a basic concept that has been serving the world for more than 100 years. It is the backbone of trade, helping both buyers and sellers grow their companies*

those decisions result in payment default by their buyers. Our collections strengths lie in our ability to improve collection success through improving collection practices and in the actual collection of domestic and international debts which we can do while maintaining our customer's desired relationship with its debtor. In both underwriting and debt collection we have experienced teams across the world. However important to us is our customer service. All this is incomplete if we don't deliver top quality service and we strive to be best in class in this area as well as in credit insurance underwriting and collections.

### **How can you help SMEs and the smaller business?**

The obvious benefits of credit insurance and bonding are reimbursement of unpaid invoices and protection against the failure of a contractor to fulfil its contractual obligations respectively. But one of the greatest values you receive is the underlying information and analysis of the risks that support the insurance decisions. This is often unrecognised, but can save SMEs money and can be one of the most powerful and useful benefits that an SME will receive.

Whether the customer is local or in another country, finding information about its creditworthiness and assessing whether and how much trade credit should be offered can be time consuming, expensive and challenging. Atradius has access to information on approximately 200 million businesses across the world and underwriters with years of expertise in analysing that information in combination with the other factors that can impact their payment. This professional assessment gives companies more power to safely grow their business and can save them time and money. It creates a more stable financial environment for them to work in where their expenses are more predictable, their risk of loss is limited and the price of protection is often surprisingly inexpensive. Particularly when a policy can be tailored to focus more on the information or more on the insurance protection.

## What kind of insurance strategy should a business develop?

Businesses should be looking for information or knowledge, protection, and stability in their insurance strategy. There are a number of insurance products, such as liability and fire, that are required of businesses, sometimes more for the protection of their customers and employees than for the business itself. Many of these insurance products are focussed on the somewhat rare but potentially expensive incidences. These are the purely protection oriented products.

Insurance products that are more information or knowledge focused can almost be looked at as business improvement tools. These are the tools that are often overlooked and underused because businesses believe they can do it themselves or that they are just another expense. Credit insurance falls into this category. In many cases, businesses have a far greater likelihood of suffering a loss from a payment default than they do from a fire or a workplace accident yet they are far less likely to protect themselves from payment defaults.

When building a business insurance strategy one should weigh the real cost of not being insured against the real financial benefits of insurance and the overall value and protection it provides in a range of reasonably potential situations. Measure the cost of the insurance against your historical losses for that risk, but consider the other benefits the insurance provides and calculate that value into its cost.

For instance what is the replacement cost of the loss and how will that impact your business. But also when looking at your sales, think about how the failure of that buyer to pay would impact the business. What is the cost and value of the information I will receive from the insurer versus if I try and gather it myself and will I be able to make better decisions with the additional knowledge. This is where many companies find that credit insurance saves them money.

## **Please provide an example of how you have provided solutions**

I could provide you with a broad range of examples of how Atradius solutions have improved the lives of our customers.

We have a customer that found a new buyer, but could not find much information about that buyer's creditworthiness. We already had information on that buyer and were able to provide the protection our customer needed to offer trade credit right away. This is the case with hundreds of customers across the world, large and small, for which our credit insurance cover has enabled them to offer better terms to their buyers or grow more rapidly and securely, particularly with new buyers, through the use of Atradius credit insurance.

Another customer decided not to grant credit to a buyer after receiving information from us on that specific buyer. Six months later the buyer went into liquidation. Our customer avoided losses but its competitors did not. Our customer said this decision would have not been possible looking just at the latest financial data.

For some companies the information is more important than the insurance. A number of these companies have chosen to tailor their policies to focus more on the information portion of the policy providing them with the knowledge they need to make good decisions, while limiting their insurance spend by maintaining higher deductibles.

## **How do you see the sector developing?**

Credit insurance is a basic concept that has been serving the world for more than 100 years. It is the backbone of trade, helping both buyers and sellers grow their companies. However its penetration rate is relatively low. To expand, the industry has to evolve with the world and find new ways to appeal to a constantly changing business

environment. Not just in the way it markets itself, but in the way it serves businesses. This means new product variations that protect against new payment risks, new service offerings to ensure customers' receive what they need when they need it, constant technological advancements to keep pace with the customers' requirements and to find ways of meeting the needs of businesses that have not yet discovered the benefits of credit insurance. Businesses need to be able to make quick decisions and therefore consolidated sources of information, automation and flexible IT platforms, including 24/7 access to account information, will be mandatory in ensuring customers receive the best possible service. ■



The background of the slide features three overlapping, semi-transparent globes of the Earth. The leftmost globe shows North and South America, the middle globe shows Africa, and the rightmost globe shows Europe and Asia. The text is overlaid on these globes.

# Trade credit insurance

Robert Nijhout says trade credit insurance is adapting to new markets and new trends in trade, ensuring its continued relevance to traders in facilitating trade

**T**rade credit insurance protects suppliers against the risk of unpaid receivables. It is a trade facilitator, insuring around 15% of global trade, as well as an instrument for hedging risks and preventing the risk of class claims.

Trade credit insurance is more than insurance:

- Banks lend more capital against insured receivables
- Trade credit insurance contributes to increased sales and supports in opening up new markets
- Trade credit insurance saves costs for information, analysis and collection
- Premiums are a tax deductible expense under IFRS
- Trade credit insurance improves the policy holder's credit rating

Policies normally insure all receivables whether these concern exports or domestic sales. Clients can opt for political risk cover, depending on the country. It is further possible to insure selected risks or single risks, as well as the risk that a manufacturer has in case a buyer goes bankrupt before the goods are delivered. This is particularly helpful in case of custom made goods. Although the majority of underwritten trade credit insurance risks concern short-term credit, there is an increase in private medium term cover which can go up to 5 or 7 years in some cases.

ICISA members, who account for more than 95% of the private global credit insurance market, insure around USD 3 trillion of exposure, against some USD 8B premium income. These totals refer to both export as well as domestic transactions. In fact, the majority of insured business concerns trade between a buyer and a seller situated in the same country.

Backed by ample reinsurance capacity, underwriters are trying to attract and keep policyholders in an increasingly tough competitive environment. And as is the case in other sectors, competition often leads to lower rates, in spite of a risk environment that has stayed the same and in some cases has increased.

## Market trends

This mismatch between risk and price is one of the current trends in trade credit insurance. Particularly in markets where the product is well known the average premium rate should be higher. It is a buyer's market and as long as capacity remains ample and risk appetite continues, this trend is not likely to change anytime soon.

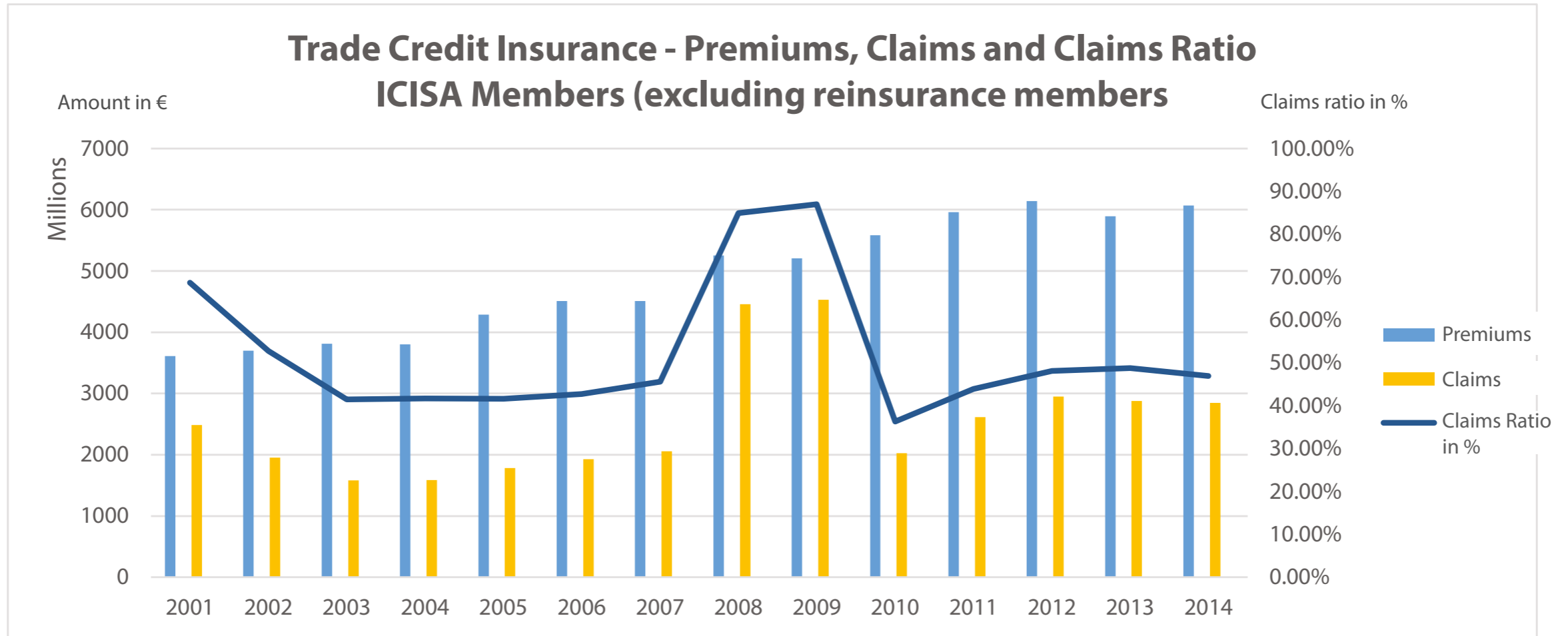
However, Western Europe and some Asian markets are experiencing a hardening of the market, although it is still too soon to call these markets hard. Competition not only comes from established players but also from a number of new market entrants. In an industry where the entry level for new underwriters was always an obstacle as investments needed were very high due to complex IT support systems and information infrastructures, these hurdles are now much lower, thanks to great advances in IT support as well as dedicated specialist service providers that facilitate these requirements against acceptable costs.

On the reinsurance side new entrants continue to be announced. In spite of current consolidation in the sector, there remains a need to diversify and trade credit insurance is an attractive line to consider for many reinsurers.

Perhaps the most relevant market trend is the change in client's expectations compared to say a decade ago. Policyholders are better informed, have more access to more data and information, and rightfully expect to get value for money.

*It is a buyer's market and as long as capacity remains ample and risk appetite continues, this trend is not likely to change anytime soon*

## Trade Credit Insurance - Premiums, Claims and Claims Ratio ICISA Members (excluding reinsurance members)



Source: ICISA

This has created a change in how underwriters interact with their policyholders. Trade credit insurance has always been a product with frequent contact between the client and the insurer. The industry promotes this and while this communication has been streamlined, policyholders receive much more information now than they used to. New products such as non-cancellable limits as well as pro-active information sharing by the underwriter have led to a closer relationship. The success of this is measured among others by retention rates. Policies are typically annual and renewed each year. It is the goal of every underwriter to retain as many policies as possible and retention levels of more than 90% in many cases are encouraging.

### **Claims**

During the recent financial crisis, trade credit insurance proved its added value. Over EUR 9B in claims were paid in the course of two years on unpaid receivables that otherwise would not have been compensated. Many insured companies would not have survived had it not been for this trade credit insurance compensation.

Claim levels dropped sharply in 2010 but have been rising since. The claims ratio is currently at an acceptable level of around 45%, although this is expected to rise in the near future. A rise in claims is noted in Asia, and in particular in China. This is partly the result of a higher involvement in Asian trade by the sector. After years of very benign claims figures, an increase is to be expected in the region.

### **Solvency II**

The most important market development at this moment is the introduction of the Solvency II regime in Europe. Solvency II is as important to insurers as Basle II and III are for banks. This introduction is arguable the biggest change in the TCI world for decades.

Despite a number of hurdles still to be taken, Solvency II will enter into force on the 1st of January 2016. But this will not be the end of the long journey that has led to this implementation date.

## **A little history**

After 13 years of deliberations and alterations, companies have now less than 6 months to become Solvency II compliant. The implementation process was marked by delays and set-backs. Although the original Directive on Solvency II had already been approved in 2009, the Omnibus II Directive, containing a lot of modifications to the original Solvency II Directive, was only approved late 2013.

Negotiations between Parliament, Commission and Council to reach a Trialogue agreement took quite a while and saw a couple of delays. Not unimportantly, Omnibus II was further developed in light of the 2008 financial crisis and its aftermath, resulting in the introduction of detailed measures presumably leading to a more risk-averse approach to supervision. The further development of the Level 2 legislation based on the SII Directive was more or less frozen, but is now, finally, taken out of the fridge.

The latest draft now called Delegated Acts have been sent out to the Member States for their feedback before they will be presented to the European Parliament for approval. On the 1st of January 2016 Solvency II will enter into force. This implicitly means that some insurance companies in Europe will have to accelerate their efforts in order to be compliant by 2016, but most companies are already acting as if Solvency II was already in force.

## **A voyage through uncharted waters**

An informal survey by ICISA among its members last year, showed that in terms of readiness for Solvency II most companies are only partly comfortable with the Solvency II regime. They feel comfortable with Pillar I (the quantitative part), despite the fact that not all details of the expected calculation methodology have been published. Compared to Pillar I, many companies feel less at ease regarding Pillar II (principles-based approach).

Regarding Pillar III (reporting to the Supervisors and the Market), delivering information to the Supervisors in an electronic format called Quantitative Reporting Templates (QRT), might seem to be a mundane topic, but simply approaching it as an IT challenge may turn out to be costly mistake.

Once SII has entered into force changes, amendments and recalibrations will take place. We can only hope that these future improvements will be more simplification. The complexity of Solvency II is of such an extent that only a few will have a comprehensive overview of the legislation among a sea of experts on parts of the directive. This can be particularly challenging for top management as supervisors are demanding more and more from them in terms of knowledge. Equally so, companies that in general consider Solvency II a merely administrative topic, only seen as a compliance issue, will miss out on a strategically important opportunity to overhaul the way they look at and manage different types of risk they encounter.

Overall, it is clear that Solvency II should be regarded as a strategically important project supervised at Management Board level and by no means as a compliance/IT project. If seen from the latter perspective a company will spend a lot of money without getting a decent return on its investment.

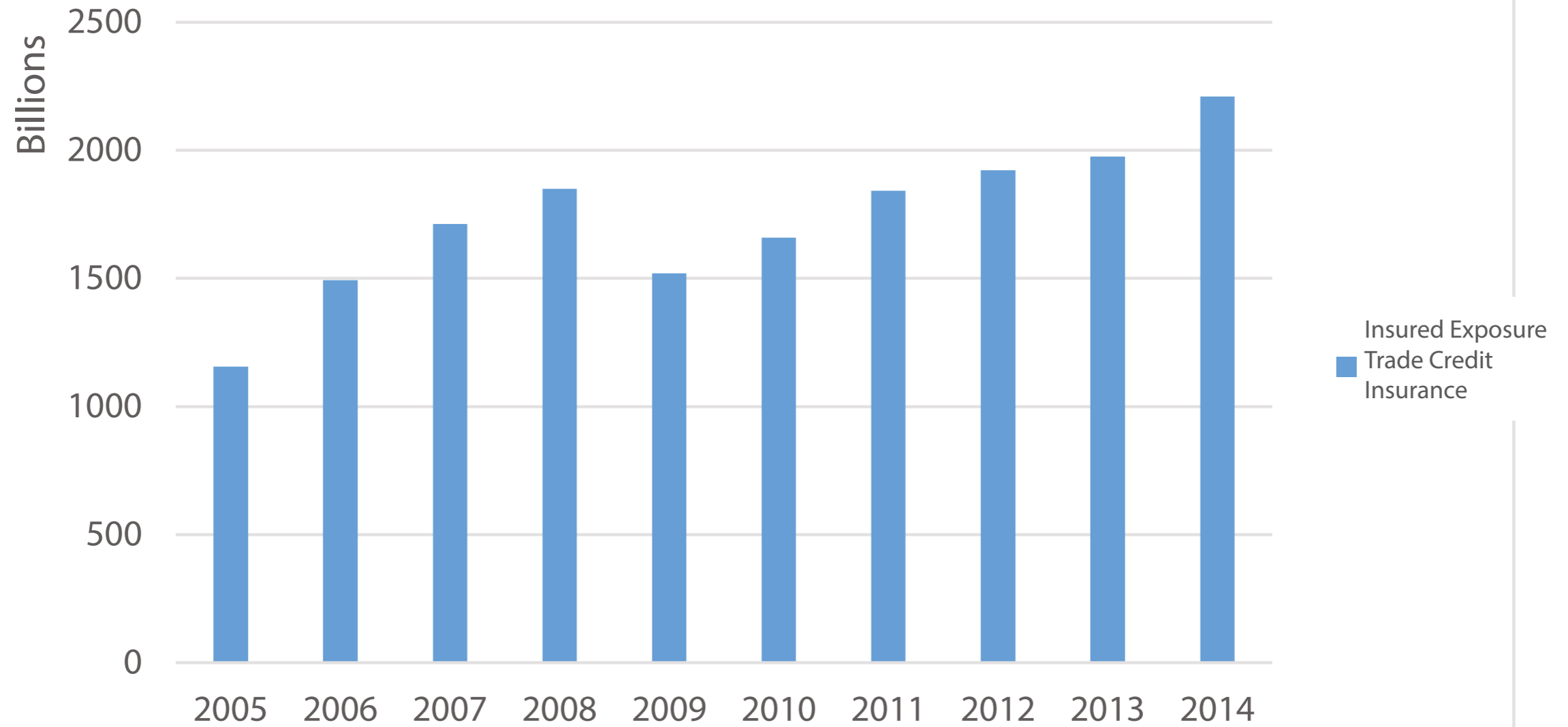
### **Catastrophic Risk concerns**

The main concerns among members of ICISA are the still the Standard Formula in general and the Premium and Catastrophic Risk part in particular. This flawed formula could erroneously lead to regulatory undercapitalization of companies or in other words, failure to meet the new regulatory capital requirements. Consequences may be serious. It may force them to withdraw from certain markets, underwrite less risk or offer less coverage to their clients. Reduced return on capital may prevent investments or could force management to pull out certain lines of business.

An important area of focus is the definition of Cat Risk, the definition of recession risk and the split between frequency, large claims and recession claims.

There is also concern about two additional aspects. First of all the changes to the legislation, e.g. calculation of Standard Formula, having become effective beginning of the year, could have an impact on the readiness of the industry, in particular as recalculations may result in unexpected results based on the enforced rewritten calculations.

# Trade Credit Insurance - Insured Exposure ICISA Members (excl reinsurance members)



Source: ICISA



Secondly, it turns out that the principle-based approach still leaves room for legislation and entity specific interpretation, which may lead to misalignment of insurer interpretation with regulator interpretation.

### **Solvency II matter outside of the EU**

Solvency II is not 'only' an EU affair, but it matters to the rest of the world as well. Other jurisdictions have or are introducing similar regimes. Many insurance companies are multinational operating in different jurisdictions, each with their own capital adequacy rules.

A situation can arise where capital adequacy rules differ or worse, conflict. This should be avoided and it is hoped that lawmakers consider existing regimes when drafting new capital adequacy rules.

### **Outlook**

Trade credit insurance underwriters have concerns for the future. The political instability in parts of Europe and the Middle East are worrying. The same applies to the situation in Greece and in parts of Latin America.

There appears to be a rise in new protectionist regulations in some developing economies which is another reason for concern. There are wishes for better buyer information in Asia, especially in China. Effective insolvency legislation in countries in the MENA region that still lack this is also welcomed.

In spite of these concerns and wishes, the outlook is positive. Growth is expected in Asia, Europe, MENA and North America. Africa is also developing as a new market for trade credit insurance. Trade credit insurance adapts to new markets and new trends in trade, ensuring its continued relevance to traders in facilitating trade, which is the oil of the global economy. ■

**Robert Nijhout is Executive Director of International Credit Insurance & Surety Association (ICISA)**



# A 'New Age' of uncertainty

Central bankers and policy makers have a much more complicated and difficult job nowadays, Daniel Dăianu writes

**T**he Great Recession has turned paradigms, policies, and the overall mood in industrialized societies upside down. But there is a heavy fallout in emerging economies too. Not least because of the huge externalities reserve money centres' policies entail around the world and their weight in the global economy. A gripping new 'age of uncertainty', of disruptions, seems to be a proper term to capture people's sentiments and changes of all sorts. Below is an attempt to sum up the dramatically altering environment in which policy-makers, central bankers included, operate nowadays.

### **The overall environment: cognition and policies**

Cognitive models in economics and business are questioned seriously; how to model non-linearities (tail events) is a big challenge, as is the integration of finance in macroeconomic models (Borio, 2012). There is a paradigm shift which says that price stability is not sufficient for economic stability. Thence the need to use macroprudential tools. Conventional and non-conventional shocks (including cyber attacks) proliferate and this harms systems' robustness and resilience. Rising complexity and inability, frequently, to understand it is a further proof that there is need for more simple, more transparent financial sectors.

The financial sector has powerful destabilizing features (Stiglitz, 2010; Blanchard and Ostry) and reveals a derailed institutional culture, in spite of efforts undertaken to reform its regulation and supervision in recent years. Oversize is also an issue for this industry (Pagano et al, IMF), that is extracting undue rents from the rest of economy and contributes to resource misallocation (Caruana).

Central banks are over-burdened in many countries; they can no longer rely on simple rules (like the Taylor's rule). This makes central bankers' life much more complicated and obfuscates the delimitations between monetary policy and other policies, especially when financial stability gets to the centre stage. The development of capital markets, however welcome this may be for diversifying funding sources in a period of bank deleveraging, brings about new systemic risks. Regulators and supervisors of these markets will, arguably, have to think increasingly like central

bankers to the extent shadow banking creates systemic risks (think just about the role central counterparties are asked to play, the volume of funds moved by hedge funds and money market funds worldwide, and sudden stops that can occur in these markets).

There is a spectre of much lower growth in the industrialized world due to debt overhang (a balance-sheet recession/Koo), demographics, income inequality (Piketty and Saez, IMF and OECD), technical change, and zero-sum games in the world economy, etc. Summers talks about a new 'secular stagnation' (see also (Eichengreen; Jimeno, Smets and Yiangou); Rogoff refers to a 'supercycle' by highlighting over-indebtedness. There are massive social and political implications of economic slowdown/recession. As the IMF notices, international policy coordination is often ineffective, although G20 and the FSB do play a role in the reform of finance.

The eurozone is, arguably, no longer menaced by a collapse owing to the ECB's extraordinary operations and large macro-imbalance corrections in its periphery. The stress tests and asset quality reviews have revealed better capitalization of banks. But other threats are looming: debt deflation could rekindle the menace of a eurozone break up unless the QE program is effective in averting deflation; the link between sovereign debt and bank balance-sheets has not been severed; and it may be quite unrealistic to think that a total delinking is feasible (at the end of the day the only entity which has taxation power, irrespective of how financial markets deem its reputation, are governments); market fragmentation has continued, although the periphery pays much less currently for issuing its debt

*Preserving financial stability is crucial and this mission hinges a lot on the health of the banking sector, on the effectiveness of macro-prudential tools*

due to ECB's special operations; internal demand in most of the eurozone is quite weak and suffering from the negative loops between weak activity, fragile banks, weak firms, diminished incomes, and the need for fiscal consolidation; the fragility of the growth model that relies on debt; the fallout from the Ukraine crisis on economic recovery in Europe, the return of major geopolitical risks.

Capital flows reversals are a significant threat in view of the disconnect between booming asset markets worldwide and the very slow economic growth rates in most of Europe. The search for yield would quickly be arrested were the Fed to taper its stimulus in a significant way.

### **Dilemmas of recent vintage**

Against the background sketched above policy makers in emerging economies (EMs) confront a series of major challenges

#### **The policy space issue**

For economies to adjust smoothly to shocks they need to rely on highly flexible markets and be able to resort to an array of adjustment tools. In Europe, in the single currency area, where the monetary policy and exchange rate policy are gone, the tasks for policy makers is enormously complicated unless local markets are sufficiently flexible and productivity gains in the local economy match those of neighbouring economies. In emerging economies, policy makers have to deal with the working of a 'global financial cycle' that can overwhelm their policies. This is the gist of Helen Rey's assertion that the 'trilemma' turns into a dilemma when financial markets are highly integrated. At the last Spring IMF meetings Raghuram Rajan, the governor of the Bank of India, was quite incisive about major countries' responsibility in framing policies that should consider the externalities these produce.

#### **Financial stability and macro-prudential policy**

Financial stability is a concern not quite of recent vintage. For high dollarization/euroization has always suffused central banks' monetary policies with a concern for balance-sheet and wealth effects and their relation with finan-

cial stability. There is need to revisit the pluses and minuses of deep financial markets in relation to the size of economy. In addition, one wonders whether the use of highly sophisticated financial products is warranted when markets can be so erratic, volatile. The experience of emerging markets in dealing with massive capital flows permits a range of inferences.

Thus, with regard to the macro picture, macroeconomic fundamentals (external imbalances, gross external debt and short term debt, budget deficits, etc) matter much, but they do not provide insulation against a tidal wave of great scale. This is, not least, because of: a/ the size of liquidity that has been pouring into emerging markets (Ems) during the past decade (EMs have attracted about \$7 trillion since 2005 through a mix of FDI, mergers and acquisitions, and investment in stocks and bonds – according to the International Institute of Finance data; b/ much borrowing has taken place primarily via bond markets (capital markets); c/ the emergence of index-tracking Exchange Traded Funds (ETFs), which has increased the indiscriminate nature of emerging market flows, and which leaves them vulnerable to across the board withdrawals. Sound macroeconomic fundamentals can make the difference between a recession and a balance of payments crisis (a ‘sudden stop’). Private indebtedness matters as much as public debt, and external indebtedness, gross external financing requirements (GEFR) lie behind fragility to external shocks

Concerning capital markets and fragility to external shocks, the size of domestic saving and domestic investors’ base help in making an economy less fragile (more robust). Deep financial markets entail pluses and minuses (non-resident investors’ share of local currency denominated bond issues). In spite of much improved economic policies in many EMs, investors tend to lump them together in times of sell off. In addition, there are capital markets instruments which entail an indiscriminate impact on emerging economies (ETFs). Capital controls are not of much help when massive outflows take place and political instability does amplify economic instability and risk aversion. Policy responses (policy rate rises) do not, frequently, have a decisive impact, while there can be a severe impact on economic activity. European EMs are, arguably, better prepared now than during 2008-2009 (some of them had awful macroeconomic imbalances before the crisis hit), but high external indebtedness and substantial GEFR continue to make some of them vulnerable.

Capital markets dynamics are linked with financial cycles. What drives a financial cycle is of utmost importance for the EMs, whose macroeconomic policies are heavily influenced by what happens in the big economies. There is, currently, a clash of visions with regard to adequate policies under the current circumstances. A Basel (Bank of International Settlements/BIS) view takes a long term perspective and stresses factors and policies which have made economies drift from sustainable trajectories (have amplified boom and bust dynamics) and resources be misallocated. Not delaying rises in policy rates would be a means to combat future boom and bust cycles, new big crises. Another view (linked with the secular stagnation thesis) highlights the threat of being stuck in a very bad equilibrium with intense hysteresis phenomena that may invite social and political troubles. Income inequality and highly skewed wealth distribution, which would impair economic growth, is a factor that should be factored in in both visions; it can bring them closer and reconcile policies that can bolster aggregate demand (for the sake of avoiding debt deflation) with measures that take into account resource misallocation.

We seem to be at the beginning of a new bumpy ride in world financial markets, at a time when the crisis is not yet over (in Europe, the impact of the financial crisis blends with the crisis of the eurozone). It is never futile to stress how much important for global markets is the international policy regime, what big players in the global economy do.

### **Economic recovery in the eurozone**

Economic recovery in the eurozone conditions the very sustainability of economic growth in European emerging economies via many channels, including finance. Economic recovery in the eurozone depends not only on national economic policies, but on euroarea level policies: on whether there is a significant bolstering of aggregate demand at the euroarea. More debt restructuring may be needed to help the private sector be reignited (Borio, 2012).

### **A trade-off between economic growth and financial stability?**

The possible trade-off alluded to above is, probably, the most profound 'Grosse Frage' for academic economists and policy-makers nowadays. One could say that this question sets a Basel view against a view that is more concerned

with the level of resources used in the economy, with the need to combat high unemployment and avoid poor equilibria. One view takes a longer term perspective; the other pays attention to what may push an economy toward a bad equilibrium and keep it stuck there because of hysteresis phenomena. A related question is the growth potential of mature economies. Gordon would say that it is lower than in the past owing to a range of structural factors including demographics, education, the nature of technical change etc. Other voices would argue that this growth potential may be eroded by not adopting the right policies now, in the wake of the current crisis. Others fear that attempts to foster short term growth may sow the seeds of future crises by enhancing the search for yield and risky behaviour (Borio, 2014; Rajan).

Is a way out of this conundrum? Summers (2014) seems to be quite pessimistic in this regard and is quite sceptical of QE programs (owing to their perverse effects); in this respect he meets the Basel view. One would have to consider also the relationship between economic growth and income distribution. It is quite an amazing change to hear top officials of major central banks voicing concerns in this regard, their worries that income distribution may hurt economic growth (Yellen, Mersch, Haldane); IMF and OECD experts voice similar concerns. The debate encompassing these issues is of enormous importance to central banks, for their mission cannot be divorced from what policy makers do in order to resuscitate their economies.

### **The reform of finance: size, content, shadow banking**

Measures have been taken in order to bolster capital and liquidity requirements, reduce leverage, limit pay, enhance transparency and discourage excessive risk-taking, etc. But, arguably, more has to be done. For example, dealing with the 'too big to fail' syndrome requires the application of anti-trust legislation, as it does happen in various industrial sectors; this would imply splitting big financial entities. A sort of Glass-Steagall legislation should be restored, as after the Great Depression. Ring-fencing retail from trading activities is, arguably, not sufficient for protecting tax-payers. More own capital and less reliance on debt (as against the Modiglian-Miller theorem which implies that where capital comes from does not matter), rules that prohibit the use of depositors' money for the own trading of banks would also contribute to making systems more robust.



## Final remarks

Policy makers have a much more complicated and difficult job nowadays. Not only that the impact of the financial crisis combines with a persistent eurozone crisis, but cognitive and operational models have been questioned. It is a period of increasing uncertainty, when central banks navigate in uncharted territory, which is well illustrated by the diplomatic euphemism of 'non-conventional policies'. Furthermore, a threat of 'secular stagnation' and the menace of debt deflation in the euroarea are pointing at years of painstaking efforts to keep the boats afloat. Central banks in European emerging economies have their tasks shaped by membership, or not in the euroarea, the size of domestic macroeconomic imbalances and of public and private debts, the degree of euroization, intensity of deleveraging, etc. Preserving financial stability is crucial and this mission hinges a lot on the health of the banking sector, on the effectiveness of macro-prudential tools. This goal will influence monetary policy, inflation targeting regimes too. For European EMs, joining the euroarea would, arguably, be a mistake unless there is substantial real convergence and the single currency area does not get proper fiscal arrangements (fiscal integration). Joining the Banking Union is an option under consideration in view of the heavy presence of international banks on local financial markets. But the deep interest and concern of any lucid policy makers is to see the functioning of a 'complete' banking union, which should help achieve a proper design of the euroarea. An adequate design and better policies in the euroarea would help prevent debt deflation become a reality and threaten the very existence of the EU.

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The background of the slide features a close-up of a Euro coin. The coin is heavily cracked, with a prominent vertical crack running down the center. The word 'EURO' is embossed on the right side of the coin, and a map of Europe is visible in the center. The coin's surface is a mix of gold and silver tones, with the cracks revealing a darker, more textured material underneath.

# The missing piece in the EMU puzzle: economic policy coordination

Europe's institutional architecture is evolving in response to the eurozone crisis and years of economic malaise. Bruno Mações argues for a flexible institutional framework that allows for stronger economic policy coordination, convergence and solidarity

**E**urope stands for an integrated space where borders tend to disappear and ideas, people, goods, services, and capital are allowed to move freely. If this is what a closer union means, then it resonates deeply with what European citizens want.

### **Ideas, people, goods, services, and capital**

One crucial piece of the puzzle is still missing. Even those who have no interest in creating a European superstate must wish that this free space of communication includes political choices. We need to break the dynamic of political fragmentation by which public policy in each member state is conducted in isolation. If entrepreneurs, students, and bankers work within a common European space, so should policymakers. If economic policies are not made to converge in some fundamental respects, then a true European space will never exist, because those policies will themselves work as barriers.

As we painfully discovered over the last five years, financial markets need a common institutional structure in the EU and particularly in the eurozone. A financial union is a structure that allows agents to act freely while creating centripetal forces at a deeper level. But fragmentation can just as easily be found in labour markets, energy markets, as well as the education or social security systems.

There is an economic reason why a framework for policy coordination is needed. Since important markets like finance, energy, technology, and transport are heavily dependent on public policy choices, we will not have a fully integrated internal market until we have some level of integration in economic policy as well. Additionally, there are positive spillovers from structural reform and economic policy that can be captured through better coordination. If reforms implemented by each country in isolation produce positive results, cross-border coordination produces larger and more evenly distributed benefits.

### **Legitimacy**

There is also a political reason that is related to legitimacy. It is odd that small interest groups within a member state

that are affected by a national decision can participate in the policy process, while the interests and concerns of other member states that are just as affected are not taken into account or are only very poorly taken into account.

There is a case for some form of common governance over economic policy, just as there is a case for a common fiscal framework in the EU. The question is how to design this form of common governance in a way that makes sense and that can avoid the problems we ran into in the past, for example when discussing the idea of contractual arrangements a year ago.

Indeed, this is a matter of common responsibility. The EU has made huge strides in bringing national economies closer together. Economic integration is a matter of both efficiency and equity. It ensures that resources flow to where they can be more efficiently used and it creates a level playing field for economic agents all over the common market. This common market will only flourish and prosper if we are able to create policy instruments that are just as integrated. Member states need to recognise that cross-border coordination creates positive spillover effects and that in the case of structural reform and other large-scale economic policies a valid constituency exists beyond their borders.

We see three main paths forward, which should form the basis of a constructive debate over the next year. Even if there is no agreement right now on the right instruments, we cannot continue to ignore the problem.

*This common market will only flourish and prosper if we are able to create policy instruments that are just as integrated*

## **Mechanisms for stronger economic policy coordination, convergence and solidarity**

### **The flexibility clause**

Flexibility is already built into the existing rules of the Stability and Growth Pact (SGP) and additional guidance on how to make the best use of this flexibility was recently provided. Nevertheless, the question still suffers from a number of ambiguities. From the moment when fiscal guidance is set in structural terms, that is cyclically adjusted and net of temporary measures, fiscal guidance should be able to track the structural deficit, without much need for additional considerations. The idea behind this was quite simple – fiscal policy should be dynamic rather than static. What matters is almost always the medium and long term fiscal trajectory and the need to make it sustainable. The static point may in some cases be less favourable if it corresponds to more favourable dynamics.

But there is another, entirely different set of considerations and those remain unaddressed. The SGP mentions potential growth as one of the two main variables for fiscal guidance. The other, still unexplored, is economic policy coordination.

The Commission proposal for an Investment Plan for Europe adopted a favourable treatment of national financial contributions from member states to the European Fund for Strategic Investments (EFSI) on the understanding that such contributions would not go into separate national silos and would thus be clearly marked as being in the interest of the EU as a whole.

The crucial element here is not the need for a dynamic analysis of fiscal policy, but rather the need for an aggregate analysis. In other words, in some cases it may not make sense to look at the fiscal stance of each member state in isolation. This is one case where it may be useful and even necessary to have a discussion on the overall fiscal stance of the EU and the eurozone in particular.

The idea could be further developed in order to address the need for closer coordination and convergence in economic policymaking. If a member state implements reforms that help it converge with the rest of the EU, then it

should be possible for the costs or investments associated with these reforms to receive adequate treatment in terms of the overall fiscal stance of the Union. Otherwise, there is little incentive for those reforms and the SGP will work as an engine of policy divergence and fragmentation (ie, 'If investment is considered only in terms of my own fiscal position, then I should decide without taking into consideration the interests and policy goals of other member states').

In practice, economic policies and structural reforms with significant economic spillover or a coordination dividend, or which more generally promote greater policy convergence could benefit from adequate incentives from fiscal guidance at the EU level. Those incentives would be able to incorporate the overall fiscal stance. In other words, the Commission could be more or less flexible depending on the fiscal stance of the EU or the eurozone as a whole. In periods when fiscal policy is constrained by concerns over debt sustainability, the critical test on the coordination dividend of proposed reforms would have to be more stringent.

For the flexibility clause to provide an effective basis for economic policy convergence, an intense dialogue between each member state and the EU institutions, both at technical and political levels, would have to be envisioned and developed so as to properly identify the best opportunities for coordination and convergence.

### Economic partnerships

In this case the mechanism would be designed from a different template – a banking union as the framework for financial integration. Free movement of capital and even a single currency were not able by themselves to create integrated markets. It may have seemed at some point that financial integration had been or was in the process of being achieved, but such illusion did not survive the global financial crisis.

Why was it not enough? Because fundamental public policies and structures dealing with bank regulation, supervision and resolution remained national and pushed for growing fragmentation.



The lesson learned while building the blocks of a functioning banking union could be used elsewhere. In a number of markets it is simply not sufficient to eliminate barriers. It is necessary to bring policies closer together. Negative integration is not enough. We need a certain level of positive integration.

It is useful, when discussing economic policy coordination, to remember that the intergovernmental logic cannot simply be abandoned. It is possible to reach better results if we are able to combine the interests and views of different countries without excessive centralisation and without questioning the basis of their own policy space.

While the mechanism of the flexibility clause described above is a logical conclusion of the communitarian method and relies on the intermediary role of the Commission, our second proposal is based on the intergovernmental method. It would be possible to create policy convergence areas, either with geographic or sectoral configurations, taking full advantage of the possibilities offered by the enhanced cooperation framework.

The template is in many respects the creation of a banking union, which could in the future be extended to other sectors where, to all evidence, negative integration is not sufficient, namely energy, digital, labour markets, and education.

In the digital area, for example, an intergovernmental agreement could decide the bases for regulating digital markets in participating member states or, alternatively, set the right procedures for economic policy coordination for specific policies – privacy and data protection, mobile spectrum policy, value shift from network renters to network builders, ultrafast 5G mobile technology, etc. The Investment Plan for Europe or other similar schemes could make the necessary funds available so that every member state would be in a position to join such a digital union if and when it so desired. The mechanism would consist in something like an economic Schengen agreement, in the words of a recent report commissioned by the French and German governments. Or more exactly, there could be a certain number of economic Schengen agreements, with variable geographic and sectoral configurations.

## A convergence process

The most ambitious mechanism takes as a template the creation of the euro and the Maastricht criteria. In that case a certain level of policy convergence was obtained at the end of a long process. The ability to participate in the single currency was simultaneously the final goal of the process and the motivating reason for member states to implement the necessary reforms, which were mostly macroeconomic convergence reforms.

The same mechanism could now be extended to micro convergence. Just as the creation of a common currency was the final point in a process of macro convergence, one could envision that the creation of a genuine EU employment and social policy, including an eurozone wide unemployment insurance scheme, would culminate a process of policy convergence consisting essentially of those labour market reforms which form the precondition for further integration efforts in this area. The mechanism would provide political backing for difficult but necessary reforms.

It should be noted that the mechanism solves the incentive problem much more adequately than the mechanism of mutually agreed contractual arrangements discussed in the past. There can be no better incentive for economic policy convergence than a process of progressive integration, a process developed over time and firmly anchored in the appropriate rules and institutions.

The establishment of a fiscal capacity to facilitate adjustment to economic shocks was defended in the *Four Presidents Report of 2012* as a further and crucial element in strengthening our crisis management framework, but no such shock absorption mechanism could work without greater convergence and coordination between economic structures and policies of the member states. Convergence is essential also in order to avoid the risk of moral hazard inherent to every risk insurance mechanism. From this perspective, the two goals can reinforce each other and the long-term objective of building a fiscal capacity in the Eurozone can help further greater economic policy convergence. ■

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*This column is a revised version of a discussion paper the author sent to the European Commission and to his fellow Europe Ministers in preparation of the discussion on EMU reform leading to the June Four Presidents report.*



# Reform, not renegotiation

Lucy Thomas says David Cameron should push for  
changes that benefit businesses across Europe

**T**his is it. After decades of debate, Britain is going to have another referendum on its membership of the European Union. But first, David Cameron will undertake a 'renegotiation' of the terms of Britain's membership. Some might believe the horse-trading that is to come to be inconsequential, a lot of white noise and hot air before the main event of the referendum, to come in 2016 or 2017.

Nothing could be further from the truth. The overwhelming majority of British businesses who know that Europe is our future have a direct interest in making sure that David Cameron succeeds. Not simply in order to make the EU better – though that would be a great prize. But to better the chances that the British public will decide to stay in. The last YouGov opinion poll showed a ten-percentage point lead for staying in the EU. But that lead rises to a staggering 34 points if David Cameron recommended staying in on new terms.

So what should London look for from Brussels? Firstly, their goals must be achievable – the anti-European movement is salivating at the prospect of branding the whole exercise a failure. But secondly, they must be genuine reforms, which break open the struggling European economy to benefit businesses and citizens. Getting the balance between realism and ambition right will decide the future of Britain's economy.

To start with, the government should learn from the Hippocratic Oath – 'First, do no harm' – and work out what changes the other 27 member states cannot deliver. First, there is no chance of changing the EU treaty before the end of 2017. Doing so would require unanimity among the member states, many of whom would have to put it to their peoples in referendums. The chance of a new treaty being passed in the current eurosceptic climate is virtually nil, and EU leaders know this. It is believed that David Cameron had hoped to attach Britain's demands to a treaty changing the governance of the eurozone, but France and Germany have made it clear that any moves they make in this direction will not involve treaty change.

Second, the free movement of people is one of the four pillars of the EU. Plenty can be done, mostly through UK law, to stop migrants from the EU from exploiting the welfare state. But those who talk about quotas for Europeans

coming to Britain have it completely wrong. The same goes for those who seem to believe that we should go back to the days when a single national government (or our national government, at any rate) could veto absolutely anything coming out of Brussels. Not only would this require a new treaty, but it would create sclerosis across the continent, and so will not happen.

So, if we are clear about what the government should not fight for in Brussels, what should its agenda be? The UK reform agenda should focus relentlessly on creating growth and jobs – pulling Europe out of the doldrums and allowing our businesses to flourish. The UK does have special issues which need dealing with, our position outside the euro-area being the obvious one. But the most important measures are those which will improve the competitiveness of Europe as a whole, not just of the UK.

The most important of these is the completion of the Single Market. Britain's greatest achievement in Europe was the gradual breakdown of non-tariff barriers to trade between EU states. And it has been some achievement – according to the European Parliament, the existence of the Single Market from 1992 to 2006 created an additional 2.8 million jobs across the continent.

But it has the potential to be much better. In digital, energy, capital markets and whole swathes of services, the no single European market exists. It is estimated that completion of these areas could boost UK GDP by £110 billion

*Business will be crucial to this debate - as the general election result proved, most Britons trust business leaders above politicians on the economy*

a year. Will all this be achieved by the end of 2017? Of course not. But significant progress can be made. The more businesses feel that things in Brussels are moving their way; the more enthusiastic they will feel about staying in.

The same principle goes for free trade agreements, in particular the Transatlantic Trade and Investment Partnership (TTIP) with the United States. While it's fair to say TTIP has encountered stumbling blocks, things do seem to be looking up – the European Parliament's powerful trade committee has voted in favour of the principle of investor-state dispute settlement, while the German Social Democrats have dropped their opposition. TTIP has the potential to be truly transformative. It is estimated that the deal would boost EU exports to the US by 28%, and benefit the UK economy to the tune of £10 billion a year. While ratification may not be possible in time, especially if the government goes for a 2016 referendum, the conclusion of negotiations would send a powerful signal to British businesses and voters that the EU is capable of using its heft to break open markets to UK firms.

One thing that grates British businesses, and in particular SMEs, is EU regulation. While the cost of 'Brussels red tape' is frequently overestimated, there is no doubt that some unnecessary and clumsy regulation has emanated from the EU in recent years. The EU should focus on its core purpose – benefiting business by collapsing 28 sets of regulation into one – rather than regulating for the sake of giving MEPs something to do. And it might be possible for Cameron to achieve opt-outs or changes to certain pieces of legislation that irk, the Working Time Directive being a classic example.

There is also scope to improve democratic oversight of the EU institutions through the House of Commons, and protecting the euro-outs from eurozone caucusing. As to the first, the Centre for European Reform has argued that the Commission could promise to treat 'yellow cards', where a minority of national parliaments can band together to delay a proposal, as 'red cards.' This would allow national parliamentarians to simply block Commission proposals, and could be achieved without treaty change. The second problem is overstated in the media – a recent European Court ruling on clearing houses explicitly defended the integrity of the Single Market over the perceived needs of the eurozone. However, gaining observer rights for the UK and other euro-outs at eurogroup meetings would be a

step in the right direction.

The current mood in Brussels and across the continent makes this agenda more deliverable than it would have been a year ago. The economic portfolios in the new European Commission are mostly held by economic liberals from traditionally pro-British countries: Cecilia Malmström at Trade, Margarethe Vestager at Competition, and Frans Timmermans as Vice-President for Better Regulation. The last is the most important. Timmermans, the one-time Dutch Foreign Minister, is a great believer in subsidiarity. 'National where possible, Europe where necessary' is a Dutch phrase which Timmermans believes in wholeheartedly. Already, the drive to cut down on red tape has begun – this year's Commission Work Programme contained 80 withdrawn initiatives and just 23 new ones, as opposed to the hundreds which used to be churned out during the Barroso years. In addition, British Commissioner Jonathan Hill has been given the vital Financial Services portfolio.

Around Europe, the prospects for change are also good. There is not a single member state that wants Britain to leave, and almost all are willing to make concessions to keep us in. Northern European countries like Germany appreciate our economic liberalism; France enjoys a close relationship with the UK on security issues; and the eastern states like our generally tough approach to Russia. And nobody wants Europe's biggest economic success story on the outside. These are not reasons to be over-ambitious – if Britain asks too much, sympathy will evaporate. But a reasonable reform agenda will command wide support.

### **What does all this mean for the referendum?**

Much will depend on how the Prime Minister's reforms are received by his own party. For the moment, there are just 50 members of the new organisation Conservatives for Britain, whose motto 'change, or go' gives an indication of how inflexible they're likely to be when his reforms don't match up to their deliberately unrealistic expectations. At the other end of the spectrum are the Conservative European Mainstream, numbering around 60-80 MPs who would be likely to vote to remain if the reforms were only moderate. The key bloc is the remaining 200 or so in the middle that are waiting to see the outcome of the reforms - and will decide if it's enough to push them over the line.



An added twist is the Conservative leadership race, which is likely to take place shortly after the referendum. David Cameron is expected to stand down after the referendum, leaving others to jostle for position in the run-up. These include George Osborne - in charge of the renegotiation from his newly-elevated position of First Secretary of State as well as Chancellor, who will be highly unlikely to do anything but advise a vote to remain in on the new terms he has helped achieve. Then come other, less predictable candidates: Boris Johnson as a young Telegraph reporter in Brussels was known to terrorise EU institutions with his nose for an 'EU gone mad' story. But despite his eurosceptic credentials, would he really campaign for a No vote if the reforms were not up to scratch? Home Secretary Theresa May is another who is said to be indifferent as to whether Britain remains or walks away from the EU. This may be the case now, but it remains to be seen whether she would take the step to campaign to leave.

Last, and by no means least, is Sajid Javid, the Business Secretary with huge popularity in the party and as they say in the trade 'an impressive backstory.' This means that he came from a humble background, worked extremely hard to become the youngest Vice President of US bank Chase Manhattan, and is now a favourite to become party leader. His position on Europe too is one of the most certain - and for those of us on the pro-European side, worrying. He has said that he 'wouldn't shed a tear' if we left the EU, and unlike perhaps some of the others, he means it. The big questions are these: will one of the leadership contenders back Brexit, and if they did, would that force their rivals to do the same in order to avoid being branded as the pro-European candidate?

The outcome of all this Conservative Kremlinology will doubtless affect the referendum result. But the key to keeping Britain in will be wielded by a broad-based, pro-European campaign making the case for British membership. While business and the economy will of course be at the heart of the message of this campaign, they should not crowd out other issues. A successful pro-European campaign will need to point out how EU membership helps keep our beaches clean and our air fresh; how it allows us to fight cross-border crime; and how it keeps us safe from a resurgent Russia. A more social democratic case, involving trades unions and emphasising the workers' rights outlined in the Maastricht Treaty, will also be essential.

Warning of the exodus of jobs and investment Brexit would cause will also be important. So, too, will be scrutiny of the various inadequate blueprints of Britain's place outside the EU. But any campaign must earn the right to be heard by being predominantly positive, thus avoiding the reaction to 'Project Fear' negativity that occurred in Scotland.

Most pro-Europeans were wary of this referendum given the risk to our future if people voted to leave. But now it is here, we are fired up and ready to have the national debate and trumpet the extraordinary advantages that come from being part of the world's largest economic bloc. Business will be crucial to this debate – as the general election result proved, most Britons trust business leaders above politicians on the economy. The time has now come for British business to join us in making this vital case. ■

**Lucy Thomas is Campaign Director at Business for New Europe (BNE)**

# Muddling through won't solve Europe's problems



Benjamin Zeeb explains why Europe has to attempt the impossible to overcome them

**G**ermans call it 'Politik des Machbaren', the politics of the doable or translated a bit more freely the politics of the possible. It's a political strategy that concentrates on the micro problems of the day, one step at a time and avoids or postpones all issues that seem too big or too far removed from the average citizens' immediate concerns to tackle head on. It's an excellent strategy as long as things are going reasonably well; and for roughly a decade after the introduction of the single currency Europe went by just fine following its very gradual path towards deeper integration, gently undermining national sovereignty without forcing any kind of major change in its political system.

It was believed then that the government that governs best is the government that governs least, and by this standard Europe in general and the eurozone in particular had set up a perfectly adequate system for themselves. Those calling for a deeper integration of the continent, lamenting the unfinished state of its political Union could be easily waved off: At best they were ever pessimistic doom-sayers, hopeless romantics at worst. The United States of Europe was a fanciful dream harboured only by those with little experience in the complicated realities of European policy making and for those proposing such an agenda it revealed a naive believe that complicated problems could be resolved with an easy fix.

Europeans are rightfully weary of anybody proposing easy solutions to hard problems and anybody who tries to sell any kind of political agenda as some kind of magic elixir should always be regarded with the highest degree of scepticism. The hard fact is that federalization will neither be easy nor will it solve any of our most pressing problems instantaneously. But if we can't bring ourselves to complete Europe's political union we won't be able to solve any of them.

The failure of the current European system of sovereign nation states to deliver results that ensure the continued security and prosperity of its citizens have become most visible in two policy fields: foreign policy and the politics of the single currency. Europe's politicians should stop asking what little they can achieve within the narrow confines of our existing confederal structure but should focus instead on what actions need to be taken to put Europe in a position to actually be able to address these challenges and give us a chance to overcome them.

## The single currency

For a while there in recent days it looked like Europe's leaders were on route to accidentally stumble across the Rubicon on Greece. With an inexperienced and undisciplined new government in Athens hardly able to control its radical backbenchers and the eurozone's captains determined to continue on the path of strict austerity for debtor nations, an unprecedented exit of a member country from the euro area suddenly seemed to be a real possibility. Most likely, by the time this article is published a deal will already be in place. Analysts will debate who won and who lost in the negotiations and base this on the size of Greece's allowed primary surplus and the details of the reforms Greece will have had to agree to.

The truth is, it doesn't really matter. There is no deal to be made within the existing legal framework that fixes the single currency's deep structural flaws and whether or not Greece is forced to cut down on pensions might be relevant in the context of national politics, but it won't be of any greater consequence further down the road. Merkel, who has by now taken over the negotiations from Schäuble, will claim to have stood firm on *pacta sunt servanda* of course, but it is clear that each time we arrive at these critical junctures the eurozone's rules have to be bent further to the point that they will eventually lose all meaning.

That is not to say that no progress has been made at all in the last couple of years. The huge gap between German unit labour costs and those in the rest of the eurozone has shrunk significantly. Greece has proved able to stomach

*It is now time to seriously consider federalization as a means to restore democratic accountability, legal security, decency in the face of human suffering and legitimate governance to the eurozone*

an astonishing amount of internal devaluation while Germany's unions have come out of crisis mode (where they traditionally show restraint and support Germany's national business interests) and have started to demand higher wages.

We shouldn't however assume that this development will continue. With youth unemployment across Europe's battered South remaining painfully high and social unrest translating into political change there is little chance that a healthy balance can be found in the relative competitiveness of European nations.

The partial realignment might help mask the fundamental flaws of the single currency for some time but it can't change the fact that the eurozone, once designed on the principles of mutually beneficial cooperation between sovereign actors, has devolved into a creditor-debtor relationship where solvent countries call the shots and the constituents of weaker member countries have lost their say in all matters European. To return democratic legitimacy to the eurozone there are but two solutions: either a breakup and a return to truly sovereign nations in control of their own national currencies, or true political Union, with a budget of the size that allows for automatic transfers and so enables the euro to work in a way similar to the US dollar.

Whatever the outcome in Greece, the eurozone will remain under pressure. With the Spanish elections approaching rapidly, there will likely soon be another country that, like Greece, feels it has done enough austerity. Paying back its debt might not be the principal problem here but another one arises: the new Spanish government will have to ask itself how to pay for its citizen's demands and whether it will be able to do so within the confines of the single currency.

The initial deal that traded financial support by Europe's northern bloc for though reforms in the South is not sustainable in the long run. It must be supplemented by a structure that takes into account that once Europe's nations gave up the right to control their currencies they also bought into shared sovereignty. We now need to supply this European sovereign that was essentially created with the introduction of the euro in 1999, with the means to exercise its democratic rights.

## Foreign policy

A split has occurred in the transatlantic relationship. It is not really political let alone philosophical in nature. But European and American interests have started to diverge. With the Middle East in flames, radical Islam on the verge of making its transition into statehood, thousands of refugees losing their lives in the Mediterranean all while an emboldened Russia keeps pressing on our eastern borders it is clear that within the Western bloc it is Europeans who are affected most by recent developments.

While the US continues to be the only actor on the world stage capable of decisive action, military as well as diplomatic, their appetite to reengage in parts of the world that yield little to no economic or strategic benefits, has clearly diminished. They might not have pivoted to Asia quite yet, but the TPP is moving ahead, their dependence on oil imports has been greatly diminished, and the Iran nuclear deal is almost done and dusted. There is reason left to keep an engagement that was once as crucial to their global ambitions as it is now to Europe's security interests.

European nation states, however, find it difficult to see the bigger picture. With France mainly concerned about the threat of Islamic terrorism, the Poles feel left alone in what they rightfully perceive an increasingly perilous neighbourhood, while the Italians lament the lack of European solidarity in policing the Mediterranean. Italy's Prime Minister Matteo Renzi recently felt it necessary to announce a mission to recover drowned refugees' bodies from the sea to provide his European partners with an undeniable image of the human catastrophe going on at our Southern borders.

Meanwhile Germany remains comfortably enclosed by friendly nations, a benefit of Eastern enlargement, and seems unperturbed by its neighbour's urgent calls for joint action. To help the search in rescue mission and keep refugees from drowning the German Navy recently sent a boat to the Mediterranean. That's right, one boat.

Europe needs to wake up to the reality that it has to start taking up the responsibility for its immediate environment and come up with a strategy that constructively helps shape the global situation, especially when it disrupts local

conditions so significantly. After a decade of failed interventions this of course is not meant to imply that Europe should simply pick up where the Americans left of. However, in order to combat the manifold human catastrophes at our borders and within our global vicinity, we need to start thinking and acting on a completely different scale. This again, will only be possible if Europe manages to overcome the nation state as the prime organizing principle of our political structure.

The creation of a single European foreign policy, including an army with a single command structure is a vital step in preserving Europe's security as well as her interests on the global stage. A prerequisite for the creation of such military capacity, however, is the establishment of collective democratic control over such a powerful tool.

### **A grand coalition**

From the point of view of a national politician federalization is simply impossible. Nationalism is not just an ordering principle of politics, it also shapes our current reality and sets limits to our expectations and political imagination. Europe has succeeded at developing cooperation between sovereign entities to a level never before attempted in the history of the continent. By doing so it has fallen into a trap. The parts are no longer able to manage and adequately represent the whole.

European interests and European problems are no longer just combinations of the interests sought and the problems experienced by European national states. In order to rule and manage the eurozone in a democratic fashion it must become possible to bypass the state level when necessary and build coalitions and majorities on issues that do not coincide with the lines drawn by national borders. This is not a problem of civil society as many claim. A real European civil society capable of expressing the majority will of the people of Europe will grow only after the establishment of structures that are capable of acting on their behalf.

For there to be a sender there must be a receiver, otherwise all calls to action will just vanish in the depths of unconnected national discourse. Building this kind of cultural and societal Union will take time. What we can do right now



is create a prototype of this civil society, a proto-federalist movement that unites around the single issue of changing the ordering principle of our political system and abolish the European nation state.

This requires bringing together Europeans who apart from their understanding of Europe and the next steps it has to take to safeguard prosperity and security of the continent, have very few things in common. This means bringing together the anti-capitalists activist on the streets of Madrid, who is afraid that the lack of centralized banking oversight will lead to a system running amok, in the same boat with the manager of a German medium-sized company, who worries about what the breaking apart of the single currency will do to demand for his product in Portugal.

It means convincing the security expert and the transparency activist alike, that there is little sense in fighting over privacy or data collection when the outcome of their argument will have no discernible impact on any relevant scale. It means giving the discontented across Europe's periphery a goal to strive for, a credible way to tackle the crisis they blame on elites that have little to no say in most relevant decisions. It means challenging European business, especially those companies who already transcend national borders, employing Europeans in many member states, to rethink corporate social responsibility and take up the mantle of champions for democratic union.

This is not a political choice. All the fights and quarrels we have amongst each other will go on after federalization has been achieved. The example of the US shows that over decades this can mean vast shifts in how the Union as a whole deals with issues like the role of the state in the economy, taxation, minority rights, and matters of war and peace.

We do not have to agree on the issues to agree that we need to put ourselves in a position where we can reach a meaningful consensus. This is the nature of democracy and majority rule. Incidentally there are signs that there already exists a majority for federalization within the eurozone. A recent poll finds 42 percent of eurozoners in favour, with just 33 percent against and 25 percent not stating a preference.

It is now time to seriously consider federalization as a means to restore democratic accountability, legal security, decency in the face of human suffering and legitimate governance to the eurozone. In the absence of any credible alternatives, attempting the seemingly impossible is our only way forward. Over forty percent of eurozoners agree. There's no need for them to agree on anything else. ■

**Benjamin Zeeb is the CEO of the Project for Democratic Union**

# Nulli secundus

Q & A

World Commerce Review spoke with David Briggs-Wilson and discussed business aviation as a corporate tool



Hermes Executive Aviation is an exclusive private aviation management company offering a bespoke, discreet service fully tailored to clients' requirements and expectations. *World Commerce Review* spoke with the Managing Director David Briggs-Wilson

### **What are the benefits of using a provider like Hermes?**

There are a myriad of benefits for a private owner using a provider such as Hermes, whether that private owner be an individual or a corporate identity. One of the many benefits Hermes provides a private owner is anonymity of ownership, Hermes being the face of ownership, responsible for accounting for all billings and the payment of invoices for the operational costs of the aircraft.

Other benefits include such important factors as security. These days security is more and more important to both individuals and corporate entities; Hermes provides security in that the flight crews are not only vetted but are dedicated to the aircraft and the customer, ensuring that everyone on-board the aircraft from the flight crew to the passengers are known to each other.

A very important factor for an owner whether a corporate entity or an individual is that they are dealing with a known professional operator, which consistently goes that extra mile to deliver an exemplary service.

One of the most important benefits we are frequently told by our clients is that we integrate with them providing that bespoke service they want tailored to their exact and often changing needs; this is what Hermes provides and delivers.

### **Please describe the business aviation advantage**

Contrary to popular view, business aviation is more of a precision tool than a profligate luxury. The reason business aircraft are so immaculately equipped and furnished is principally to retain their value. But then again, why

*Business aviation is a unique tool. It can take you from continent to continent, from point to point night and day. The more you use it the more useful and indispensable it becomes to your business*

shouldn't they be providing it can be afforded? High specification generates high capability, in turn delivering high reward. The aircraft is therefore less of a status symbol but more of an organic business capability: a commercial 'force multiplier' if you like. So consider business aviation as a crucial aspect of an enterprise, much like a finger to a hand. Successful companies rarely sub-contract their key capabilities such as finance or operations departments to third parties, so why should 'projecting' your company's key resource (its people) be any different? If control, discretion and independence are important, then private business aviation is purpose developed for it.

Business aviation is a unique tool, providing security and a secure environment for personnel, allowing key personnel to work whilst travelling, key meetings are not determined by travel itineraries or the constraints of train or airline timetables, the aircraft is ready and available to meet all contingencies at a moment's notice. It can take you from continent to continent, from point to point night and day. The more you use it the more useful and indispensable it becomes to your business.

### **Please describe the range of capabilities within Hermes Aviation Group such as aircraft types**

Hermes principally operates what are known as Large Cabin Jets, such as the Gulfstream G550, Bombardier Global 7000 and the Super Mid-Size Jets, such as the Embraer Legacy 600, 650 and Gulfstream G450.

The Hermes Aviation Group has an impressive range of capabilities from the simplest of tasks to the most complex. We provide the Owner(s) with a fully integrated bespoke tailored flight department, to meet exactly his criteria we are very flexible and adapt to any and all changes as they occur and they do, we have to be not only fleet of foot but also nimble on our feet, whilst being on call and to operate 24/7 365 days a year.

We can advise owners and their staff on medical requirements and medical risks at all destinations around the world, as well as providing an overview on any security risks that could affect the flight and their time at the des-

ination. We carry a number of medical kits on-board to cater for most eventualities and have direct phone links to doctors and medical staff on the ground should it ever be required. Fortunately we have never had to use them except once when a flight attendant tripped over and fell in the street; we were able to provide the doctor with a clean syringe, needle and dressing to get her back on her feet quickly.

We provide 'in-house' full International Trip Planning, which cuts down on third party outsourcing, provides almost instant response to any and all requests including the inevitable last minute changes to plans and timings, again this is all 24/7 and 365 days a year. We can also provide a Concierge Service, which has been used a few times to arrange football VIP stands and tickets, hard to obtain opera seats and boxes.

We are frequently asked to obtain limousines at destinations for the passengers; anything and everything can be thrown at us and it is for us to provide the necessary in the time required. Failure is not a term we recognise. It can be scary at times but the feeling is great when we make the impossible not only possible but a reality.

### **What types of clients do you work with and how do they benefit?**

There is not really any particular type of client: however in reality we work specifically with corporate clients and high net worth individuals flying our clients in their own aircraft. We are not a commercial operator so the aircraft we have are not available to third parties to charter, they are strictly operated for and on behalf of their owners.

The owners benefit from a provider like Hermes as we provide a niche that is exactly tailored to the owners' requirements and needs. We provide a more personalised service to an owner than any commercial operator would provide.

A dilemma often facing an aircraft owner is how best to operate the aircraft: private or commercial? A private operator is foremost service motivated, providing the owner with their own 'in-house' flight department delivering an exclusive 24/7 flight availability and flown by known and trusted crews. The commercial operator is foremost financially motivated, using the aircraft through provision of flights for hire and reward. Since the commercial operator makes money using a fleet, consisting of multiple aircraft owned by different individuals and organisations, it is challenging for them to give an owner that personal dedicated 'in-house' service that many owners crave.

Additionally, placing an aircraft into the fleet of a commercial operator can add tax risks; as the revenue streams quoted by an AOC are more often than not exaggerated. To give an analogy, why would you lend your personal Bentley to the local taxi company to operate and hire out to strangers? Private operations equate to trust, loyalty, discretion, and the exclusive use of an asset as a business capability to precisely match the needs of an owner. Why then would you want to settle for anything less?

### **Is there a thing as a typical day?**

I could answer that by simply saying YES, it is called change. Each day is different fortunately as if they were not they would quickly become boring and less interesting. What is typical is that no day is the same as another, each day has its own challenges, be they small, medium or large; we have to rise to them and find solutions. There is neither room for mistakes nor for failure. We have to find the right solution, and for the owner his flight is on time (meaning his time not ours and he arrives on time at his destination with all services in place), handled with a smile. It is our duty to ensure that the aircraft and trip are totally seamless to the owner from the moment he leaves home or his office to the time he arrives at his final chosen destination.



## How do you see the industry developing?

As aircraft become more and more complex and air navigation more autonomous the industry is constantly developing and evolving, with new regulations coming into force on an almost daily basis. The private operator such as Hermes is now required to meet greater and greater standards and to be accredited to meet IS BAO and EASA NCC requirements. These are, in my opinion, essential steps in the right direction. It may mean that some small private operators may not be able to meet the requirements, but operators such as Hermes will and this can only be good for the industry. There will always be a need for private operators as we provide a very specific need; we are complementary to our close cousins in the commercial world but we are not competitors. We provide a different very specialised service, which they are ill equipped to deliver, but we can work hand in hand and we both give our all to this aviation industry of ours 'business aviation'.

Hermes is well on the way to both IS-BAO and EASA NCC Approvals, so we are ready to meet the all of the future tasks, challenges and to grasp the opportunities that will open. ■

# The road to COP21 climate talks

PARIS2015  
UN CLIMATE CHANGE CONFERENCE  
COP21·CMP11

John Danilovich says business is ready and willing to play a central role in enhancing the effectiveness of climate policy

**2** 015 is poised to be a landmark year for international climate policy. Exactly six months before international climate treaty talks start in Paris (COP21), over a thousand business leaders gathered in Paris to call on governments to deliver a strong climate deal which would give markets the confidence needed to make long-term investments in a low carbon economy.

Responding to a call from United Nations Secretary General Ban Ki-moon for the private sector to take a more active role in the de-carbonization process, ICC Chairman Terry McGraw and I joined the likes of Unilever CEO Paul Polman, President of France Francois Hollande, French Foreign Minister Laurent Fabius and the UN Framework Convention on Climate Change Executive Secretary Christiana Figueres to speak on climate issues at the Business and Climate Summit, which took place from 20-21 May, 2015 in Paris.

In recent years, international climate policy discussions have become increasingly open to business engagement and the message from the Summit couldn't have been any clearer that the private sector is fully committed to a successful outcome from COP21.

*The message from ICC's global network in 130 countries is clear: business is ready and willing to play a central role in enhancing the effectiveness of climate policy at global, national and local levels. It's now time for governments to get the right deal in place*

The Summit itself was an unprecedented mobilization of 25 worldwide business networks resulting in a set of conclusions that for the first time, clearly lays out the views of leading businesses and associations on the key elements of a global climate change treaty expected to be reached at the United Nations' COP 21 Summit at the end of the year, also in Paris.

The calls made to policymakers for more climate action included:

- Deploying smart policies to boost energy efficiency and eliminate fossil fuel subsidies to help redirect consumption to clean energy sources. Carbon pricing mechanisms will have a role to play in some economies but policies need to be carefully designed and implemented to avoid competitive distortions in some sectors.
- Leveraging public funds and private sector finance, and to de-risk investment towards low-carbon assets, especially in developing countries. This should surpass the US\$100 billion per year pledged in Copenhagen in order to shift the trillions of dollars needed to build the low carbon, climate-resilient economy.
- The establishment of an alliance between business and governments, leading to the integration of climate policies into the mainstream economy. This should include enhanced public-private dialogues at global and national level, backed by a commitment to raise ambition in line with developments in climate science.

This latter point is particularly important. It is our view that the private sector has a key role to play in informing the entire life-cycle of climate policy, by helping set priorities to accelerate emissions reductions at the lowest economic cost; by informing the development of effective policy frameworks and, by doing what business does best, taking action.



“ Viewed through even the narrowest of commercial lenses, it makes plain business sense to reduce emissions and to build resilience to changing weather patterns.”

CNBC, 22 May 2015

**Terry McGraw**

Chairman, International Chamber of Commerce

**John Danilovich**

Secretary General, International Chamber of Commerce



@iccwbo

#BusinessClimate

During the Summit inspiring stories of how businesses are already taking concerted action to meet the climate challenge were plentiful: from companies developing clean technologies at an unprecedented rate and scale, to the deployment of ground-breaking business models and investment strategies.

But to unleash the full potential of the private sector, we need governments to put the right policy frameworks in place. This must start with a robust and ambitious deal at COP21 and, more specifically, an agreement that works with business to help scale up investment in climate-friendly and climate-resilient technologies by turning existing market failures into market opportunities.

The global business community recognizes the importance of taking action now to tackle climate change. The Business and Climate Summit was a crucial part of an on-going process to fundamentally shift the way business engages on the development of climate policy. We hope that the Summit will come to be seen a successful turning point in the way business and governments engage in the development of climate policy through to COP21 and beyond.

Having been committed to promoting sustainable business worldwide for more than 40 years ICC's participation in the Business and Climate Summit was a logical continuation of our work to help companies engage in a constructive and meaningful way in the climate policy debate. We now hope that the vision and the sense of action from the Summit will inform and inspire the United Nations negotiations through to a robust and ambitious conclusion in December.

While business is not seeking to negotiate in that process – that is the role of governments –there must be a recognized role for the private sector to help ensure that climate issues are addressed in the most effective way, while at the same time supporting economic growth and job creation.

There are **US\$ 2.1 - 6.3 trillion** of potential commercial opportunities through to 2050 related to environmental sustainability in natural resource sectors alone.

@iccwbo

#BusinessClimate




THE ROAD TO  
**COP21**

The message from ICC's global network in 130 countries is clear: business is ready and willing to play a central role in enhancing the effectiveness of climate policy at global, national and local levels. It's now time for governments to get the right deal in place. ■

**John Danilovich is Secretary General of the International Chamber of Commerce**





# Beyond greenwashing: when 'business- as-usual' means sustainability

Fiona Bywaters says that with the right policies in place to facilitate innovation, business has a key role to play in securing a sustainable world for future generations

**E**conomies, employment and now more than ever, the future of our planet, depend on business. The multiple socio-economic and environmental crises we face ultimately mean that a failure in commerce to act sustainably will only increase the number of increasingly difficult challenges awaiting in terms of product design, the sourcing of materials and the waste from consumption.

Up until now, those businesses that harnessed the value of creativity and innovation were seen as 'early adopters,' the pioneers of sustainable revolution, or on the other hand, labelled as 'green fools.' They fostered a 'can-do' attitude for turning ideas into definitive action, showing another way to be possible. Today, however, a new way of business has become less of a choice but an essential evolution.

Recently, in May 2015, over 1,000 CEOs met in Paris for the Business Climate Summit, 200 days in advance of government leaders meeting in the very same city for COP21. The warnings were stark and the need for a sustainable paradigm shift in business clear. Paul Polman, CEO of Unilever and sustainability champion, left no doubt, *"Profits will be wiped out in 30 years if no action is taken"*. In the face of potentially irreversible climate change, the very survival of business is in question.

### **Business-as-usual**

As a great period of social and economic change, our modern story of industrialisation has transformed our previous agrarian societies to globalised carbon-based economies. Today, 'business-as-usual' is understood as a linear model of production, 'designing for landfill,' and draining our planet of large quantities of rare earth metals and non-renewable resources at an unsustainable rate which denies our planetary 'limits to growth' (as recognised by the famous 1972 Club of Rome report). Neglecting the free natural resources we have available to us in favour of burning fossil fuels has recently been estimated to come at a cost of 3.2 to 3.4 trillion US Dollars per year.

Growing populations in industrial economies have laid way for increased levels of material consumption and growing production to meet ever-rising levels of demand. Unprecedented post-World War II productive capacities and

the rise of the advertising industry have created a global 'consumer culture' as the principle means of satisfying human desires and achieving happiness. The resulting waste and pollution seemed largely irrelevant pushed aside by the externalisation of costs.

Most recently, the dominant ideology of corporate business is understood to mean that corporate boards have a fiduciary duty to shareholders to prioritise both profit and investor returns beyond other considerations. Such an approach has pushed 'shareholder primacy' to the fore, allowing corporations to take actions at the potential detriment of employees, the environment, and society's needs as a whole. 'Profit' comes at a price.

### **Beyond greenwashing**

As multiple crises are reaching environmental, social and economic tipping-points, it is clear we face a growing 'Earth Emergency'. Our decisions and our actions over the next few years will impact life on Earth for millennia, possibly forever. The International Conference on Financing for Development, the UN summit for the adoption of the post-2015 development agenda, and COP21 all come to fruition this year. But once the goals and targets have been set, how will they be met? What is the role of business in our sustainable future?

*Social and environmental concerns are not mutually exclusive to profit and with the right policies in place to facilitate innovation, business has a key role to play in securing a sustainable world for future generations*

A certain lack of progress can be attributed to a vicious circle of business waiting for clear political decisions while governments wait for private sector mobilisation. Though it is becoming increasingly felt that 2015 finds us at a crossroads, the moment where cost becomes opportunity and corporations that integrate effective sustainability measures into their long-term strategies are recognised for their resilience by investors.

Problems have also arisen from a lack of enforcement of environmental regulation posing a dilemma for the business community. An ineffective implementation mechanism rewards those businesses which cut corners and cause harm without consequence - doing the 'right thing' can damage market position if competitors aren't taking the same limitations. Effectively transition costs and pollution are weighed up for competitive edge and short-term gains.

The important role of the consumer is also not to be ignored. A rising middle-class worldwide has in turn led to a more educated consumer with the disposable income to demand environmentally-friendly products. Businesses have responded to this trend but in some cases, over-enthusiasm has negatively resulted in consumer cynicism. When companies spend more on letting the consumer know about their 'green credentials' than incorporating sustainable practice, it is 'green-washing,' the accusation cast against sponsorship choices at the upcoming COP 21 for example.

A study by the Carbon Disclosure Project concluded that while companies are now taking action to lower carbon emissions and improve their overall sustainability, it is still not enough. Even if green investment has been found to result in higher returns, some companies still find it difficult to prioritise long-term investment over short-term gains and immediate profit.

Ultimately, it is not for business to wait for government, nor vice-versa. In light of the short window of opportunity still available, holistic long-term policy action, which takes into account the needs of future generations, is critical. Some policy advances are already evident with a variety of companies considering the external costs of their activ-

ity as well as their environmental impact and social consciousness. Policy incentives that support new enterprise and intelligent design are essential tools not only for building a sustainable economy but also contributing to guaranteeing basic rights and responsibilities as well as protecting our ecosystems.

An articulate pathway, embracing a future-just perspective to business, can provide a foundation for government commitments based on existing proven policies. The World Future Council has gathered such policies together in its ambitious project the Global Policy Action Plan - a collection of holistic sustainable policy examples with the concrete steps required for asserted interconnected action by a variety of stakeholders. Together we can ensure the prosperity of tomorrow's future generations through today's obligations of Earth stewardship. At the Business Climate Summit, Dutch multinational DSM's CEO Feike Sijbesma put it best, *"I may not be here in 2060, but my children will be and they will bear the burden."*

Out of its seven chapters, 'Enterprise & Design,' is where the Global Policy Action Plan most clearly lays out the innovative pathways for sustainable change where business can take the lead. Looking at both demand and supply, as well as the values at the core of 'business-as-usual,' visions of a sustainable world already exist for us to replicate worldwide.

### **Social and environmental entrepreneurship**

In recent years there has been growing demand among stakeholders and consumers for corporations with broader business mandates. The corporate scandals of Enron and WorldCom in the early 2000s sparked public outcry and initiated a corporate reform movement across the United States. These large-scale highly publicised frauds exposed significant problems with regards to conflicts of interest and incentive compensation practices, resulting in calls for greater regulation, transparency, and accountability, bringing corporate law to the forefront of public policy debate.

With innovative future-just policies and appropriate market signals, businesses can lead the way in securing a sustainable future by pursuing a broader mandate under the appropriate legal frameworks to reach social and environ-



mental goals. Such frameworks already exist and corporations are now beginning to be provided with the tools that allow them to connect both private and public interests where profit is not at the expense of society as a whole and sustainability is key.

In developing and implementing benefit corporation legislation, Maryland has been at the forefront of a new wave of transparent, accountable and environmentally concerned corporate entities. In April 2010, Maryland's Governor Martin O'Malley signed into law a bill, which turned Maryland into the first US state to legally recognise a new corporate entity, the 'Benefit Corporation.' This conscious commitment has made many other US states take note, and in setting this precedent, Maryland has become a leader of a wider movement for the development and growth of a new form of 'conscious capitalism'. To date, 28 other states have followed Maryland's lead and provided standards for corporations to follow a proclaimed triple bottom line of 'People, Planet and Profit' and the movement is set to spread across the world.

### **Eco-intelligent design**

Companies need to fundamentally rethink the design and manufacturing of their products to avoid the excessive waste of raw materials in the manufacturing process and improving product efficiency. Many of the core components to products we consume constitute hazardous waste, prioritising short-term material desires over long-term considerations of health and environment. By offering the appropriate incentives to companies, and transitioning to a circular economy model of production, manufacturers can implement more effective long-term planning strategies of energy and material consumption, increasing productivity, as well as reducing operating costs.

Incentivising eco-intelligent design approaches into our current systems of production and manufacturing as future-just policies is crucial to decoupling natural resource use and environmental impact from economic growth. Products must no longer harm us, but actually improve our health and environment. Employing ecologically intelligent design and production will foster biodiversity, contribute to the stabilisation of climate change, and promote renewable energy, all to the benefit of future generations.

As an example of such incentives, Japan's Top Runner Programme looks at energy efficiency standards for energy intensive products, such as home appliances and motor vehicles. As of 2014, the programme involved 23 product categories and products are included due to their high energy, widespread use or substantial scope for improving energy efficiency. Targets are set to be achieved within a given number of years on the basis of the most efficient model on the market (the 'Top Runner'). Products which do meet the energy efficiency standard receive a Top Runner label at the point of sale; those which do not are labelled differently. Manufacturers highly support the programme, since they are directly involved in setting the targets and energy efficiency is considered to be a competitive advantage.

### **Value-based consumption**

The conventional approach of 'green consumerism' has attempted to create only a preference for eco-friendly goods rather than addressing the cultural foundations of consumer demand. We have now reached a stage where this question must be directly tackled. Recognising the ecological and ethical consequences of economic actions, policy-makers must decide how to encourage consumers to make value-based consumption choices which do not threaten our shared future.

Tackling the illusion of value-free consumption goes hand-in-hand with steps to mandate eco-intelligent design and production. The implementation of policy solutions that simultaneously approach both supply and demand can help bring our societies to a positive-tipping point where material consumption and personal happiness are no longer intrinsically linked in the pursuit of personal fulfilment.

This does not abolish consumer choice. The full internalisation of currently externalised production costs would reflect the 'true cost' of a purchase. Provided with information about the full implications of their economic decisions, consumers would be encouraged to question their initial desires and be incentivised to balance these against the associated collective benefits and environmental harm. Consumer rights would then be matched with citizen responsibilities through value-based consumption.



One such example of influencing consumer behaviour has been the 'plastic bag tax.' Single-use plastic bags are a huge waste of non-renewable resources and harm the environment in their disposal, yet we use many a day without often thinking twice on this 'choice.' Governments worldwide have taken action to either ban the use of plastic bags, charge consumers for their use or taxed stores which supply them. The levy in Northern Ireland raised £4.17 million in the first year of its implementation alone and reduced plastic bag use by just under 72%! This money was then fed back into funding for environmental projects.

### **Thinking big**

Overall, the role of business in society is being redefined. Beyond the 'obvious' policy reforms of production, consumption and leadership, in a globalised market, a corporation's decisions and behaviour can have a profound interconnected effect on the respect of human rights, climate stability and environment health worldwide.

Looking at other areas of the Global Policy Action Plan, the importance of a new approach to business is almost inescapable. In terms of higher education, we must reform the way we shape tomorrow's economics and business leaders, teaching them to look beyond GDP and understand the importance of alternative indicators in revealing the 'bigger picture.' Citizens are mobilising themselves worldwide in a concerted effort for divestment and playing the system with shareholder resolutions at the AGMs of fossil fuel giants. Food and water security, forest replenishment and the health of our oceans, will all be impacted upon through business leadership and responsible models of production.

By providing the framework for alternative business practices, corporations can become more accountable, transparent, and beneficial to society and the environment, while also pursuing profit. Social and environmental concerns are not mutually exclusive to profit and with the right policies in place to facilitate innovation, business has a key role to play in securing a sustainable world for future generations. ■

**Fiona Bywaters is the Coordinator of the Global Policy Action Plan at the World Future Council**



# Progressives should demand a reassessment of climate change concerns

Adherence to global warming dogma violating causes held dear by the left, Tom Harris writes

**O**ne of the greatest successes of the environmental movement has been to persuade society to identify environmentalism in general, and ‘stopping global warming’ in particular, with liberalism. After all, most influential opinion leaders in society—main stream media, scientists, and teachers—are liberals. As a consequence, the point of view of climate campaigners is boosted regularly in media outlets, classrooms, and at conferences across the world. It is as if the movement had access to a vast, free public relations service amplifying their message far louder than they could afford if they had to pay for it themselves.

But the Left’s enthusiastic acceptance of the confident climate change forecasts of people like United Nations Secretary General Ban Ki-moon and Al Gore seems counterintuitive and acts against other causes progressives hold dear.

Historically, liberals have often ridiculed conservatives for being absolute about morals, politics, and even science. For example, Albert Einstein’s theory of relativity was supported by the German left, while those on the right opposed it, believing it threatened their cultural worldview.

In fact, the assertion that science discovers truths about nature, not merely opinions based on empirical evidence that is always subject to interpretation, led to the ‘[science wars](#)’ of the late 20<sup>th</sup> century. In that conflict the intellectual left were the sceptics of the idea that we could have absolute knowledge in science.

### **Progressives want to shut down debate on climate change causes**

But this expected approach—relativism and scepticism from liberals and absolutism from conservatives—has been turned upside down in the climate debate. While right-wingers call for open debate about the causes of climate change, the Left consider such discussion intolerable and behave as if we know the future of climate decades in advance, a position that is indefensible, scientifically and philosophically.

At first, it was mostly scientifically illiterate activists who made claims to certainty about climate change. But increasingly, more scientists now use inappropriately absolute language as well, or say little about the vast uncertain-

ties in the science. They obviously fear alienating their intellectual fellow travellers, peers who, even if they are unfamiliar with the science, support the climate movement for other reasons.

Other left-wing academics who understand the illogic of confident assertions about such a rapidly evolving field also say nothing rather than undermine positions that they support personally, ideals such as environmental protection and social justice. So they sell out philosophically, declining to employ the scepticism they would normally practice.

This is a slippery slope.

### **Censorship dangerous in science**

Unquestioning acceptance of 'truth' in science—truth in the sense of being universal, necessary and certain—has impeded human progress throughout history. For example, when the Greco-Egyptian writer Claudius Ptolemy proposed his Earth-centered system, he did not say it was physical astronomy, a true description of how the universe actually worked. He promoted it as mathematical astronomy, a model that worked well for astronomical observations, astrology, and creating calendars.

*The greatest misinformation in the climate change debate is that we currently know, or even can know, the future of a natural phenomenon as complex as climate change*

It was the ultra-conservative Catholic Church that, relying on a literal interpretation of the Bible, promoted the Ptolemaic system as truth to be questioned at one's peril. This was why Nicolaus Copernicus, a Canon in the Church, waited until he was on his death bed before he allowed his revolutionary book showing the Sun to be the centre of the universe to be published, even though the text was completed 30 years earlier. This is also why Galileo ran into so much trouble when he claimed that the Church was wrong and that Copernicanism was the truth, a position that Galileo could not really know with certainty either.

Similarly, the assumed truth of Isaac Newton's laws of motion and law of universal gravitation eventually acted to slow the advancement of science until Einstein showed them to be wrong. When authorities preach truth about science, progress stops.

The greatest misinformation in the climate change debate is that we currently know, or even can know, the future of a natural phenomenon as complex as climate change. University of Western Ontario professor Dr Chris Essex, an expert in climate models, lays it out clearly: *"Climate is one of the most challenging open problems in modern science. Some knowledgeable scientists believe that the climate problem can never be solved."*

Yet progressives often label Essex and other climate experts who hold similar points of view as 'deniers', implying they are as misguided as those who deny the Holocaust. When it comes to climate change, tolerance of alternative perspectives, a much vaunted hallmark of liberalism, vanishes. They should welcome, not condemn, questioning of the status quo. Science advances through fearless investigation, not frightened acquiescence to fashionable thinking.

It is not just their intellectual tradition of scepticism that progressives betray when they side with those who want to restrict inquiry into the causes of climate change. Through uncritical support of global warming alarmism, they unwittingly help promote policies that undermine important causes left wingers hold dear.

### **Adaptation support lacking for vulnerable populations**

I cited an example of misguided climate mitigation-driven policies in my article [Reconsidering climate change](#), published in the March 2015 issue of *World Commerce Review*. Therein, I described how, largely because activists have convinced politicians that humans control our planet's climate as if we had a global thermostat, only about 1/20<sup>th</sup> of the \$1 billion spent every day across the world on climate finance goes to assisting the world's most vulnerable people adapt to the challenges they face today due to natural climate change. The remainder is dedicated to trying to stop hypothetical human-caused climate change that might someday happen.

Such a skewed approach is not limited to the mitigation/adaptation funding debate. The mistaken idea that science is sufficiently advanced that we can make reliable climate forecasts and even control future climate states by restricting our carbon dioxide (CO<sub>2</sub>) emissions is resulting in tragedies far worse than any foreseeable human-induced global warming. Here are some other climate policy-driven problems that should disturb progressives concerned about social justice.

### **Biofuels expansion causing a humanitarian and environmental catastrophe**

The expanded use of biofuels to supposedly reduce CO<sub>2</sub> emissions to 'stop climate change' has resulted in 6.5% of the world's grain now going to fuel instead of food. In its January 29, [2015 press release](#), Friends of Science (FOS), an Alberta-based climate realist group, explained how this is leading to disaster for many of the world's poorest people. FOS cite UN Special Rapporteur of the right to food, Jean Ziegler, who in 2007 called for a five year moratorium on biofuel production in an official [UN communique](#). Ziegler was candid, *"It is a crime against humanity to convert agricultural productive soil into soil which produces foodstuff that will be burned into biofuel."*

The growing demand for biofuels is also creating problems for indigenous land owners in developing countries, especially those in Indonesia and Malaysia where 90% of the world's palm oil is grown. In [Palm Oil and Biofuels Policy Reform](#), a February 2015 open letter to the European Parliament endorsed by 197 worldwide civil society organizations from across Asia, Africa, and Latin America, it was asserted, *"This relentless drive for palm oil has devastating*

*and often irreversible consequences for people and the environment in our countries.*" The letter describes how the encroachment of palm oil plantations is forcing the displacement of people from their ancestral homes and causing detrimental environmental impacts:

"Palm oil plantations require huge amounts of water and contaminate vital water sources with effluents including rivers and lakes used for fishing, washing, and drinking. The destruction of forests and fertile agricultural land to make way for oil palm plantations is jeopardising the food sovereignty and cultural integrity of entire communities who depend on the land as their source of food and livelihoods."

The civil society organisations plead with Members of the European Parliament:

*"Unless you take action to restrict demand for biofuels, Europe will continue to force the transformation of our countries' vital forests, community lands, and biodiversity hot-spots into industrial-scale, monoculture oil palm plantations."*

### **Depriving poor countries of abundant, inexpensive electricity**

In his book, *The Mad, Mad, Mad World of Climatism*, Steve Goreham, Executive Director of the [Climate Science Coalition of America](#), details another tragic consequence of overconfidence about the science of climate change. It is that developed countries are increasingly reluctant to help developing countries take advantage of their inexpensive hydrocarbon fuel resources due to climate change concerns.

Goreham gives the example of the \$3.9 billion loan approved by World Bank in 2010 for construction of South Africa's Medupi power station, slated to be the fourth largest coal-fired electricity generating station in the world. The US member of the World Bank board abstained from approval because of his concerns about climate change. The representatives of four European nations did the same. They apparently wanted poor countries to use wind and solar power instead, sources that are too expensive for widespread use even in wealthy nations. The loan passed only because developing country representatives on the World Bank board voted for approval.

This situation will only get worse. Goreham writes,

*“Environmental groups such as BankTrack, Friends of the Earth and Rainforest Action Network have forced most major banks to sign the ‘Equator Principles.’ The Principles demand that banks lend only in an environmentally responsible manner. This responsibility increasingly precludes lending to projects involving oil, gas, and coal fired power plants... Under tremendous pressure, Citibank, JP Morgan Chase, Bank of America and most other banks of the world have surrendered and signed the Equator Principles.”*

Because of the politically correct, but scientifically flawed hypothesis of CO<sub>2</sub>-driven climate problems, *“the growth of hydrocarbon energy will be limited and millions will continue to suffer in the developing world—a form of eco-genocide,”* Goreham concludes.

### **Wind power hurting our most vulnerable citizens**

Here in Ontario, the provincial government is determined to lead the world in reducing CO<sub>2</sub> emissions to ‘save the planet,’ as Liberal premier Kathleen Wynne put it when announcing plans to implement CO<sub>2</sub> cap and trade. One of the consequences of the government’s green plan is the erection of 6,736 industrial wind turbines (IWT) across the province, the most recent of which are as tall as a 60 story building. According to the Ontario Ministry of Energy, 4% of the province’s power came from wind energy in 2013 and 1% from solar, yet together they accounted for 20% of the commodity cost paid by Ontarians.

Despite massive government subsidies for wind power, [windontario.ca](http://windontario.ca) explains that electricity rates in Ontario have more than doubled since 2007 and are now the highest in North America. University of Montreal HEC Business School Professor and electricity market expert Dr Pierre-Olivier Pineau sums up Ontario’s situation bluntly, *“Ontario is probably the worst electricity market in the world.”*



This has essentially no impact on the wealthy since power costs represent such a small proportion of their overall living expenses. But the impact on the poor and those living on fixed incomes can be exceptionally difficult to manage.

The same thing is happening in many jurisdictions across the world, all for the same reason—activists have convinced governments that the construction of vast wind farms will help ‘save the climate.’

By now, most people have heard about the carnage IWTs often inflict on local bird and bat populations. In Ontario’s case, the situation has even drawn the attention of the Spain-based group, [Save the Eagles International](#), a member of the [World Council for Nature](#), who, on May 23, 2015, issued a news release [Migrating golden eagles to be slaughtered in Ontario](#).

But what most of the public do not yet recognize is that the consequences for people living near IWTs can be severe as well. Besides a significant loss in property value, health concerns abound.

A particularly tragic example is occurring in the West Lincoln and surrounding regions of Southern Ontario. There, despite the objections of local residents, wind developers have received approval to install at least seventy-seven 3 Megawatt IWTs, each 602 ft. tall, the largest such machines in North America.

One resident, Shellie Correia of Wellandport, Ontario, has a particular reason to be concerned. Her 12 year old son Joey has been diagnosed with Sensory Processing Disorder and it is crucial that he live in an environment free from excessive noise. Ordinarily, the quiet countryside of West Lincoln would be an ideal place for such a child to grow up. Indeed, under the care of medical and education specialists, Joey has made good progress in recent years.

But now, as a result of Ontario’s Green Energy Act, the primary focus of which is climate change mitigation, an IWT will be sited only 550 metres from their home. Correia explained in her January 2015 presentation before the gov-

ernment's Environmental Review Tribunal, *"On top of the incessant, cyclical noise, there is light flicker, and infrasound. This is not something that my son will be able to tolerate."*

Over the last 2½ years, Correia has spent countless hours researching the topic and has secured supportive written submissions from her son's doctor who is a behavioural Paediatrician and a specialist in the assessment and care of children with developmental and mental health problems. She joined groups to fight the project, organized protests, appeared on radio programs, met with the wind industry, Wynne and other politicians, and even started her own group, [Mothers Against Wind Turbines](#).

Carmen Krogh, BScPharm, Correia's science expert, wrote in her May 13, 2013 open communication with Canada's Minister of Health, *"Vigilance and long term surveillance systems regarding risks and adverse effects related to children are lacking. Such programs are necessary to evaluate the risks to children who have been exposed to industrial wind turbines. This evaluation should take place before proceeding with additional approvals."*

But the approvals go ahead anyways. As Correia told the Tribunal, *"The common theme being, that no one was able to help, because of the Green Energy Act."*

In Question Period in the Ontario legislature, MPP Jeff Yurek asked the Premier whether she will listen to constituents in nearby West Elgin and Dutton who have stated they do not want IWT development. Wynne did not answer the question, merely [concluding](#), *"we will continue to work with municipalities to make sure that we have a renewable industry in this province, that we have the cleanest air and the cleanest energy anywhere."* As in the case of biofuels, adaptation, and the urgent electricity needs of the world's poorest people, environmental concerns about the distant future trump the needs of the most vulnerable people today.

### **Open, unbiased climate science consultations essential**

If we knew with high certainty that human-induced climate Armageddon lay just ahead, then it could be argued that the problems outlined above are necessary evils. Millions of people would be left to suffer and die today so that billions would be saved in the future. Such an approach was espoused by 18<sup>th</sup> century British philosopher and

social reformer Jeremy Bentham, the founder of modern utilitarianism. Bentham maintained, *"It is the greatest good to the greatest number of people which is the measure of right and wrong."*

But, as the degree of certainty that a particular climate mitigation policy will significantly benefit future generations diminishes, it becomes less and less rational to accept the problems such policies cause for people alive now. And if the risk of man-made climate calamity is seen as being very low, all mitigation projects (aside from 'no regrets' strategies to conserve energy and reduce pollution) should be cancelled and focus turned instead to adaptation and scientific research.

So the climate debate should be focused on trying to answer one simple question: how likely is it that a man-made climate crisis lies ahead?

To help them gather the evidence needed to answer this question, governments must convene open, unbiased hearings into the current state of the science, arranging that experts on all sides of the debate testify. They must also seriously consider important climate science documents they have ignored to date. For example, the reports of the [Nongovernmental International Panel on Climate Change](#) cite hundreds of peer reviewed studies published in the world's leading science journals that show that there is nothing extraordinary about late twentieth century warming, ice cover *"is not melting at an enhanced rate; sea-level rise is not accelerating; and no systematic changes have been documented in evaporation or rainfall or in the magnitude or intensity of extreme meteorological events."*

Only by considering all the relevant evidence will our leaders be able to conduct the risk management exercises necessary to balance the known needs of those suffering today with the possible problems to be faced by future generations. Rather than working to impede such a crucially needed re-assessment, progressives should be demanding that governments conduct it without further delay. ■

**Tom Harris is Executive Director of the Ottawa, Canada-based International Climate Science Coalition ([www.ClimateScienceInternational.org](http://www.ClimateScienceInternational.org))**

# Fully confidential and private treatment

# Q&A

In a Q&A with Werner Gerber, effective addiction treatment for high-profile international clients is discussed



Paracelsus Recovery, based in Switzerland, offers individualized, luxury treatment in absolute privacy and confidentiality for high-profile international clients. We spoke with Dr Werner Gerber, the medical director of Paracelsus Recovery

**Which problems do you treat at Paracelsus Recovery?**

We treat chemical dependency on alcohol, prescription medications and illegal drugs. We also address behavioural addictions such as gambling, pornography and sex, and eating disorders. Additionally, we treat clients with burn-out, depression, anxiety, OCD, co-dependency, PTSD and other mental health and emotional issues that often accompany addiction.

## **You offer addiction treatment for wealthy, high-profile individuals. What are specific challenges that your clients face?**

Although years of sound scientific research have confirmed that addiction changes the chemical makeup of the brain, many people, including some in the medical community, continue to view addiction not as a chronic disease with possible relapses, but as a sign of weakness. Influential people are often held at a very high standard and public knowledge of an addiction may present tremendous risks to family, reputation, career, political standing and even personal safety. Pervasive stereotypes about addiction create an atmosphere of humiliation and embarrassment that cause many high-powered people to continue their addiction in secrecy and isolation, even when treatment is desperately needed. These individuals often feel they have nowhere to turn to, and the results can be catastrophic.

## **What sets Paracelsus Recovery apart from other luxury rehabs?**

Our highly qualified doctors and chemical dependency specialists treat one client at a time in the client's private residence in Zurich, Switzerland, which may be a penthouse, a chalet, a historic old-town manor, a luxury hotel or a lakeside villa, depending on the client's preference. Our staff-to-patient ratio is roughly 15 to 1 not including sup-

*We realize that recovery from addiction requires an approach that treats the entire person – mind, body and soul*

port staff, and each client receives eight to 10 hours of one-to-one therapy every day. This highly bespoke approach assures that each client receives the best possible treatment and the most effective use of time. Amenities also include limousine transportation and driver, butler, chef, maids, and secretarial services, along with a 24-hour concierge service that ensure each client's stay is as convenient and comfortable as possible. Although the intention is for clients to focus entirely on recovery, they may attend to professional demands via phone or internet when required, which is normally not possible at a rehab, not even at 'high-end' providers.

### **What type of treatment can potential clients expect at Paracelsus Recovery?**

Our first priority after the client has been safely detoxed, is to identify the underlying cause of the addiction, which may be psychological, social, emotional, physical, biochemical and spiritual. This information is established by an extensive medical and psychiatric assessment, as well as an in-depth biochemical laboratory testing and lifestyle evaluation. The information is used to develop a comprehensive, holistic treatment plan tailored to meet the needs of each individual. Most clients benefit from a combination of different approaches of psychotherapy, counselling, psycho-education, lifestyle coaching, nutritional counselling and orthomolecular treatments. We also offer a range of complementary therapies, including fitness training, bio-resonance, acupuncture, yoga, reflexology and massage, among others. We realize that recovery from addiction requires an approach that treats the entire person – mind, body and soul.

### **You stress the importance of biochemistry at Paracelsus Recovery. How do principles of biochemistry apply to addiction treatment?**

Addiction is a disease that creates lasting changes in the body's biochemistry. This imbalance is often exacerbated by poor self-care, an unhealthy diet, lack of physical activity and chronic stress and conflict, often trauma. When the





body is out of balance, the results are insomnia, anxiety, depression, cravings, and other problems that threaten cognition, energy, vitality, vigour, emotional stability and thus long-term recovery. Extensive laboratory tests conducted by our orthomolecular medicine specialist reveal imbalances of the brain's neurotransmitters, amino acid deficiencies, lack of nutrients, food intolerances, inflammatory stress, and problems involving adrenal fatigue and thyroid problems as well as metabolic symptoms such as insulin resistance.

Restoring equilibrium requires a holistic strategy that involves detox-infusions, infusions and injections of restorative compounds such as enzymes, adaptogens and vitamins, a personal nutrition plan and carefully tailored micronutrients as well as various programs to enhance physical activity and relaxation. The restoration of a healthy gut-biology is also paramount; the human gut has been recognized as the 'second brain' with a profound influence on mood, emotional resilience and the immune system.

### **Does Paracelsus Recovery offer traditional Twelve-Step programs?**

The Twelve-Step philosophy is deeply ingrained in contemporary addiction treatment; it is in fact the guiding principle at many rehab centres, including the luxury segment. Although we recognize the merits associated with mutual help and fellowship provided by Alcoholics Anonymous and other Twelve-Step programs, we understand that it does not work for everyone and can be stressful for people who are uncomfortable in group-settings or prefer not to share their personal issues with strangers. We provide individualized treatment, and participation in a Twelve-Step program is available for those who desire it.


## How does Paracelsus Recovery provide absolute confidentiality and privacy to high profile clients?

Each client is identified by a fictitious birth date and pseudonym, which is used in all external and internal communications. Unless clients choose to reveal their identity, personal information is even unavailable to our team, they can thus focus on the humanity and needs of the client without being influenced by status, money, prestige, titles, celebrity or royalty.

In some cases, client identity is handled by a personal representative and remains completely unknown to us. Respect for privacy is the norm in Swiss culture, and clients who choose to venture out for leisure activities or a walk in the neighbourhood or even shopping, are normally never approached, even if they are recognized. ■



[www.paracelsus-recovery.com](http://www.paracelsus-recovery.com)

A nighttime photograph of a city skyline, likely Mumbai, India, with numerous skyscrapers illuminated by lights. The lights are reflected in the water in the foreground. The sky is dark, and the overall scene is a vibrant urban nightscape.

# India's new foreign trade policy: setting its own house in order

The new FTP instead reveals a more calculated and long overdue approach, Bipul Chatterjee and Chenai Mukumba argue

**T**he government of India released its new national Foreign Trade Policy (FTP) 2015-20 on 1 April 2015. The aim of this FTP is to almost double India's exports of merchandise and services from USD 465.9 billion to USD 900 billion by 2019-20; and raise its share in world exports from two per cent to 3.5 per cent. While some have criticized it arguing that given the growing complexity of the international trading system, it falls short on ambition and ideas, the new FTP instead reveals a more calculated, and perhaps long overdue, approach.

When the FTP was announced by Commerce & Industry Minister Nirmala Sitharamam, she noted that the "state of the external environment and new features of the global trading landscape [...] will profoundly affect India's trade." However, as she continued, she noted that "while the external factors are largely outside our control, there is a lot we can do to strengthen our own capabilities and set our house in order."

While the FTP acknowledges that the global trade architecture has evolved over the past two decades due to the expansion of global value chains and the flourishing of preferential trading agreements; it recognises that India does not have to undertake overambitious measures to reach its goal of becoming a significant participant in world trade by 2020. Rather, India's biggest obstacle is in fact 'addressing [its] in-house challenges.' The government's approach is novel in its almost counter-intuitive approach: instead of forging ahead and outlining a high-sounding policy, it has rather taken a step back and addressed several underlying issues that have remained unaddressed in previous policies, yet remain necessary to provide India with the platform it will need to achieve its goals.

Without question, in spite being one of the largest economies in the world, a key factor obstructing India's growth and development has been its own domestic constraints. For example, estimates have suggested that a lack of adequate infrastructure reduces India's GDP growth by 1-2 per cent every year, and India's fast growth has placed increasing pressure on its physical infrastructure, which already suffers from a substantial deficit. For this reason, the government's acknowledgment that India's "biggest challenge is to address constraints within the country such as infrastructure bottlenecks, high transaction costs, complex procedures, and constraints in manufacturing" reflects an understanding that India's external growth in the global trade system can be propelled by and perhaps requires,

first and foremost, domestic capacity-building. In light of this, this article looks at several significant changes to the FTP that have been added to address these internal challenges.

### **Coherence with India's Domestic Policy Framework**

At a roundtable discussion jointly organised by CUTS International and the Federation of Indian Chambers of Commerce and Industry (FICCI) on India's Foreign Trade Policy late last year, Pravir Kumar, Director General of Foreign Trade, Department of Commerce, Government of India, noted that one of India's major tasks was to contextualise its trade policy within its domestic scenario. The importance of this, he argued, was because the underlying assumption of trade is that it leads to domestic wealth and employment generation. To this end, increasing convergence between India's domestic and trade policies was addressed in the formulation of the new FTP in two specific ways.

Firstly, the FTP Statement which explains the vision, goals and objectives underpinning the FTP, acknowledged that given the fact that foreign trade today plays an important part in India's economy, it can neither be formulated nor implemented by any one department in isolation. For this reason one of the most innovative initiatives of this new FTP was the adoption of a 'whole-of-government' approach: vertically, with the mainstreaming of State and Union Territory Governments, and horizontally, across various departments and ministries.

Secondly, coherence between the FTP and India's domestic policy framework was also evidenced by the discussion of its close integration with a number of very important initiatives such as Make in India, Digital India and Skills In-

*The FTP... reforms have the potential to significantly advance India's objectives of inclusive growth and economic development*

dia. The goal of the Make in India initiative, particularly, is to help the Indian economy achieve global recognition, promote the country as an investment destination, spur manufacturing and promote employment. Make in India encompasses initiatives for skill development to ensure the availability of skilled manpower for manufacturing, to improve the ease of doing business through initiatives such as self-certification of documents and innovative revenue models.

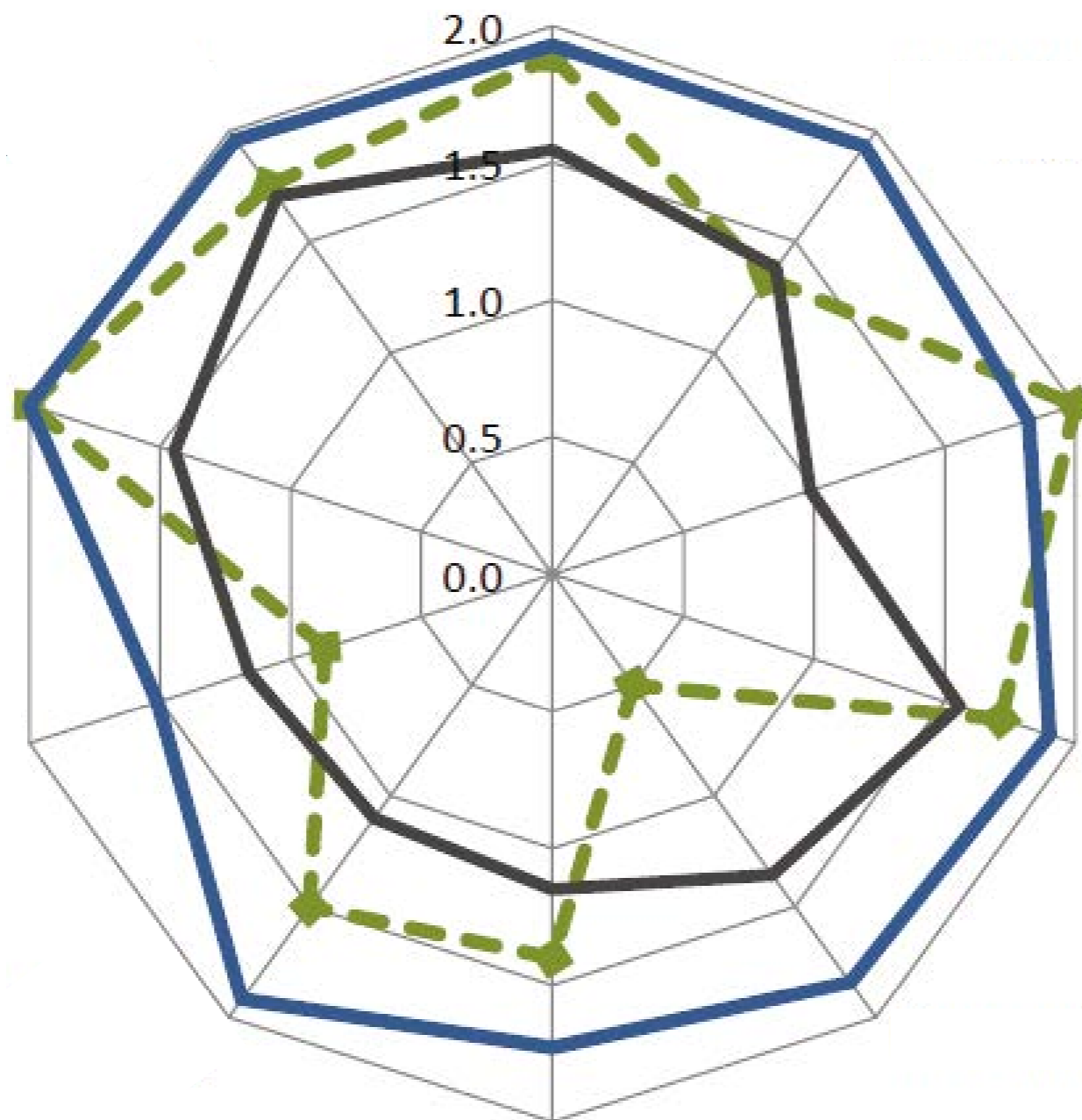
To this end, the new FTP reduced export obligation (EO) for domestic procurement under the Export Promotion Capital Goods (in the case when capital goods were procured from indigenous manufacturers), from 90 per cent to 75 per cent in order to promote the domestic capital goods manufacturing industry. The FTP also provided higher rewards for the export of items with higher domestic content and value addition. Linking these initiatives to the FTP helps address a gap that was left neglected in previous policies.

### **Providing a level playing field**

It is estimated that if India is to address its infrastructure gap it requires a capital injection of one trillion dollars. As a result, the pervasive lack of good roads, bridges and ports contribute to increasing costs for Indian exporters. The objective of one of the major highlights of the new FTP, the 'Simplification and Merger of Reward Schemes,' was to 'provide rewards to exporters to offset infrastructural inefficiencies and associated costs involved and to provide exporters with a level playing field. By simplifying access to rewards for Indian exporters, the FTP is demonstrating the importance of taking domestic measures to level the playing field for its own exporters who often incur additional costs due to infrastructural deficiencies.

In the previous FTP 2009-14, under Promotional Measures, there were five different schemes for manufacturers, namely, Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip and Vishesh Krishi and Gram Udyog Yojana (Special Agriculture and Village Industry Scheme) for rewarding merchandise exports with different kinds of duty scrips with varying conditions attached to their use.

## India's trade facilitation performance: OECD Indicators



Source: OECD (2014), OECD Trade Facilitation Indicators, available at: <http://www.oecd.org/tad/facilitation/india-oecd-trade-facilitation-indicators-april-2014.pdf>

Under the new FTP, all of these schemes have been merged into a single scheme, the Merchandise Export from India Scheme (MEIS). The scrips issued under this scheme will also have no conditionality attached to them. The new FTP also replaced the Served from India Scheme (SFIS) with Service Exports from India Scheme (SEIS) which will now apply to service providers located in India, regardless of their constitution or profile, instead of Indian service providers.

### **Trade facilitation and enhancing the ease of doing business**

Trade facilitation and enhancing the ease of doing business were also major focus areas of the new FTP. While in the past the focus of trade negotiations was on the removal of tariff barriers, today's major trade barriers are non-tariff and trade facilitation-related barriers. The decision to approve a Trade Facilitation Agreement at the Bali Ministerial was testament to the growing importance of facilitating the smooth and speedy flow of goods across borders, particularly in light of the growing relevance of global value chains.

Trade facilitation, specifically, has long been an issue in South Asia including India. However, while India fairs better than its South Asian counterparts according to the OECD Trade Facilitation Indicators, it is considerably worse than the average of the top quartile for the bulk of the trade facilitation areas covered. Indeed if India wants to enhance its competitiveness as the global level, addressing its trade facilitation constraints domestically could foster its trade growth.

With regards to ease of doing business, despite progress in the last two decades India currently ranks 142nd out of 189 countries on the Ease of Doing Business index. And even then the situation does not seem to be improving given that India dropped two positions from 140 in 2014. In light of India's position as the fourth largest economy (according to purchasing power parity), the difficulty of engaging in business activities is indeed a significant domestic constraint to fully participating in trading activities.



## Ease of Doing Business in India

TOPICS	DB 2015 Rank	DB 2014 Rank	Change in Rank
Starting a Business	158	156	-2
Dealing with Construction Permits	184	183	-1
Getting Electricity	137	134	-3
Registering Property	121	115	-6
Getting Credit	36	30	-6
Protecting Minority Investors	7	21	14
Paying Taxes	156	154	-2
Trading Across Borders	126	122	-4
Enforcing Contracts	186	186	No change
Resolving Insolvency	137	135	-2

Source: World Bank Group (2015), *Ease of Doing Business in India*, available at: <http://www.doingbusiness.org/data/exploreeconomies/india>

The importance that the government has placed on both these issues is evidenced by the renaming of Chapter 1 of the FTP to Legal Framework and Trade Facilitation. Section B is solely dedicated to Trade Facilitation and Ease of Doing Business. The main changes that the government has implemented to address these concerns have included moving closer towards a paperless processing of reward schemes. As a measure to increase ease of doing business, landing documents of export consignment as proofs for notified market can now also be digitally uploaded and online inter-ministerial consultations have also been introduced. There has been increased simplification of procedures/processes, digitisation and e-governance, such as the creation of a facility that allows the uploading of documents in Importer/Exporter profiles; there will no longer be a need to repeatedly submit copies of permanent records/documents with each application.

### **The global context**

While indeed India has taken a number of steps to address its domestic scenario, the FTP, more specifically, the FTP Statement, recognises the growing number of mega-regional agreements, namely: the Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership agreements; it notes however that the mega-agreements will challenge India's industry in many ways, 'for instance by eroding existing preferences for Indian products in established markets such as the US and the EU and establishing a more stringent and demanding framework of rules.' Again however, India's approach to this growing concern is inward: 'Indian industry needs to gear up to meet these challenges for which the Government will have to create an enabling environment.'

India's market strategy is also outlined comprehensively noting that India's future bilateral/regional trade engagements will be 'with those regions and countries that are not only promising markets but also major suppliers of critical inputs'. However, the FTP Statement notes that signing an FTP is the beginning, not the end of the process. In recent years there has been widespread concern regarding the benefit of signing FTAs, therefore the institution of

an Impact Analysis of FTAs as well as an intensive FTA outreach programme is a welcome approach to tackling the issue.

Additionally, the FTP has also been framed within the context of the multilateral trading system noting that, given the current discussions at the WTO regarding the eventual phasing out of export subsidies, its export promotion efforts will lean 'towards more fundamental systemic measures rather than incentives and subsidies alone'.

## **Conclusion**

India's foreign trade policy is the framework within which India engages in trade and with the release of the new FTP India has used this opportunity to implement meaningful domestic economic reforms. There are three important ways that the new FTP has sought to address India's domestic constraints.

Firstly, by establishing coherence between its domestic policy framework and its trade policy, India is mainstreaming its trade activities reifying a departure from the past when trade was considered a residual economic activity as opposed to a means to achieve strategic and security interests. Indeed, if approached effectively, trade can play a crucial role in helping India meet its developmental objectives.


Secondly, by easing access to rewards for Indian exporters, the FTP is reiterating the importance of undertaking steps to level the playing field for its own exporters who often incur costs due to infrastructural deficiencies. While the long-term solution will require increased investment in infrastructure, the streamlined reward system provides a solution to exporters in the short-term.

Thirdly, as trade barriers have moved away from tariff measures to non-tariff and trade facilitation-related barriers, India's attention to improving trade facilitation and ease of business reflects an acknowledgement of the impact that a hampered production and export process can have on trade.

Unquestionably, many factors hindering India's growth and development have been due to its own domestic limitations. In making an effort to address these issues, while seemingly unambitious, these reforms have the potential to significantly advance India's objectives of inclusive growth and economic development. ■

**Bipul Chatterjee is Deputy Executive Director, and Chenai Mukumba is an Assistant Policy Analyst, at CUTS International**

# Explicating on the need for sub-national economic activism



Tridivish Singh Maini and Deepanshu Mohan say it is imperative for India to mature as a federation while displaying strong 'cooperative federalism'

**T**o improve the ease of doing business and attracting sustainable foreign direct investment inflows across sectors, it is imperative for India to also mature as a federation while displaying strong “cooperative federalism”. With the acceptance of the recommendations of the Fourteenth Finance Commission (FFC) the government seems to be in line to be promoting a cooperative federal polity where both the Centre and State can engage as equal partners. It remains to be seen whether this can actually be the case.

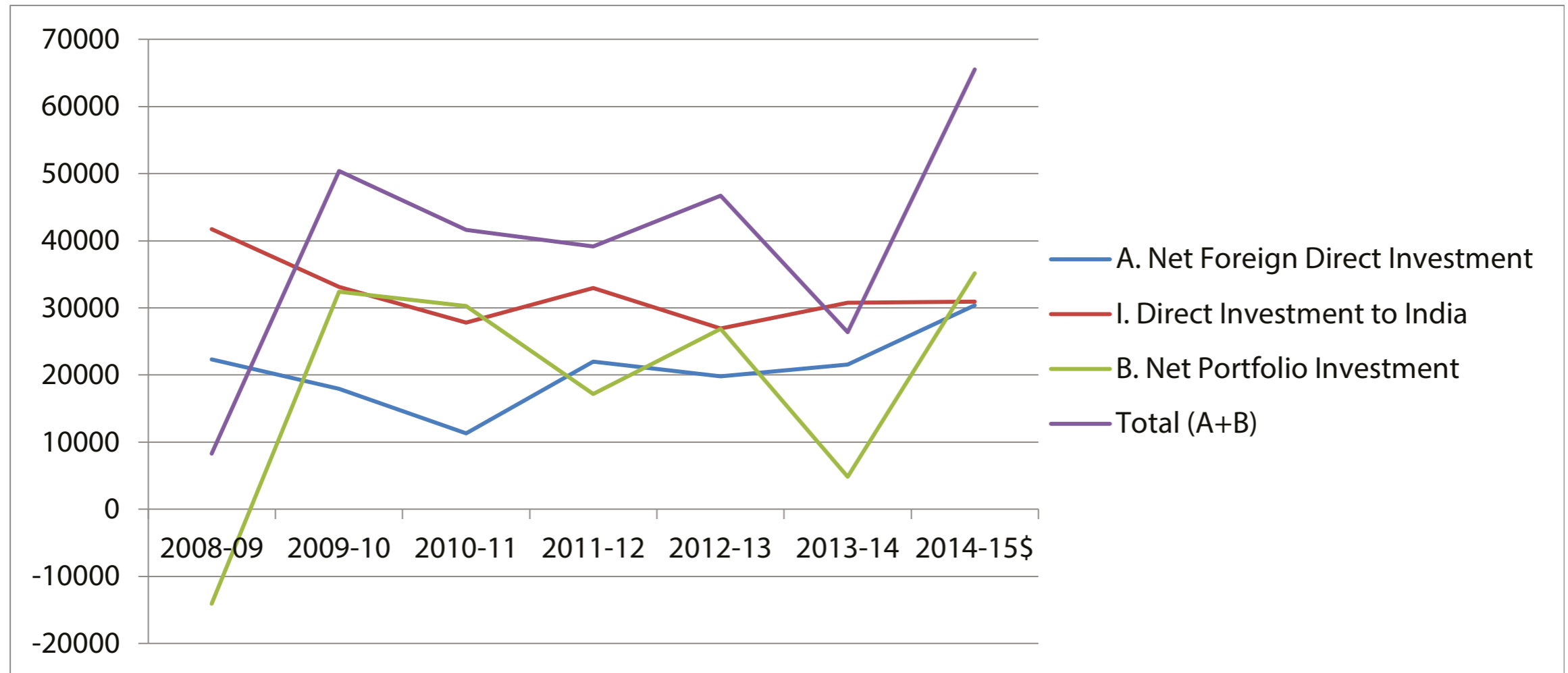
The FFC, headed by former RBI Governor YV Reddy, recommended a move away from scheme and grant based assistance to states to a greater devolution of funds from the Centre’s own treasury of revenue collection. With its acceptance, the Centre will now share 42 per cent of the divisible pool with the states; however, the states will now, in order to tackle fiscal burden, have much less money at their disposal to finance varied social security measures.

While it is true that the state will now have an opportunity to dip in to a greater pool of resources from the Centre’s share, it is still to be seen how the state governments manage their expenditure in the social sector. The Business Standard in a recent article supports this point by presenting a clear picture on the increasing of states’ expenditure on social sector over the years, raising serious questions on how can the increasing gap (between revenue and expenditure over time) be financed. In our article, we try to analyse and explore the possibility of using foreign investment as one of the alternatives that the states in India can explore in bridging the investment gap.

### **Trends in Foreign Direct Investment across Indian states**

Before we look at how attracting more foreign investment can be used as the ideal option for states to grow and develop over time, we first present a macro picture of the foreign investment levels in India. Figure 1 provides a picture of the overall trends in foreign investment inflows (indicators: net portfolio investment, net foreign direct investment, direct investment into India). In this, post 2013-14 we do see an upward trend in almost all the sub indicators reflecting an increasing level of investment into India.

Figure 1. Overall trends in foreign investment inflows



Source: Extracted from RBI Database on Foreign Direct Investment

Now, to deconstruct this level of Foreign Direct Investment (inflows) it is critical to provide a picture of the sector-wise allocation of the investment coming into India. Table 1 provides a sector-wise allocation of the FDI inflows in India where the top 13 sectors attracting most investment are given.

Turning to the States, if we observe the pattern of attracting maximum amount of FDI (inflows) for equity capital components only, the picture doesn't seem very positive from the data below (table 2). In the past three-four years, states like Uttar Pradesh, Madhya Pradesh, Maharashtra, Punjab have seen a downturn in the level of FDI (inflows) primarily because of either the lacklustre reform process (owing to a policy paralysis in terms of their FDI policy) or the political transformation seen in most of the states (say in Maharashtra, we saw the NCP-Congress coalition giving way to BJP-Shiv Sena which is likely to change the policy and direction of investment over time).

Contrarily, states like Rajasthan, Gujarat, Karnataka, Delhi, Tamil Nadu have done extremely well in attracting more investment inwards. In the NCR (National Capital Region) of Delhi maximum investment has been in the part of UP (Noida, Ghaziabad) and in small part of Haryana (Gurgaon) which come under the NCR belt. Rajasthan, especially, can be considered as a benchmark in seeing a ten times jump in its FDI level (from 230 crores in 2010-11 to 3,233 in 2014-15). The state also seems to be on the right track in terms of its socio-economic indicators (especially in the path to poverty eradication, increasing employment opportunities, accessibility to health and education).

The states that need more focus and effort in terms of attracting bulk investments inwards are Bihar, Andhra Pradesh, Madhya Pradesh & Chhattisgarh, Kerala, Goa, West Bengal and the North Eastern States (Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura) where the rise has been quite marginal when weighed in comparison to other states with the same potential. It has been a pleasant surprise to see the Prime Minister paying more attention to the North East Region where the level of investment (domestic and foreign) seems to be the lowest. On the same lines, we explore some of the options available with these states in attracting more foreign investment that will not only help these states to grow to their potential over time but also help in financing bulk of their social sector expenditure (which seems to be 40% of their total expenditure).



**Table 1. Sector Wise Foreign Direct Investment (FDI) Inflows in India (2000-2015)**

Sectors	Amount of FDI Inflows		%age with Total FDI Inflows (+)
	Rs. in Crore	In US\$ Million	
Services Sector*	201,728.28	42,101.98	17.32
Construction Development: Townships, Housing, Built-Up Infrastructure And Construction-Development Projects	112,916.36	24,028.19	9.88
Telecommunications	83,697.07	16,994.68	6.99
Computer Software & Hardware	67,693.78	14,125.19	5.81
Drugs & Pharmaceuticals	63,629.47	12,856.02	5.29
Automobile Industry	60,725.08	11,857.11	4.88
Chemicals (Other Than Fertilizers)	48,641.77	10,229.69	4.21
Power	46,358.87	9,512.02	3.91
Metallurgical Industries	40,737.61	8,480.9	3.49
Hotel & Tourism	40,198.41	7,774.03	3.2
Trading	41,315.28	7,660.73	3.15
Petroleum & Natural Gas	31,650.29	6,519.53	2.68
Food Processing Industries	36,360.11	6,215.46	2.56
Sub Total	1,199,386.19	243,106.8	100
	533.06	121.33	
<b>Grand Total</b>	<b>1,199,919.25</b>	<b>243,228.2</b>	

Note : \* Services sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier,

Source: Ministry of Commerce and Industry, Govt. of India.

**Table 2: Foreign Direct Investment in States**

RBI Regional Office-wise Foreign Direct Investment (FDI) Inflows* Received (with State Covered) in India (2010-2011 to 2014-January 2015) Rs. in Crore, US\$ in Million							
RBI's Regional Office	State Covered	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative Inflows (Apr. 2000 to Jan. 2015)
Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	27,669 (6,097)	44,664 (9,553)	47,359 (8,716)	20,595 (3,420)	30,360 (4,983)	344,449 (71,740)
New Delhi	Delhi, Part of UP and Haryana	12,184 (2,677)	37,403 (7,983)	17,490 (3,222)	38,190 (6,242)	35,433 (5,779)	242,204 (48,315)
Chennai	Tamil Nadu, Puducherry	6,115 (1,352)	6,711 (1,422)	15,252 (2,807)	12,595 (2,116)	20,384 (3,340)	85,790 (10,536)
Bangalore	Karnataka	6,133 (1,332)	7,235 (1,533)	5,553 (1,023)	11,422 (1,892)	13,886 (2,258)	74,753 (14,934)
Ahmedabad	Gujarat	3,294 (724)	4,730 (1,001)	2,676 (493)	5,282 (860)	6,811 (1,112)	51,193 (10,622)
Hyderabad	Andhra Pradesh	5,753 (1,262)	4,039 (848)	6,290 (1,159)	4,024 (678)	7,621 (1,256)	48,536 (9,901)
Kolkata	West Bengal, Sikkim, Andaman and Nicobar Islands	426 (95)	1,817 (394)	2,319 (424)	2,659 (436)	1,229 (201)	14,393 (2,943)
Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	1,892 (416)	624 (130)	255 (47)	562 (91)	234 (39)	6,360 (1,331)
Jaipur	Rajasthan	230 (51)	161 (33)	714 (132)	233 (38)	3,233 (540)	6,791 (1,264)
Bhopal	Madhya Pradesh, Chhattisgarh	2,093 (451)	569 (123)	1,208 (220)	708 (119)	600 (100)	6,095 (1,216)
Kochi	Kerala, Lakshadweep	167 (37)	2,274 (471)	390 (72)	411 (70)	641 (105)	5,373 (1,086)
Panaji	Goa	1,376 (302)	181 (38)	47 (9)	103 (17)	208 (34)	3,864 (822)
Kanpur	Uttar Pradesh, Uttarakhand	514 (112)	635 (140)	167 (31)	150 (25)	502 (82)	2,267 (454)
Bhubaneswar	Odisha	68 (15)	125 (28)	285 (52)	288 (48)	51 (9)	1,957 (397)
Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	37 (8)	5 (1)	27 (5)	4 (1)	9 (1)	361 (80)
Patna	Bihar, Jharkhand	25 (5)	123 (24)	41 (8)	9 (1)	66 (11)	265 (50)
<b>Grand Total</b>		<b>97,320</b> <b>(21,383)</b>	<b>165,146</b> <b>(35,121)</b>	<b>121,907</b> <b>(22,424)</b>	<b>147,518</b> <b>(24,299)</b>	<b>155,489</b> <b>(25,526)</b>	<b>1,199,919</b> <b>(243,228)</b>

Note: \*Includes equity capital components only. The Regionwise FDI inflows are classified as per RBIs. Regional Office received FDI inflows, furnished by RBI, Mumbai. Represents, FDI inflows through acquisition of existing shares by transfer from residents to non residents

Source: Ministry of Commerce and Industry, India

## What the States need to do?

In the past year, we have witnessed a proliferation in the number of Investor Summits coupled with visits by Chief Ministers overseas in the last year or so. The Investor Summit to draw maximum attention was the Vibrant Gujarat Summit (January 2015), since it was attended by the PM himself, Narendra Modi, who had conceived the idea of this event when Chief Minister. Eight countries, including the US, UK, Canada, Netherlands, South Africa, Japan, Singapore and Australia signed up as partners for the summit. In addition to top corporates from India and abroad, the list of participants this year included US Secretary of State John Kerry, Bhutanese Prime Minister Tshering Tobgay, UN President Ban Ki Moon, and World Bank President, Jim Yong Kim. The PM's thrust during his address was on cooperative federalism and ease of doing business.

It would be pertinent to point out that while the Vibrant Gujarat Summit draws more attention it is not the sole state which hold summits. Apart from Gujarat, some of the other states to hold investors summits were West Bengal (January 2015), Madhya Pradesh (October 2014), Rajasthan and Maharashtra. Finance Minister Arun Jaitley attended the summit to send an unequivocal message that the Modi government is genuinely committed to 'cooperative federalism' ie. a harmonious relationship between Centre and States.

All these summits claim to be successful, though it is not clear to what extent the figures which they cite with regard to investment received are true. These summits certainly achieve one goal ie. greater exposure for state gov-

*Greater participation of states in international trade and commerce is a good beginning but it needs to be done in such a way that it benefits a large number of states and not just a few*

ernments. Investors also get an opportunity to interact directly with policy makers and convey some of their apprehensions. Governments through their interactions with investors also learn more about what needs to be done to become sought after investment destinations.

Apart from investors summits, Chief Ministerial delegations overseas have also become a common practice. These delegations are not from a handful of states like Andhra Pradesh, Tamil Nadu and Maharashtra, but recently CM's of Rajasthan, Madhya Pradesh and West Bengal have led delegations overseas to attract investment. While all these steps are laudable and will help in fostering competition between different states, there are a few issues which clearly need to be addressed.

The main objective of such summits is to draw FDI. A number of reports state that states managing to draw FDI possess some advantages such as better connectivity and infrastructure. The current government has so far sent out an unequivocal message that it will give greater attention to the North-East, and has continuously referred to the region as a pivot of its Act East Policy. The frequent visits made by Ministers to the region, with an increased focus on building adequate infrastructure within the region, including border posts with Myanmar, is a strong reiteration of this point. Even with regards to Eastern India, there has been some positive feelers. One clear illustration being the fact that Finance Minister Arun Jaitley attended the West Bengal Investors summit, even though TMC and the central government have been at loggerheads.

Similarly, the royalty from coal auctions to Eastern India. During his recent visit to the Rourkela steel plant in Orissa, PM Modi stated that India cannot depend upon a few states for its growth and prosperity.

Second, it is time that participation of state governments in foreign policy (specifically economic diplomacy) is institutionalized. While this government has taken the first positive step towards accepting this reality the next logical step would be to take some tangible steps and give state government's greater leeway and reduce the number of clearances required from the central government. One possible way could be for the Ministry of Commerce to have

representatives in states and reduce the burden of officials in Delhi. MEA already has branch secretariats. PM Modi has already suggested one possible reform, that each state should have its export councils. These words need to be translated into action.

Greater participation of states in international trade and commerce is a good beginning but it needs to be done in such a way that it benefits a large number of states and not just a few. For this, it is important that the government carries out the required political and economic reforms. ■

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# The Maritime Silk Road An EU perspective



Fraser Cameron writes that the MSR will have a major impact on global trade and international relations, especially EU-China relations

## Introduction

The Maritime Silk Road (MSR) is a general term used to describe Chinese plans to develop the ancient trade routes between China and Europe and deepen economic cooperation with countries situated along the route. In today's ever-more, inter-dependent world, maritime commerce is the backbone of globalization with huge container ships playing a major role in enhancing commercial exchanges. The MSR initiative thus builds on an existing trend towards greater globalization and seeks to enhance common interests that China shares with participating countries. If successful the MSR should lead to a considerable increase in China's influence among the states along the route. The plan relies on China's continuing economic growth, its financial diplomacy and ability to oversee major infrastructure developments. The MSR could thus have a major impact on global trade and international relations, especially EU-China relations.

## Why the MSR?

The MSR initiative was formally launched by President Xi in October 2013 during a visit to Indonesia when he said that the MSR would be 'a win-win proposal for both China and the 10 members of the Association of Southeast Asian Nations (ASEAN)'. Though the initial target of the MSR was Southeast Asia, the agenda of expanding port access to support maritime trade extends across the Indian Ocean to the Persian Gulf, East Africa, and through the Red Sea into the Mediterranean and Adriatic. The MSR and the Silk Road Economic Belt initiatives are linked in Chinese minds and referred to as 'One Belt, One Road'.

Together, the two Silk Roads constitute a grand vision of Eurasian integration under China's leadership. This vision is inspired by China's rise to great power status and the growing reality that China's neighbours are becoming ever more dependent on it for trade and finance. The WTO is stalled and China is excluded from the TPP negotiations. In 2014 the trade volume of countries along the route accounted for nearly 26% of China's total trade in goods.

The objectives of the MSR are multiple. The first aim is domestic: to develop and thereby stabilise China's western regions by integrating them into international trade routes and by developing Central Asian markets for Chinese

goods produced. Second, it aims to improve energy security by increased connectivity. Third, it seeks to avoid over-dependence on Russia for trade routes to Europe and to counter Russian influence in Central Asia. Fourth, it sees the MSR as an opportunity to export overcapacities abroad (cement, steel, shipping, rolling stock, etc) and to mobilise its foreign exchange reserves by investing abroad, especially to secure access to new sources of raw materials. China can now export higher value-added goods and services, including electronic parts, consumer durables, heavy equipment, and construction and engineering services, but it still lacks access to export markets.

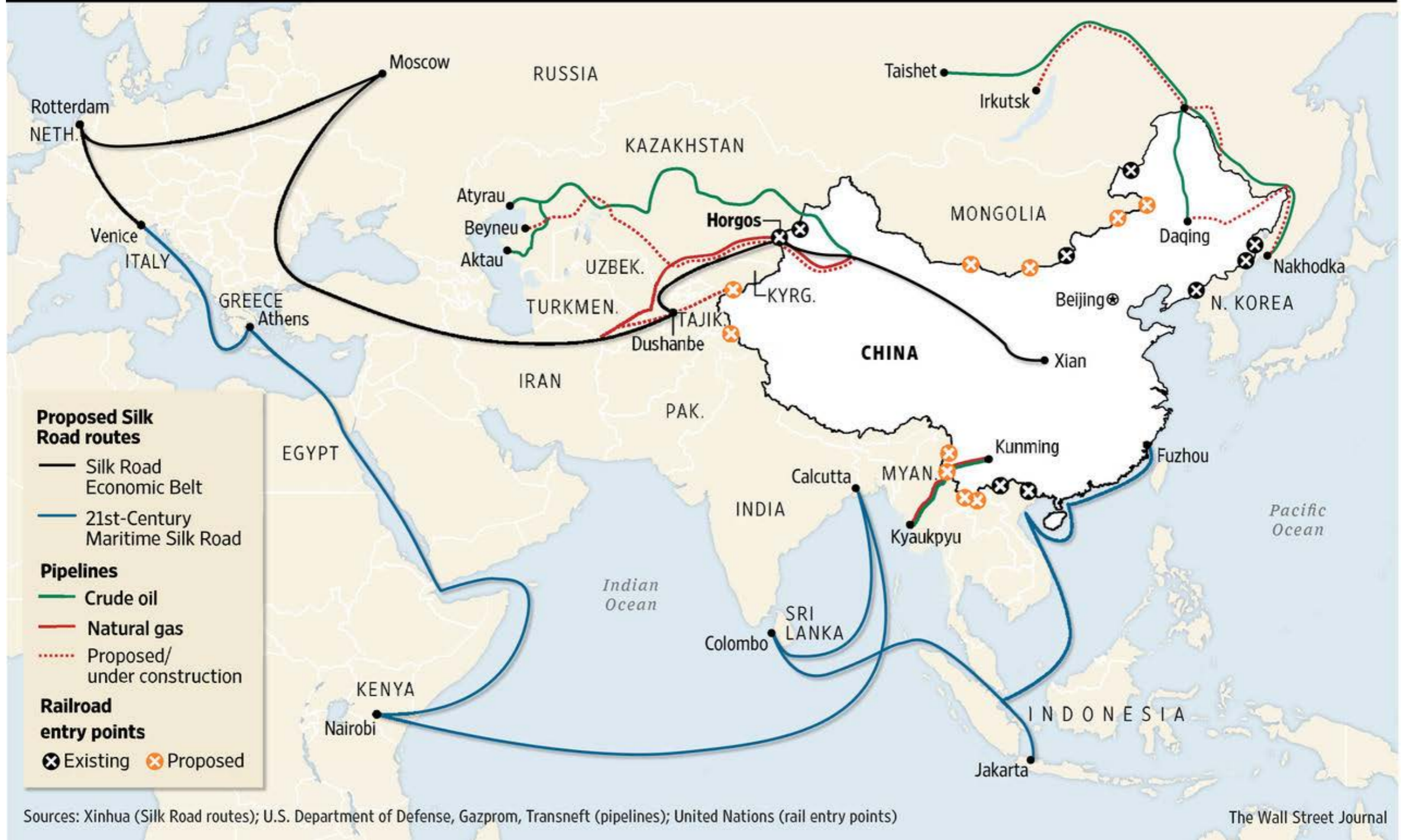
The MSR also has a peace and security dimension. By facilitating communication between countries along the MSR, it is hoped that there will be an increase in common interests and a narrowing of differences. The MSR will thus be a pillar of a series of initiatives to promote closer links between China and Europe. Apart from the 'One Belt, One Road' there is the 'Bangladesh-China-India-Myanmar Economic Corridor' and the 'China-Pakistan Economic Corridor.' There is no timeframe for the completion of these projects although one is looking at decades rather than years given the number of countries and the complexity of the issues involved. The MSR runs through a number of countries and regions that differ in size, development, history, religion, language and culture.

The MSR will require better marine connectivity which means investment in ports, wharves and information networks to ensure the open flow of goods and information. Maritime security will be a key aspect and attention will have to be paid to the security of shipping lanes. The MSR could also give a boost to shipbuilding and the general

*The MSR will certainly be something that the EU watches closely in coming years, both for synergies to participate and to guard against threats to European interests*



# New Silk Roads | China is assembling new trade routes, binding other regions closer to it



development of the marine economy. China has again intimated that it would be willing to finance joint ventures in areas such as fishing, aquaculture, marine food processing, desalination and tourism. There could be special economic zones established to facilitate such cooperation and promote all industries linked to maritime development. Cultural cooperation will also be promoted in an effort to promote mutual understanding between the peoples along the MSR.

### **Current developments**

In the past year China has announced a number of major infrastructure projects to support the MSR including a \$16 billion fund to build and expand railways, roads and pipelines in Chinese provinces that are part of the planned Silk Road Economic Belt. The massive investments will help boost economic development in China's poorer inland regions, a key goal of the MSR initiative. Meanwhile, China is also encouraging its state owned enterprises and banks to support infrastructure development along the two routes. This is in addition to the substantial funds that China had already promised to Silk Road partners. For example Beijing has promised \$1.4 billion for developing port infrastructure in Sri Lanka and over \$50 billion to support infrastructure and energy deals in Central Asia.

With the establishment of China's new Asian Infrastructure Investment Bank (AIIB), we can expect to see even more money flowing into the region to shore up infrastructure capabilities. Studies from the Asia Development Bank data suggest that Asia's infrastructure demand is expected to be over \$730 billion per year by 2020.

In April President Xi Jinping announced Chinese investment of over 40 billion euros during a visit to Pakistan. The focus of spending is on building a China-Pakistan Economic Corridor (CPEC) - a network of roads, railway and pipelines between the long-time allies - which will run some 3,000km from Gwadar in Pakistan to China's western Xinjiang region. The projects will give China direct access to the Indian Ocean and beyond.

Pakistan, for its part, hopes the investment will boost its struggling economy and help end chronic power shortages. But there are questions over Pakistan's ability to absorb this investment given its chronic problems with militan-

cy, separatism, political volatility and official corruption. China is worried about violence from ethnic Uighurs in its mostly Muslim north-western Xinjiang region and fears hard-line separatists could team up with Uighur Islamic militants fighting alongside members of Pakistan's Taliban. In Pakistan, a decade-old separatist insurgency in Balochistan province, where the economic corridor starts, makes that area extremely volatile.

The number of potential partners is also expanding. Afghanistan, Bangladesh, Pakistan, Sri Lanka, Tajikistan, Indonesia and Russia all want to be involved as they view the MSR as an attractive proposition. Most regional partners – including several European states - are keen to secure Chinese assistance in building critical infrastructure, whether for ports, roads or railways.

### **Impact on the EU**

The European Union (EU) is the largest trade power in the world and China's main overseas market. 2015 marks the 40th anniversary of the establishment of diplomatic relations between the EU and China. Relations, especially in the past decade, have developed rapidly and now the two actors are not only strategic partners but engage in over 60 dialogues on issues from trade and investment to the environment and transport. The two sides are currently negotiating an investment treaty that should give a further boost to two-way trade and investment.

The EU also has close relations with most of the countries along the MSR including the member states of ASEAN, India and the Gulf of Aden. The EU is thus following China's plans to develop a MSR (as well as the land-based New Silk Road) with considerable interest. The two projects have major geostrategic, political and economic implications that the EU cannot ignore. During his visit to the EU in spring 2014 Chinese President Xi Jinping informed EU leaders about Beijing's plans. They expressed interest in the initiative noting that it was very ambitious and would take a great deal of time and resources.

In addition, the EU-China 2020 Strategic Agenda for Cooperation mandated both sides to strengthen their cooperation in 'developing smart, upgraded and fully interconnected infrastructure systems,' as well as 'to explore models of

infrastructure cooperation, including project bonds, project shareholding, joint contracting and co-financing, and further coordinate the cooperation among China, the EU and its member states.'

The new Silk Road initiatives present both challenges and opportunities for the EU. In the trade sector, Chinese subsidised transport goods can represent unfair competition for EU companies, but opening up new EU-China trade routes can be beneficial for both sides. Beijing's willingness to finance infrastructures in the EU can be an opportunity, if the right cooperation mechanisms are identified, if pertinent rules, especially on transparency, are applied.

Chinese lobbying to obtain rail construction contracts and to sell their trains, which focus on connecting the port of Piraeus to the rest of the EU market, must be in line with commonly-agreed EU priorities defined in the Trans-European Networks. In third countries markets, the initiative's opaque infrastructure financing deals without open competition are a threat to the competitiveness of the EU, but China may also help to open up long-neglected markets.

The EU is also watching to see if and how China exploits the MSR to increase its influence. Most countries throughout history, especially the European imperialists, have used trade to boost political influence. If and when completed, the Silk Roads would boost China's trade with effectively the whole Eurasian continent. China would hope that many if not all countries along the Silk Roads would have a more favourable image of China and its policies – an example of soft power in operation.

China has also provided naval support for the EU-led anti-piracy campaign in the Gulf of Aden (Operation Atalanta). This is an important transit route for container traffic between Europe and China and a signal of Beijing's willingness to share international responsibility for freedom of navigation on the high seas, a burden largely borne by the US navy.

The rail/sea connections are perhaps one of the most interesting features in the initiative. In their maps, Chinese policy-makers draw rail connections between Kunming (Yunnan) and the Myanmar port of Kyaukphyu, between

Kashgar (Xinjiang) and the Pakistan port of Gwadar. Both would create sea connections between China and the EU circumventing the infamous Malacca Strait. Finally, and most importantly for the EU, there are Chinese plans to develop stronger rail links between the port of Piraeus and the rest of the EU via the Balkans.

Chinese state-owned enterprises have already made substantial investments in foreign seaports, taking control of some terminals. In Asia, Colombo (Sri Lanka), Chittagong (Bangladesh) Gwadar and Karachi (Pakistan) have all received investments which are helping to modernise their infrastructure and may give them a more prominent role in international trade routes. A similar approach seems likely for developing new ports in the Maldives. Cosco has shares in the ports of Singapore, Port Said and Djibouti (the two doors of the Suez Canal), but also in Piraeus and Antwerp.

As the Chinese MSR initiative involves many countries with which the EU has a partnership it is clear that Brussels will follow developments closely to assess the likely positive and negative implications. There could well be implications for trade relations and possibilities for joint activities. China is already discussing related infrastructure projects with the central and east European countries under the 16+1 format. There will also be problem areas not least in the different approaches the EU and China have to financial assistance to third countries. But the message from the EU side is clear – a desire to work together with China wherever and whenever possible for mutual advantage.

From the EU side there are many imponderables about the MSR although there is a general willingness to engage with China and other partners in developing and strengthening new trade routes. EU officials are waiting for further details of how Beijing would manage the MSR, which agency would take the lead, and who would control the budget.

## **Conclusion**

At present the MSR remains an ambiguous tool of Chinese foreign policy. It could be a powerful example of Chinese soft power if Beijing plays its cards right. But it will certainly be something that the EU watches closely in coming

years, both for synergies to participate and to guard against threats to European interests. It is a potentially huge project with considerable implications on the political, security, trade, financial and environmental fronts. How China develops the MSR will help define the very nature of China as an actor in the 21st century.

For the EU it will have to consider the best approach to engage with China in order to maximise synergies. It should also seek an increased dialogue with China on Africa to ensure respective interests there are not undermined. And as the MSR goes through some dangerous seas (eg. pirates off Somalia and Sumatra) it will be useful to engage China more in international efforts to combat piracy. Certainly the MSR will figure as a major item in EU-China relations for the foreseeable future. ■

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# Modifying China- South African trade

South Africa is struggling to cobble together a coherent long-term trade strategy to deal with China,  
William Gumede writes

**S**outh Africa's governing African National Congress, business and civil society are struggling to cobble together a coherent long-term trade strategy to deal with China given that the Asian dragon is both a partner and competitor. Since the end of 2009, China had become South Africa's largest trading partner.

Some strategists in the ruling African National Congress and government see a booming China as an alternative market to South Africa's traditional Western trading partners. China is also seen as a possible source of new growth generating investment in South Africa to help create jobs and cut poverty among the majority black population.

China is also seen as a key geopolitical ally for South Africa as the country lobbies for the restructuring of the global trade, economic and political architecture to give Africa and developing countries a fairer say in relation to their Western counterparts.

South Africa joined the BRICS (Brazil, Russia, India, China and SA) group of emerging markets in 2010, signalling the country's importance as the gateway to Africa for China and world's fast-growing the emerging economies, as key source of commodities, and as a strategic geopolitical ally for emerging economies wanting to reform global financial, trade and political rules and institutions.

Many of South Africa's white liberal establishment, including some white industrialists and business sponsored think tanks, oppose the whole idea outright that South Africa should have strategic political and economic alliance with China, arguing that South Africa's strategic alliances should still rest with the industrial West, Europe – current SA's largest export market, North America and Australasia.

The ANC is in a governing coalition with the Congress of South African Trade Unions (Cosatu), and the South African Communist Party (SACP) since it came to power at the end of apartheid in 1994. Some leaders of the ANC governing alliance admire the developmental model of China - that of development without democracy. Those who make such arguments are heavily influenced by Soviet-style socialism, particularly in the SACP, who wrongly argue that democracy is an obstacle to development.



Yet, others again, such as the former South Africa Deputy President Kgalema Motlanthe, argue that although there are developmental lessons for South Africa from China's growth model, in South Africa development must go hand in hand with deepening democracy.

Frans Baleni, the general secretary of the National Union of Mineworkers (NUM) says China's investments in SA *"should be viewed with caution"* as patterns so far so shows that Chinese trade with South Africa amounts to *"colonization of a special type"*.

This is because in many cases South Africa exports cheap raw materials to China, which did not create many jobs at home. China exports manufactured products – which creates jobs in China, made from the cheap South African raw materials – back to South Africa at higher prices, and higher value.

Reports that the ANC or Cosatu affiliates have bought T-shirts for their conferences which were made in China often cause huge public anger – and denials by leaders, sensitive to the public sentiment that Chinese companies takes away South African jobs.

Julius Malema, the former ANC Youth League President, who has now started his own party aimed at the black youth, called the Economic Freedom Fighters, told a South African Jewish Union of Students dinner recently that China *"use us (South Africa) to get into Africa, take mineral resources raw as they are"*.

*South Africa's overall national trade strategy suffers against those of China and other emerging markets, because the country's industrial, trade policy; labour market policies are not synchronized*

Malema said: *“They also bring (their own) labour”, adding “at least with the colonizers (of the past) they utilized our people, although the working conditions were not better... but these ones (Chinese), they don’t even give you labour. They just open a Chinese town on their arrival”.*

Others, such as former Finance Minister Pravin Gordhan said increased trade with China has helped South Africa’s ride the worse effects of the global financial and eurozone crisis and say that a key strategy of South Africa is diversify its trade away from traditional industrial economies towards China, Africa and other emerging markets.

However, many ANC members, and alliance partners, especially trade unions and civil groups, and business say a close partnership with China harms South Africa’s economic interests, rather than promoting it.

Many agree that South Africa should diversify its trading partners, but say this should focus more on expanding trade with Africa, and trading with other emerging markets, such as Brazil, India, Russia, South Korea and Turkey.

They argue that in the case of China, it would be better that South Africa let China compete with other economies, such as Japan, South Korea and Western economies with the knowhow, for example partnering on projects, such as the country’s planned infrastructure investment drive.

The arguments that are advanced are: that the entry of cheap Chinese products into South Africa is de-industrializing South Africa’s manufacturing base, and that China’s authoritarian political model is the antithesis of South Africa’s efforts to promote democracy at home and abroad.

South Africa’s struggling manufacturing industry – which has been identified in all government economic policies as the key sector that needed to be supported, has complained loudly that they cannot compete against the *“deluge of cheap imports flooding South Africa”* from China.

Kaizer Nyasumba, the CEO of the Steel and Engineering Industries Federation of Southern Africa, recently said South African manufacturing companies compete against Chinese peers that *“are directly or indirectly subsidised”* by (the Chinese government). Nyasumba says the metals and engineering sector have seen a growing number of smaller, mostly family-owned, companies closing down.

In 2010 the Chinese government banned South African wool exports to China after an outbreak of Rift Valley Fever in the Northern Cape and Free State. Rift Valley Fever is a mosquito-borne virus that kills livestock and humans. South Africa and the World Organisation for Animal Health told the Chinese that Rift Valley Fever is not transferred through wool. The Chinese government insistence on the ban outraged South Africans.

At the centre of South Africa’s global trade strategy is to trade more with a growing Africa. Many executives of South African state-owned and private companies are alarmed by Chinese inroads into Africa, saying this encroach into South African ‘space’.

They have asked for active South African government support for both state and private companies who are trading in Africa, saying that Chinese companies have unfair advantage in Africa because they are in effect subsidized by the Chinese state.

Since 1994 South Africa has a policy of black economic empowerment (BEE) which compels companies that do business with the government to partner with black companies; and a policy of affirmative action, which wants companies to actively give black South Africans employment opportunities. Many black South Africans businesses have complained that Chinese companies do not follow black economic empowerment and affirmative action rules when they make investment decisions in SA.

South Africa has the largest indigenous Chinese population in Africa, having been in the country for almost 150 years. Under apartheid these communities were classified as black. A few years ago South Africa’s Constitutional

Court pronounced that Chinese South Africans should be entitled to black economic empowerment and affirmative action.

Some South Africans fear that 'foreign' Chinese are using loopholes to access BEE and affirmative action opportunities reserved for indigenous Chinese-South Africans.

In 2010 a senior delegation of the ANC visited China and formally complained to their Chinese counterparts about the lack of BEE and affirmative action by Chinese companies in South Africa.

Trade unions and civil groups in SA have consistently complained that Chinese companies in South Africa undermine basic workplace rights and environmental standards. Cosatu for example, have insisted that all Chinese companies investing in SA sign minimum labour rights agreements. Although China has not enforced its companies to do so, Chinese leaders in official visits to SA increasingly publicly emphasize that the country's companies will not undermine basic workplace rights and environmental standards.

Chinese companies have active buyers of shares in mining companies in SA, appearing to concentrate on struggling black miners. Most of the black economic empowerment deals since 1994 have taken place in mining. Since most blacks lack finance, these deals have been financed by mining companies lending would-be black buyers the money to purchase the stakes.

However, many of these deals have unravelled as the black part-owners struggled to finance such debts through dividend payments – especially following the 2008 global financial crisis which led to a drop in global metal prices.

A Chinese consortium, the Jinchuan Group and the China-Africa Development Fund, for example, recently bought a 45% share in Wesizwe Platinum to build a new platinum mine in the Northwest of the country. The Chinese cash-injection provided much sought after cash for the black shareholders of the company.

But this again points to another concern - there is increasing alarm among many in the ANC and SA government that China are buying into 'strategic' sectors in the SA economy, such as platinum and rare metals.

Many South African manufacturers say while Chinese products easily enters South African markets, high tariff barriers and China makes it difficult for South Africans products to enter Chinese markets.

South Africa's ferrochrome producers have been calling for government support against their Chinese counterparts. The Chinese government is subsidising various raw material imports, including chromium, as part of a beneficiation strategy.

China imposes a 40% export duty on metallurgical coke, which is the sole ingredient that South African ferrochrome producers import — largely from China.

China has recently erected more trade barriers for steel imports. South African steel producers have accused China of dumping steel in African and developing countries.

In early March 2015 the Chinese government issued a draft restructuring plan for its steel industry which says the government will provide financial and policy support to help Chinese steels mills expand abroad, given weak demand growth and rising environmental costs at home.

Already, Hebei Steel Group, China's largest steel maker, is actively looking to build a 5-million-tonne-a-year steel project in Africa.

The South African textile industry has been hard hit by cheap imports from China, with factories closing down and heavy job losses since 2002. Employment in the textile industry dropped from almost 300,000 in 1996 to 120,000 in 2010.

Selwyn Gershman, the managing director of Gregory Knitting Mills, said *“we are a very distressed industry”*. In 2006, after lobbying by industry, trade unions and ANC members South Africa persuaded China to sign a textile pact between the two countries which would limit imports from China and give the SA industry a window period to re-build.

South Africa has not introduced tougher protective measures, like the WTO endorsed protective measures implemented by the US and EU.

South Africa’s textile industry is uncompetitive compared with China because South Africa does not give the local industry the same level of direct and indirect subsidies the Chinese give theirs.

South Africa’s overall national trade strategy suffers against those of China and other emerging markets, because the country’s industrial, trade policy; labour market policies are not synchronized. For example, attempts to make the currency more competitive – to give South African exporters a bigger edge - has not been co-ordinated with other macro-and-micro economic policies, which could support the country’s local companies.

Rob Davies, the trade and industry minister says that South Africa has already given a list of concerns to China on how South Africa wanted to modify current China-SA trade so that it won’t be adverse to South Africa.

Davies said China have given South Africa a number of ‘undertakings’ on how to ensure trade relations between two countries are conducted in such way that both countries mutually benefit.

Clearly, because South Africa is small compared to China, it must use all the resources available in the country, in the public sector and private sector and civil society – the ideas, skills and finances – better to negotiate better deals.

It will be important that South Africa forge a partnership between its government, business, labour and civil society, to provide the capacity to come up with competitive strategies against not only China, but or other emerging and industrial country competitors.

There are South African companies such as Sappi and SABMiller, who have done incredibly in China and other emerging markets: their capacity must be leveraged to come up with better long-term country strategies.

South Africa has the largest indigenous Chinese diaspora communities in Africa: it is a tragic waste that the South African government is not using the skills of these South Africans to help forge the most strategic approach towards China. ■

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A photograph showing a long line of trucks and cyclists on a road in Africa. The trucks are mostly white with blue containers. In the foreground, a white Scania truck is prominent, with the license plate KAV-035J. Several cyclists are riding along the road, some in front of the trucks. The road is unpaved and dusty. The background shows a hazy landscape with trees and a clear sky.

# The Tripartite: what to expect from Africa's grand free trade area

Matthias Bauer and Andreas Freytag say that it is essential for African leaders to push for more inter-African integration if African economies want to become less dependent from the rest of the world



**R**egional value chains help Africa to become less dependent on the rest of the world both in terms of imports and in terms of business cycle dependencies. This is particularly important for commodity driven economies. Since commodity prices and foreign investment in extractive industries are always volatile, commodity sectors cannot provide continuous support for African economic growth and economic diversification.

Rising levels of intra-regional trade can become a powerful force of economic and societal transformation. Time and again through modern history, countries have begun a process of economic development by stepping into cross-border trade and investment. Thereby regional integration is not an end in itself; it is the driver for long-term prosperity and a socially inclusive society.

On 25 October 2014, the Tripartite Sectoral Ministerial Committee (TSMC) paved the way for the largest projected free trade agreement the world has seen so far. The free trade area is bigger, by population, than either the European Union (EU) or the North Atlantic Free Trade Area (NAFTA). The announcement was made by the TSMC in Bujumbura, Burundi, and African heads of state finally signed off the agreement in June 2015 in Egypt.

The so-called Tripartite Free Trade Agreement (T-FTA, Tripartite) encompasses 26 states from the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the Southern African Development Community (SADC). The economic block consists of a combined population of 625 million people and a GDP of 1.3 trillion USD.

If the Tripartite were successfully implemented, free trade would be possible in an area accounting for half of the membership of the African Union (AU) and around 60 per cent of the continent's total economic output. Moreover, if the Tripartite proves to be successful, it would be followed by a continental customs union starting in 2019, as it is outlined by the AU's ambitious road map for a continental free trade area.

Yet, here is the problem: despite innumerable ambitious efforts for pan-African economic integration, the African continent still is highly fragmented. Market fragmentation in terms of different tariff lines, complex systems of rules of origin (ROO's), and technical barriers to trade prevent enormous opportunities for cross-border trade, the expansion of business activity and economic development from being exploited. Keeping in mind that Africa's integration efforts were always characterised by ambitious schemes and weak implementation at the same time, it is legitimate to ask about the real merits of a Tripartite agreement.

### **Africa's landscape of economic integration: ineffective overlaps**

Over the past decade Africa has experienced robust and continuous economic growth. Between 1980 and the end of the 1990s, Africa's average growth rate was lower than the growth rate of the world economy. Since the turn of the millennium, however, the African economy outperformed the world economy by two percentage points on average. Drawing on this performance, many observers felt inclined to praise the continent for its achievements. A few optimists even proclaimed the longingly expected turning point in Africa's development history.

Despite this favourable macroeconomic performance over the past 10 to 15 years, many African economies are still grappling with serious development challenges ranging from food insecurity, high joblessness, poverty and

*If African economies want to become less dependent from the rest of the world in terms of imports and business cycle dependencies, is essential for African leaders to push for more inner-African integration*

inequality to commodity dependence, dependence on foreign aid, slow economic transformation, and low integration of the continent in the global economy's value chains.

For many African economies, intra-regional economic integration has merely been a weak driver of economic and social development. In fact, recent economic growth was primarily supported by more stable political environments (except parts of Northern Africa), favourable commodity prices (until the burst of the so-called commodity super-cycle), stronger economic cooperation with emerging economies like China and Brazil, and higher official development assistance since the turn of the millennium.

The level of intra-African trade, however, stands at around 10 per cent, which is the lowest among the major regions of the world, including emerging Asia. Evidence suggests that regional integration in Africa is therefore far below potential. Adding up informal trade, which is indeed high relative to officially recorded numbers, would not change the picture. In fact Africa has integrated with the rest of the world faster than with itself. In other words, with a few exceptions, Africa still mainly produces what it does not consume and it consumes what it does not produce. This is bad for both economic efficiency and social equality. Many Africans are in fact prevented from earning a living in serving local markets across their own borders.

This is different to what African heads of state had in mind when setting up the African Economic Community (AEC) at the beginning of the 1990's. Following the letters of the Abuja Treaty establishing the AEC, which was signed in 1991, the African continent would be fully economically and politically integrated by 2028. From 1994 onwards, the treaty foresees a transition period of 34 years and six stages until Africa would arrive at a single African market (until 2019), a pan-African monetary union, an African central bank and African currency, and a pan-African parliament.

After the end of colonialism, several initiatives of African economic integration have been pushed forward, with tariff liberalisation being at the core of African countries' integration efforts. Due to African nation's colonial legacy, many African leaders soon recognised regional integration a necessity in order to overcome the continent's eco-

conomic and political fragmentation, and to secure Africa's long-term economic and political future. The outcome was the establishment of the Organisation of African Unity (OAU) in 1963, which was replaced by the African Union in 2002.

Based on the objectives of the OAU Charter – the OAU's basic constitutional document – African leaders held various summits to push for further regional integration. They committed themselves to promote economic and social development by establishing several regional and sub-regional institutions, which are the backbone and working base of Africa's integration policies today. As a consequence, the AEC provides a framework for continental integration that is different from other continents' integration efforts.

In fact, Africa's multiple integration approaches are based on several Regional Economic Communities (REC's), which constitute the main building blocs towards the full realisation of the AEC. On current trend, many African countries belong to more than one regional integration organisation. 17 regional integration agreements are currently in place, 8 of which are officially recognised by the African Union as REC for the purpose of achieving greater economic integration. Amongst them: COMESA, EAC and SADC.

The high number of preferential trade agreements (PTA's), which include Africa's REC's, goes along with the duplication of functions and a substantial overlap within the groupings. According to the World Trade Organisation, in 2010 the 58 African countries were members in 55 preferential trade agreements of which 24 were intra-regional PTA's. From a political perspective, overlapping membership in different REC's is judged controversially. On the one hand, multiple membership is often regarded as a practical constraint to advancing Africa's ambitious integration programme. On the other hand, many observers refer to the peacekeeping effect of Africa's multiple REC's. Following the latter perspective, multiple membership reduces the probability of war by increasing the opportunity cost of military conflicts and by building mutual trust as partners tend to know each other better. Besides, the presence of functioning formal institutions is argued to ensure that the regional relationships have a real meaning and are not pursued on a non-binding ad hoc basis only.

Although evidence suggests that Africa's REC's have contributed to peace and security in the region, their economic integration track record remained poor. The history of economic integration in Africa was always marked by comprehensive schemes and ambitious formal obligations, but weak legal and institutional enforcement. The most fundamental problem is the substantial lack of serious political commitment to cutting tariffs and tearing down non-tariff barriers.

### **Problems in different policy spheres make reforms urgently needed**

Although much of West Africa is not covered by the Tripartite agreement, it aims to consolidate three considerable economic communities. From an economics perspective, the amalgamation of African REC's would clearly be beneficial: multiple overlapping PTA's pose a significant administrative cost burden on firms that are engaged in cross border commerce. In addition, consolidating Africa's existing REC's would allow for a swifter implementation of integration measures since it becomes more attractive for governments to counteract burdensome bureaucratic tendencies at national level.

Yet, despite the existence of eight official REC's, achieving deeper economic integration across the continent has been remarkably slow in the past. The agreements made generally show a poor implementation record, which can be attributed to the unwillingness or inability of African governments to effectively cede sovereignty to supra-national levels. A few facts shall illustrate the region's desolate status quo.

We begin with the trading environment. Borders, as measured by the World Bank, are extremely thick in Africa. First, there are enormous gaps in the infrastructure. Many countries are landlocked and roads are not well maintained, if they are paved at all. The quality of airports and ports is comparably poor. Southern Africa stands out a bit, but still many Tripartite countries perform poorly in the World Bank's most recent Logistics Performance Index. The index provides data for 166 countries worldwide and covers categories like customs procedures, infrastructure availability and timeliness of delivery. The numbers show that the Tripartite region is a highly diverse group of countries. In the

aggregate index, the worst performers are the Democratic Republic of Congo (rank 159), Eritrea (156), Djibuti (154), Sudan (153), and Mozambique (147). South Africa (34) and Egypt (62) score comparatively well.

Second and related, the numbers for time to trade, a standard measure indicating various barriers for businesses to move goods between countries, vividly demonstrate the challenges for businesses that are engaged in intra-African trade. The average time to export is 50 days for Eritrea, 44 days for Ethiopia, 44 days for the Democratic Republic of Congo and 32 days for Burundi. For Egypt and South Africa, which are not landlocked however, the numbers are 12 and 16 days respectively. By comparison, for sub-Saharan Africa it takes on average 38 days to import and 32 days to export goods across borders. For Northern African countries, most of them coastal states, it takes on average 24 days to import and 20 days to export.

As concerns customs procedures, the number of documents required to import is 10 for Egypt and 6 for South Africa. The equivalent numbers are 12 for Eritrea and Malawi and 11 for Tanzania, Ethiopia and Mali. In addition to these administrative hurdles, many businesses complain about corruption at border posts. Often it seems necessary to bribe the customs officers in order to get the papers approved.

Third, there are numerous general regulatory difficulties. First, many regulated network industries do not deliver punctual and price-worthy services. This applies for postal services, telecommunications and electricity. In addition, one can observe a variety of complex country-specific regulations. These may often be justified economically, but have their fundament in vested interests, too. Ideally, these regulations should be mutually accepted; this, however, seems enormously ambitious.

Finally, there are various regulatory provisions at national as well as REC level that significantly affect the functioning of Africa's REC's and its two existing customs unions. These regulations, however, require much more intense negotiations. A prominent example is Rules of Origin. ROO's represent often substantial technical barriers to trade. Complex systems of national and regional ROO's considerably prevent African businesses from the benefits of the

preferential trade concessions made in the REC's constituting the Tripartite. Local content requirements, however designed, dramatically reduce any company's incentives to trade across borders. For products like wheat flour, where ROO's have been most contentious, preferential trade is often effectively prohibited because governments want to protect domestic producers.

This is also true for manufactured products for which common ROO's have in many cases not been specified. Additional costs arise from the administrative burden African businesses face when required to provide certificates of origin. According to the World Bank, 'Woolworths does not use SADC preferences at all in sending regionally produced consignments of food and clothing to its franchise stores in SADC markets. Instead it simply pays full tariffs because the process of administering ROO documentation is too costly.'

The additional burden can account for almost half the value of product-specific duty preferences. The magnitude of the burden, however, must always be seen with the size of the delivery. Small and medium-sized enterprises, the backbone of both developed and developing countries, suffer most from excessive administrative requirements.

Taken together, these barriers send a clear message: the current degree of openness and the lack of willingness of African governments to allow for foreign competition that might threaten domestic firms is limited in Africa. This leads to the conclusion that these problems may well constitute major obstacles for successful Tripartite negotiations.

### **Can the Tripartite deliver?**

So the question is indeed whether Tripartite negotiations will lead to a success. Negotiations will take place in two phases: in phase one, negotiators will deal with the liberalisation of trade in goods, mainly pushing for the removal of tariffs, but also for non-tariff barriers, and they are working on the liberalisation of the free movement of business people. In phase two, they will tackle the gradual liberalisation of trade in services such as transport, telecommunication and the digital economy.

According to official declarations, the majority of the Tripartite's designated member states already made ambitious tariff offers and they agreed on an interim solution for ROO's while work continues on product specific rules of origin (PSRO). It is not clear how the outcome will actually look like. EAC and COMESA apply very similar ROO frameworks. SADC, however, uses a fundamentally different structure. Given that up to 56 per cent of ROO's are different across the three REC's that constitute the Tripartite, it is unlikely that member states agree on a proper level playing field soon.

Contrary to financial resource-intensive infrastructure projects, which are also being debated among the group of 26, the elimination of different ROO regimes is cheap. Harmonised ROO's would be an extremely important precondition for the creation of lasting intra-African value chains. It is therefore crucial that member states arrive at the full harmonisation of differential ROO's. A true level playing field is likely to facilitate unprecedented levels of inter-regional trade, business activity and employment.

If African economies want to become less dependent from the rest of the world in terms of imports and business cycle dependencies, it is essential for African leaders to push for more inter-African integration. For Africa in particular, regional integration is a precondition for enhancing economic diversity, economic opportunities, domestic and regional inclusion, and finally, peace. In order to exploit the full potential for both the Tripartite and the rest of the continent, heads of state must strive for Africa's first deep FTA – an FTA that does not fall short of the political ambitions attached to it. ■

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# Regulatory cooperation in TTIP

An important part of the TTIP will be dedicated to the removal of non-tariff barriers, Jan Teresiński writes

**T**he Transatlantic Trade and Investment Partnership (TTIP), a free trade agreement currently being negotiated between the US and the EU, raises concerns among societies and has both devoted supporters and strong opponents. We would like to examine one aspect of TTIP that is of crucial importance, namely regulatory cooperation.

### **The importance and economic benefits of TTIP**

TTIP is aimed at fostering economic growth and job creation in the US and EU via greater trade liberalization. It will be one of the largest free trade agreements ever implemented. As the US and the EU account for more than 40% of world trade, the impact of TTIP on the world economy will be enormous. The creation of transatlantic free trade area will lead to greater integration of the West, which will counterbalance the strength of other economic powers, first and foremost growing Asia.

Despite these geopolitical reasons, the TTIP agreement is mostly promoted to the public for its economic benefits. Their estimated scope measured by different institutions vary due to discrepancies in the assumptions. It is true that the final outcome of the agreement is not entirely certain, thus it is difficult to develop proper assumptions for ex ante evaluation. However, the majority of studies foresee positive economic effects of TTIP, which goes along with theoretical arguments.

Economic models show that trade liberalization is always beneficial, as it enables better allocation of economic resources. Liberalized trade allows countries to specialize in production of goods in which they have comparative advantage (for these goods the opportunity cost of production is lower). Eventually, more consumption opportunities become available and final prices decrease. Moreover, the new trade theory shows that even if countries do not specialize in particular production, free trade brings them a wider variety of available goods.

Of course trade liberalization, even if beneficial for the economy as a whole, has both winners and losers. If you are representative of a sector that do not have a comparative advantage, you will be a part of the latter. But this group

is small comparing to the winners: all that benefit from a variety of goods and lower prices. Usually workers in sectors that lose are the loudest group that opposes trade agreements. It is true that we can expect wage falls in some sectors and rises in others; this discord refers in particular to highly skilled and unskilled workers. However, this does not have to occur in case of TTIP. Various studies (CEPR, 2013, Ecorys, 2009) show that in the long run wages will rise for both skilled and unskilled workforce.

The opponents also raise the issue, that the usual consequence of trade liberalization are labour reallocations between sectors. Nevertheless, it is estimated that after the implementation of TTIP only 0.7% of the labour force will shift between sectors.

The study on the effects of TTIP prepared for the European Commission by the Centre for Economic Policy Research (CEPR, 2013) shows that TTIP will result in considerable economic gains for both the EU and the US. The EU's GDP should rise by €119 billion a year, while the US GDP should increase by €95 billion. These figures translate into €545 and €655 rise in disposable income per household in the EU and the US respectively. At micro level it might not seem much, notwithstanding these are gains that would not be available without trade liberalization.

*TTIP will allow the promotion of Western values and international best practices in standard-setting around the world, especially those concerning social welfare and working conditions*

## **The essence of TTIP – regulatory cooperation**

Studies show (CEPR, 2013, CEPII, 2013) that 80% of the above-mentioned economic gains will come from reducing regulatory barriers to trade. This is a crucial issue, as TTIP is not an ordinary trade agreement which is solely based on tariff reduction. Certainly the removal of tariffs is an important part of the agreement – taking into account no progress in the Doha Round – as they are substantial in certain cases, for instance cars, textiles and agricultural products. However, on average tariffs are already low – under 3%, so it is clear that this cannot be the major motivation for trade negotiations. The main obstacle to the transatlantic trade are non-tariff barriers to trade, related to incoherent regulations in force in the US and the EU.

The differences in definitions, norms and standards on both sides of the Atlantic prevent the unconstrained flow of goods and services, as they imply redundant transaction costs for producers. Notable examples of such varying regulations include medical devices that follow different systems for identification and traceability (so called unique device identifiers), safety regulations of motor vehicles (especially concerning new technologies) and fire safety requirement of fabrics in clothing. The necessity to respect diverging norms and standards constraints the activities of firms on global market. This is especially important in case of small and medium enterprises (SMEs) which do not have enough resources to follow different regulations.

If there was no regulatory divergence between the EU and the US, it would be easier for European and American firms to sell their products on new markets. This should lead to increase in trade and, as a consequence, economic growth and job creation. Moreover, because of lower transaction costs for exporters, domestic firms would be able to buy cheaper intermediate inputs from abroad and thus become more competitive.

The overall effect of regulatory harmonization ought to be economic prosperity; the thought behind it is to stimulate economies experiencing stagnation through reduction of non-tariff barriers to trade. Besides further tariff reduction, a cooperation in terms of regulatory harmonization is necessary.

An important part of the TTIP will be dedicated to the removal of non-tariff barriers. The agreement will include sections related to regulatory coherence, technical barriers to trade, food safety, and animal and plant health, as well as industry-specific regulations. Regulatory coherence should result from better cooperation between regulators on both sides of the Atlantic. They should work together much more closely than they do now – both in developing new regulations and in reviewing the existing ones – and exchange information and best practices. This should lead to a gradual convergence of the rules governing markets across the Atlantic.

The regulatory systems prevailing in the US and the EU differ particularly in terms of technical standards and procedures for verifying their compliance. Due to that, the section of the agreement related to technical barriers to trade is of crucial importance. TTIP aims at reducing unnecessary repetition and costs of procedures like product testing, inspection, certification, and easing access to information on rules applicable to products. Another important aspect of the agreement is related to sanitary and phytosanitary standards. TTIP should reduce the time necessary for the imported food from one economy to be approved in the other, while respecting each other food safety standards and specific goals to protect human, animal and plant health.

### **Regulatory cooperation and other countries**

Is there a possibility for third countries to benefit from regulatory cooperation in the West as well? The answer is 'yes', from the same reasons as above. Nowadays, producers outside the US and the EU need to face different standards in different Western states. Once those standards are harmonized, it will become easier and cheaper for third countries to sell their products both in Europe and the US. Hence, regulatory cooperation may double the market for some producers, while reducing transaction costs for those who already sell in both markets.

Regulatory cooperation also has another effect on countries outside the TTIP agreement. Thanks to regulatory cooperation the West will become a standard-maker for the world. When more countries have the same regulatory framework there is a higher chance that it will be adopted by other countries due to network effects. That is why it is beneficial for a country to engage in regulatory cooperation, as then it is more likely its views will be taken into

account in world regulation. In this way a country does not have to adopt standards created by others and be a standard-taker. Instead, it can contribute to the development of a common regulatory framework. This is another motivation for regulatory cooperation under TTIP.

There is a high possibility that countries outside the TTIP agreement will adapt similar rules and standards to those developed under transatlantic regulatory cooperation, taking into account the scope of the agreement and the role of TTIP-countries in global economy. Because of that TTIP will allow the promotion of Western values and international best practices in standard-setting around the world, especially those concerning social welfare and working conditions. For sure this will ensure maintaining the significance of the West in global order and will counterbalance other economic powers.

### **Myths and concerns related to regulatory cooperation**

Regulatory cooperation, although unquestionably beneficial from the economic point of view, raises many doubts and concerns (see eg. Hilary, 2014). This is because ordinary people are afraid of a race to the bottom in regulations, especially those related to labour standards, food safety and environmental protection. In fact those standards are not subject to negotiation and TTIP will uphold them all. It is worth to explain why the agreement is unlikely to affect these areas.

Labour markets in the EU feature higher levels of regulation concerning safeguarding security of employment and income than those of the US. Workers' rights are more protected in the EU and that is why the American labour unions do not oppose TTIP similarly strong as they do in case of other free trade agreements. The US workers hope to enjoy similar levels of protection after TTIP is concluded. If it comes to the EU, it has ratified all core labour conventions of the International Labour Organization (ILO), while the US have ratified only two of them. It is unlikely that the EU will withdraw from its ILO obligations or remove work regulations approved and adapted by its member states (see Ecorys, 2014, p. 29).

Food safety is another area that raises concerns about harmonization of norms to the lowest common denominator. It is true that food safety standards on both sides of the Atlantic differ. A notable example is the production and sale of genetically modified organisms (GMOs) – restricted in Europe and liberalized in the US.

Lowering the protection of consumers in terms of food safety is not the goal of transatlantic trade liberalization; instead TTIP is an attempt to make it easier to export food products, while maintaining the rules of food safety. For instance, when nowadays food exported from one economy to another needs to pass equivalent tests both at home and abroad, the aim of TTIP is to remove the necessity of this duplicative testing. While removing redundant barriers to trade, TTIP will fully uphold food safety standards.

Finally, there are also some concerns that TTIP will jeopardize environmental protection, especially the ambitious climate policy of the EU, and will worsen animal welfare in Europe. In reality the EU climate policy is not a part of the TTIP negotiations. The EU wants to promote its climate targets through TTIP, for instance by promoting trade and investment in environmentally friendly goods and services. It is true that the US food producers do not have to meet the same animal welfare standards as their counterparts in the EU and strive to eliminate the EU restrictions. However, TTIP is not intended to affect animal welfare laws in Europe. The EU wants to promote the highest possible standards of animal welfare in the US.

## **Conclusions**

To sum up, TTIP will be one of the largest free trade agreements that should bring considerable economic benefits. The majority of them will result from regulatory cooperation, which is the essence of the TTIP agreement. Regulatory cooperation is crucial, as diverging regulations constitute the main obstacle in transatlantic trade due to redundant transaction costs for exporters.

Once regulations are harmonized it will be easier and cheaper to export, both for intra- and outside-TTIP zone producers. This will lead to lower prices for consumers, productivity gains, wage rises, higher incomes and, as a result,

economic prosperity. Regulatory cooperation will also allow to uphold high Western standards in force and promote them around the world. ■

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# Alive with opportunity

Winnipeg boasts the lowest business costs of any city in Western Canada - and it's also lower than every US city examined, says Economic Development Winnipeg Inc

## Central North American city offers much to companies on the move

Business owner? Investor? Entrepreneur? Winnipeg's growth potential is infinite, and Economic Development Winnipeg is your advocate. Business moves quickly, and timing is everything. We'll connect you with the right public- and private-sector partners to accelerate your success and show you why Winnipeg is your most strategic location. Results-focused and ready to help, we're here for you.

Winnipeg is currently enjoying one of the most exciting chapters in its 142-year history. Its economy is one of Canada's best-performing, its population and workforce are growing as new Manitobans arrive from other regions of the country - and other countries - in pursuit of new opportunities, and a record number of major developments are taking place citywide. So what's driving Winnipeg's renaissance? Multiple factors are responsible, and economists expect this welcome convergence to generate sustained growth for many years.

Winnipeg has a very competitive and convincing value proposition. Of all municipalities analyzed in KPMG's *Competitive Alternatives* (2014) report, Winnipeg boasts the lowest business costs of any city in Western Canada - and it's also lower than every US city examined. This advantage is principally derived from competitive labour, land and utility costs, but the index also measures all major cost items (including taxes and construction).

Manitoba is a hydroelectric province, with over 99 per cent of its electricity generated via this virtually carbon-free process. Manitoba Hydro, a provincial Crown corporation owned by the Government of Manitoba, has one of the highest overall reliability and customer-satisfaction levels and among the lowest rates in North America. Hydroelectric power is available in abundant supply here, and since hydroelectricity is green, renewable and sustainable, Manitoba's hydro-related advantages will only escalate in the future as the world gravitates toward carbon taxes and other such levies. So whether this kind of electricity is being used to heat/cool facilities or to power machines, Winnipeg firms have a clear advantage when it comes to energy costs.

Winnipeg's economy is built upon a diverse industrial base. With 10 prominent sectors, it's one of Canada's most mixed economies, which offers stability, consistency and predictability for business operations. This is a huge advantage when running a company.

Over 90 per cent of Winnipeg's post-secondary graduates choose to remain here to secure employment. And although the unemployment rate is under six per cent, the city has a below-average job vacancy rate, so employers have less difficulty finding workers compared to most other major centres. Home to several renowned universities and colleges, Winnipeg's labour force is exceptionally well-educated and expertly trained. Moreover, the rate of Manitoba's productivity increase exceeds the national average, as does average job tenure. That means Winnipeg's workforce works hard and is atypically loyal.

Winnipeg's central North American location also offers significant advantages to the business community. The city is situated at the hub of four key transportation and trade gateways reaching across Canada, into the US and Mexico, to Europe and Asia. Further, within a 24-hour drive, Winnipeg's businesses can access a population base exceeding 100 million.

City firms can tap vital transportation assets and infrastructure, given Winnipeg's strength as a multimodal transportation and logistics hub. Several of Canada's largest transport companies are headquartered here, which can col-

*Of all municipalities analyzed in KPMG's Competitive Alternatives (2014) report, Winnipeg boasts the lowest business costs of any city in Western Canada—and it's also lower than every US city examined*

lectively provide over 1,000 rigs for hire at any given time. Winnipeg is also one of only two Canadian cities served by three Class 1 rail carriers (Canadian National Railway, Canadian Pacific Railway and Burlington Northern Sante Fe), yielding unmatched choice, service and cost-competitiveness. And Winnipeg boasts a new, award-winning and worldclass airport, which operates 24/7 and processes among the highest percentage of dedicated air cargo flights of any Canadian airport.

All of the above is leveraged by CentrePort Canada (CPC), the only trimodal inland port in the country to provide foreign trade zone benefits. With collaborative funding and support from the federal, provincial and municipal governments, CPC comprises 20,000 acres of land in the northwest quadrant of Winnipeg earmarked for industrial development—to be serviced by a planned common-use rail facility—which also features tax increment financing options.

In a recent survey of presidents and CEOs of Winnipeg's leading companies, when compared to other places worked, respondents felt that Winnipeg has one of the most supportive business communities. It was further revealed that this scenario was considered a definitive competitive advantage for companies operating here. Tellingly, this level of support doesn't just involve local businesses helping each other. Not-for-profit agencies, academia and government also actively work together to further Winnipeg's business interests. A number of compelling financial-support programs are available to businesses already based here (or to those choosing to relocate/expand here from elsewhere). For instance, Manitoba is one of the best jurisdictions in the world when it comes to providing research and development incentives.

Winnipeg is a great place to live. In its most recent ranking to this effect, *Moneysense* magazine reported that Winnipeg placed in the top 10 per cent of the best Canadian cities to live, largely due to the fact that all the amenities people look for in a home community are available, accessible and affordable here. Although compelling opportunities exist in all 10 key sectors, Winnipeg's unique value proposition makes the city particularly well-suited to ad-



vanced manufacturing operations (including value-added assembly plants), research/development and test operations, corporate support and back-office entities (including customer support hubs), and data centres.

If you're exploring the potential for expansion, relocation or development, contact Economic Development Winnipeg and get its full support working for your business. ■

*Economic Development Winnipeg (EDW) is Winnipeg's lead economic development agency. EDW is a not-for-profit organization that facilitates investment attraction, capacity building and tourism development, and it directs all marketing- and research-related initiatives toward these ends. Comprehensive competitive analyses and collaborative stakeholder engagement make EDW uniquely qualified to evaluate potential investment opportunities within core industries and to define future growth and mobilize development. EDW also supports sector, community and social development, and promotes Winnipeg's diverse economy and exceptional quality of life.*

*Your primary contact at EDW is Greg Dandewich, who can be reached via email at [greg@economicdevelopmentwinnipeg.com](mailto:greg@economicdevelopmentwinnipeg.com) or by phone at +1 204 954 1997. And be sure to visit [www.economicdevelopmentwinnipeg.com](http://www.economicdevelopmentwinnipeg.com) for an award-winning presentation of Winnipeg's many business advantages.*



# Cyprus' Airports PPP *"Best Transport Project in Europe"*

Alecos Michaelides examines the PPP, a template for the continuing development of the country's infrastructure

**T**he project, which was signed on the 12 May 2006, is a 25-year Build-Operate-Transfer (BOT) concession for the operation and development of Cyprus' two international airports at Larnaka and Pafos. Under the terms of the agreement, the concessionaire (Hermes Airports Limited) took over the existing airports and constructed new passenger terminals and associated infrastructure at both airports, investment worth around €600 million.

Together, the new terminals are able to handle over 10 million passengers annually to a high level of quality standard. The company undertook further expansion of the airports as demand required. The Concessionaire took over the airports and received all revenue generated at the airports. However, in return for the exclusive right granted by the Cyprus Government the Concessionaire will be paying an annual concession fee comprising of a fixed guaranteed amount of €3.5 million plus an amount equal to 33% of the Gross Revenue. Additionally, the Cyprus Government participates in a profit sharing arrangement.

The award of the concession was the result of a highly competitive tendering process which attracted some of the world's leading airport operators and construction companies. Bidders were provided with a draft concession agreement which encapsulated the risk transfer in the project, and were assessed on the degree of acceptance of such risks.

Essentially, the following risks have been transferred to the private sector: revenue (including traffic), operating, design & construction, and financing. This was followed by long and intensive negotiations between the Cyprus Government, the Concessionaire and their lenders to address a number of key and unique risks.

A risk which was successfully addressed was the potential impact of any external events causing sudden drop in traffic eg. 9/11. The Government had built a number of mechanisms in the Concession Agreement in order to safeguard public interest given the strategic importance of the airports. Such mechanisms include a performance regime, a regulatory framework for airport charges and a profit sharing mechanism.



The Concessionaire is subject to a performance mechanism that both penalises underperformance and rewards exceptional performance, thus incentivising innovative service delivery. There is significant innovation in the risk allocation process which takes into account local factors and global industry factors (events that are outside the control of the two Parties and cause sudden drops in traffic eg. 9/11).

Another innovation has been in the transfer of public employees to the private sector where working together with the Concessionaire there has been safeguarding of employee rights beyond the usual norms. Also, any financial adjustments or compensation between the Parties, will be done in such a way so that both Parties will be in a “*no better no worse position*”.

It should be clarified at this point that there were two categories of existing employees to be considered with respect to the concession for the Airports: Public (or Civil) Servants, and Permanent Hourly-Paid Workers.

Both categories were employed by the Government, and the latter, through the Department of Civil Aviation.

All Public Servants employed at or in relation to the Airports (at the time 66 employees) continued to be employed by the Government but not in a role that conflicted with the responsibilities of the Concessionaire.

*The deal also represents one of the most contemporary airport sector concession deals, and particularly in the post-9/11 aviation sector, sets the standard for sustainable risk transfer*

The permanent hourly-paid workers at the Airports at the date of the signature of the concession were all eligible for transfer to the Concessionaire (the workers are hereafter referred to as 'Eligible Employees').

Eligible Employees continued to be employed by the Government (estimated at the time to be about seven hundred (700) employees) during the Transition Periods. These Periods were estimated to be up to two (2) years until the opening of the new terminal at Pafos and three (3) years until the opening of the new terminal at Larnaka. During these Periods, all Eligible Employees were, however, subject to the day-to-day management control of the Concessionaire, under a management agreement with the Government. The Concessionaire made payments to the Government to cover the latter's payroll obligations for these Employees.

Prior to the end of the Transition Period, the Concessionaire was obliged to make an offer of employment to all Eligible Employees. These offers ('Eligible Offers') were made in good faith and on terms and conditions equivalent to, or better than, those that such Eligible Employees had immediately before the Eligible Offer was made.

If the Eligible Employee rejected the offer made by the Concessionaire, he/she continued to be employed by the Government but not at the Airports.

The Concessionaire was required to make a compensation payment to the Government of two (2) years' annual gross salary for each Eligible Employee who was still employed at the end of the Transition Period but had rejected an Eligible Offer, which had been made in good faith by the Concessionaire.

In the event that large numbers of Eligible Employees chose not to transfer to the Concessionaire due to reasons beyond the control of the Concessionaire, the Government shared that risk by limiting the total level of such compensation payable to it by the Concessionaire to seventeen millions and one hundred thousand euros (€17,100.000).

From the launch of the tender process (expression of interest) the Cyprus Government emphasised the need for airport operators to play a leading role in the Consortium. In the case of Hermes Airports, there are three airport operators (YVRAS, Aer Rianta and Nice Airport) bringing innovation to the operation of the airports. Equally, consortia were encouraged to involve Cypriot companies in the project as a key objective of a PPP is to transfer skills and know-how to local markets. In the case of Hermes Airports Ltd, four of the nine participating member companies are Cypriot.

The Concessionaire has made agreed modifications to existing designs for the new passenger terminals at both Airports, thus retaining the design risk. The design quality was to be measured against specific industry standards, being IATA Level B for Larnaka International Airport and IATA Level C for Pafos International Airport and against detailed specifications contained in the Concession Agreement. The design takes into consideration local characteristics and architectural features as well as a unique sense of place that will make a lasting impression on passengers. Also modular design allows for easy expansion that will sustain the original design concept. Some details regarding planning and standards/regulations are given below:

### **Planning**

A detailed analysis of the key passenger processing functions based on predicted passenger growth was undertaken and it is this that forms the basis for all area requirements and informs the general planning and organisation of the Terminals.

Pafos – designed for 2.7 million passengers per annum is designed on a single level with Arriving and Departing passengers segregated horizontally within the space.

Larnaka – designed for 7.5 million passengers per annum has therefore been planned on five levels with the main passenger functions of Arriving and Departing being vertically segregated to enhance security.

## Standards/Regulations

The new Terminals have been designed to International standards for planning and processing in order to optimise space and facility requirements.

Detailed planning will incorporate local Cypriot legislation where appropriate supported by European Norms and/or British Standards. The planning and organisation has been informed by the requirements of the brief and in discussions with the Airport operators, Government Users, Airlines and Commercial stakeholders.

The detailed design of both Terminals has been developed in conjunction with the Cyprus Fire brigade to ensure that all life safety systems have been incorporated in accordance with their requirements.

Both Terminals have been designed to provide safe and easy access for all mobility impaired passengers.

In addition, a number of environmentally friendly and energy efficient systems are being incorporated in the design of the new facilities, especially for the air conditioning and the lighting control.

With respect to risk transfer, despite a revenue risk being transferred that is relatively volatile compared to other PPP sectors, particularly in the post 9/11 environment, the €600 million project is being financed with an aggressive financing structure (90% gearing). This has all been achieved through an all-party (Government, Concessionaire, Lenders) effort, not least with respective home locations scattered across the globe (eg. Cyprus, UK, France, Canada, Bahrain). Further validation of these efforts is evidenced by the successful syndication of the Bank senior debt in September 2006, where strong appetite for the deal resulted in the participation of another 12 leading European banks [in addition to the four co-lead arrangers].

This deal is the first major PPP entered into by the Cyprus Government, leading the way for future PPPs in the continuing development of the country's infrastructure. In particular, with Cyprus being an island and international tourism being one of the major industries, the airports are vital gateways and an integral part of the economy.

The deal also represents one of the most contemporary airport sector concession deals, and particularly in the post-9/11 aviation sector, sets the standard for sustainable risk transfer. ■

*The Government was advised on the deal by PricewaterhouseCoopers, a global leader in PPP advisory, with support from the international law firm, Pinsent Masons, also a lead player in the PPP sector, and EC Harris, the technical services consultancy.*

**Alecos Michaelides is the Permanent Secretary at the Ministry of Transport, Communications and Works, Cyprus**

# Unlocking the true value of data



Ruairi McDonald writes that the asset management industry needs to be more forward thinking and innovative in approach

*“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”*

Albert Einstein

**T**here has been no shortage of commentary of late from respected institutions such as the International Monetary Fund with regards to the growing significance of the contribution the asset management industry delivers to the real economy, and of the critical role it plays in the retirement industry’s sustainability.

However, similar reports also warn of seismic shifts ahead for the industry. Demographic changes, together with technological advancement and social transformation will inevitably change the needs and requirements of investors. The question is – as an industry, are we ready for such monumental changes? To ensure that we are ready, we need to be more forward thinking and innovative in our approach.

Disruptive external forces such as changing client behaviours, a complex regulatory environment and globalisation are already forcing many asset managers to integrate risk and compliance functions as well as streamlining front-to-back office operations. Organisations tend to become overwhelmed when reacting to these forces and can often overlook the sheer amount of data that they hold and how this could be used for the benefit of the firm. Enter the importance of ‘data’ and the significant competitive advantages that this could bring to the asset management industry as a whole.

Using data effectively is all about analysing structured and unstructured data from multiple sources that can provide an organisation with previously unattainable insights that lead to a competitive advantage. Insights are derived from the unique combination of the data itself and the skills of a data analyst. The better the data and the data analyst, new and original insights will emerge to add value to a business, inevitably providing scope for competitive

growth. Unlocking the insights contained within data through analytics will enable organisations to shape business strategies based on facts rather than on intuition.

### **Value proposition**

The generation of alpha and investment returns, rightly or wrongly, will always remain crucial to an asset managers' value proposition. However there is more to it. An investment process that is simple to understand, the availability of asset classes, understanding a client's individual needs when designing product solutions are all factors that cannot be overlooked. The value proposition needs to be widened.

Relying on market leading absolute or even relative returns to sell products and attract inflows is not only short-sighted, it's becoming more and more difficult. Outcomes, solutions, education and transparency will ultimately become more important than performance.

Customers expect organisations to understand them and as such treat them as individuals. They also expect products and service models to be customised and tailored to their individual needs. Customers and intermediaries are much more likely to be attracted to a brand and retained through personalised products. A one-size-fits-all approach to product solutions no longer satisfies the varying needs and wants of investors and intermediaries today.

As an industry we rely on intermediaries to generate sales. The advice that they provide to clients is key to ensuring that retail investors understand the products that they are purchasing. However, if we are not providing inter-

*All data has its potential, but it needs to be used correctly to derive its full value*



mediaries with the required level of support they need to ensure that they can successfully sell financial products and educate clients at the same time, then we have failed and the customer journey has collapsed. It is not good enough to accept the assumption that the traditional methods of communication to the intermediary market are functioning. Just because glossy marketing and sales support collateral have been published does not mean it is being read. We need to ensure that communications become more targeted and as a result more successful.

Insights derived from analysing data can support an increasing level of engagement with clients and intermediaries alike. Unlike the institutional market, financial literacy amongst the retail market remains low, making it increasingly important that our industry provides better advice and support to clients and distributors alike.

Intermediaries are not portfolio managers and as such they need to know how their client's investments are performing together with the reasoning behind the decisions taken by the asset manager on behalf of their clients' investment. Organisations own their data. Therefore organisations need to ensure that they get it to those that need it most, in a format that can be easily understood.

### **Improved customer experience**

It may sound like a cliché, but a truly customer-centric organisation should always have the customer at the heart of everything it does. This involves, but is not limited to, mapping the customer journey and lifecycle, aligning technologies and processes to support and drive customer engagement, engaging our employees and executive's alike, as well as incorporating customer feedback into our processes and behaviours.

The strategic value in data is the insights that it can present into what may happen in the future, based on an analysis of past behaviours and events. Predicting how your customers' as well as those of your competitors may behave and how that behaviour may change is critical to tailoring and pricing products. Insights derived from data analysis will help businesses to understand the unique needs of their clients, provide intermediaries with the knowledge to recommend the best course of action for the investor and improve customer satisfaction and customer retention.

Harnessing valuable insights into clients' needs, behaviours and requirements will build customer loyalty and improve the overall customer experience.

### **Organisational flexibility**

A recent report released this year by IBM, the IBM Institute of Business Value (IBV) study, showed that 63% of organisations in 2014 achieved a positive return on data analytics investments within one year. The study also showed that 74% of respondents anticipate that company executives expect the speed at which data-driven insights are delivered will accelerate.

This in itself will provide numerous challenges for us as an industry. No matter how much data is cleansed, compressed or otherwise, it would be short-sighted to believe that IT infrastructure will not have some effect on the outcome of the results. For a business that depends on data analytics to make decisions, even small failures with IT systems can lead to cascading problems that could get out of hand quite quickly.

Data analytics can lead to significant improvements in human capital management, financial and risk management and operations. Marketing capabilities can be improved to address customer acquisition and retention. Even quality measures and performance management can be improved upon and calculated more efficiently. Where typically an asset manager's performance management may have been based on whether or not he/she could outperform a benchmark within certain risk parameters, data can widen such objectives to include how he/she used data analytics to predict and adapt to unexpected market movements (such as sentiment).

All data has its potential, but it needs to be used correctly to derive its full value. Think of a raw diamond that has just been mined. Its full value will only be realised once cut and polished.

Data is a corporate asset and as such must be treated and guarded as such. To take advantage of such an asset, it is critical to have an effective data strategy in place that can not only provide value to customers and end users, but

can adapt to new and ever-changing data requirements. Asset managers have been generally focussing on data supporting investment decisions, but they hold significant amounts of customer data, as well as financial, reporting, compliance and investment data. Asset managers are, in essence, also a data provider. Managing such large quantities of data presents a significant strategic challenge. Looking at data for reporting purposes only and maintaining data in silos across different departments and systems can be both counterintuitive and counterproductive for any discovery exercise. To extract the most value, data needs to be centralised into one location, across one platform. This would allow data from multiple sources to be combined and interpreted by individuals with the relevant analytical skills, who can use predictive analytics that are becoming more sophisticated to draw out unique insights.

Human input is essential to extracting competitive insights. As competition within the asset management industry intensifies, recruiting the best talent is key, but just as important is the availability of high-quality information that can support in the decision-making process. More and more individuals are entering the industry. These individuals are more highly skilled and educated than their peers of 10 years ago. All of these individuals have access to the same information. Therefore 'identifying the edge' in terms of extracting valuable insights can become more difficult.

The paradox of skill here is that relative skill, as opposed to absolute skill, is often more important in shaping the end result. In other words, in a competitive market regardless of how technically proficient today's professionals are, luck still plays an important part in the final result. As such, to maintain a competitive advantage, it remains essential that an organisation hires the right individuals and commits to developing their talent. But just as important is keeping pace with and utilising the most advanced analytical tools and IT infrastructure that will ensure organisations can 'identify the edge', ultimately leading to business success.

As data and data requirements change it is important that the tools we use to refine and distribute the data move in tandem. The adoption of data management techniques and tools is important to ensure that consistently useful

data is derived at that is aligned with the overall business strategy. The use of data and analytics will fundamentally change the target operating model of a business.

When used as a strategic asset, data can drive continuous business model innovation. But more importantly, it provides the flexibility to predict and adapt quicker to changes within our environment.

*“Innovation is anything, but business as usual.”*

Anon.

Differentiation can only be truly achieved through innovation. Enriching customer engagement and driving operational performance is key. Reporting on financial and regulatory compliance is one thing, understanding why something has happened or may happen is another. Through a deeper understanding of our customers, we can find new and engaging ways to interact with new and existing customers. More refined and customised products can be produced at an ever quicker rate than before. Operational efficiencies can be achieved.

Optimising the use of data and analytics in line with strategic objectives will inevitably underpin an organisations competitive advantage and will continue to do so when its people have the desire to seek out and utilise analytical insights. These factors combined will allow an organisation to become a market disruptor in itself.

New insights come from not only analysing new data, but from within the context of the old, to provide new perspectives on existing problems. ■

**Ruairi McDonald is responsible for the marketing communications of Mediolanum Asset Management Limited, an asset management company based in Ireland and part of the Mediolanum Banking Group**

# Eureka! The new corporate MBA



Dan Pontefract demonstrates how true partnership between business and academia can create learning opportunities that benefit an organisation, its employees and the academic institution itself

Innovation is an interesting concept. For many people it presupposes a 'aha' or 'eureka' moment in order for something new to have been created.

Others (wrongly) pronounce ad nauseam that innovation is a behaviour selectively developed and held by the likes of mainstream media stars such as Steve Jobs, Richard Branson or Mark Zuckerberg.

'They're so innovative,' you read over and over again as if there was not a team of learned brains surrounding them to assist their final and often collaborative efforts. Of course there was the innovation disruption (eruption, one might argue) sparring match between Clayton Christensen and Jill Lepore in the summer of 2014 that proved the debate is far from being settled (Lepore queried Christensen's celebrated theory of 'disruptive innovation').

I've always been intrigued by the concept of innovation. Perhaps, in part, it is due to my personal fascination with Thomas Edison.

Now there was an innovator. His list of inventions was as long as the river Nile. Interestingly, if this electromechanician – what Edison was originally called – were alive today, he would be the first to tell you his inventions were a team effort, not anything singular and certainly the polar opposite of any eureka-like moment.

Edison's Newark, New Jersey, Menlo Park working lab in the 1870s and 1880s reflected his appreciation for different-minded individuals working collaboratively on new, inventive technologies. His team of inventors was a working lab of innovation, building upon previous learning and past experiences.

Henry Ford — famed creator of the Model T car — further debunked the fallacies of the single inventor or the eureka moment. He once said:

*"I invented nothing new. I simply assembled into a car the discoveries of other men behind whom were centuries of work. Had I worked 50 or 10 or even five years before, I would have failed. So it is with every new thing. Progress happens when all the factors that make for it are ready, and then it's inevitable. To teach that a comparatively few men are responsible for the greatest forward steps of mankind is the worst kind of nonsense".*

Innovation, therefore, is the origination of one from many.

### **Scientific or business-like?**

I ask now whether you believe higher education is any different. In particular, when corporations seek to utilise higher education to assist in the development of their employees, why is it that the way in which learning is developed and delivered by the university has remained the same since the days of Taylor and Sloan?

Why is an innovative and collaborative partnership model between higher education and corporations not becoming the norm for any sort of learning opportunity? Specifically, the potential for the 'Corporate MBA' should not be thought of as negative. It should become an innovative norm, a collaborative working partnership.

*Progress happens when all the factors that make for it are ready, and then it's inevitable. To teach that a comparatively few men are responsible for the greatest forward steps of mankind is the worst kind of nonsense*

According to Global Silicon Valley Advisors, a US education consultancy, worldwide corporate and government spending on various forms of external learning and education is set to reach \$449 billion by 2015 and \$524 billion in 2018.

With organisations spending millions each year sending employees to higher-education learning (including MBA programmes) where the curriculum is independently designed by just a few faculty (and their myopic research tendencies) inside one institution's higher education firewall, does this equate to innovation or is it merely the wretched status quo of 'this is how we've always done it'?

Indeed, the status quo lurks. In the May 2005 issue of Harvard Business Review, Warren Bennis and James O'Toole referred to the predicament of business schools and their lack of innovation by suggesting they were drawn to the vortex of 'the scientific model'. It was a warning.

It is clear to me a decade later that their call has been mostly unanswered. Business is not an academic discipline, rather it is a profession like law and medicine. As Bennis and O'Toole write: "The distinction between a profession and an academic discipline is crucial. In our view, no curricular reforms will work until the scientific model is replaced by a more appropriate model rooted in the special requirements of a profession".

### **PowerPoint and logos**

How does a corporation that is paying for the development of its employees — and which outsources part of its employees' development to business schools — truly benefit if it has no say in the definition or development of the pedagogy?

I am not referring to the concept of 'tailoring the curriculum' or 'customising the content' either, where business school administrators replace corporate logos on PowerPoint slides and paper printouts of common curricula. Might the university learn from the sponsoring organisation through its own business experiences and ideas? Might this involvement create a more innovative and successful programme?



Another question to contemplate is whether the employee — who is being financially sponsored by the organisation — will improve his or her own personal performance if the learning outcomes are misaligned to the mission, objectives and values of the paying organisation.

If an organisation, for example, decides to invest \$2 million in its future leaders by enrolling a cohort of employees into a public MBA programme at a business school, should said organisation be held hostage by the singular innovation and ideas of faculty members from that one university through their 'scientific model' tendencies?

Or, perhaps, might it be appropriate for corporations to invest the time — and more importantly, their innovative and experienced minds — into the co-development of a higher-education programme such that both institutions might metaphorically replicate Edison's working lab of collaboration, ideas and innovation to achieve Bennis and O'Toole's moon shot of establishing the 'business model' in business schools?

It is time universities and corporations got together and created their own Menlo Park of higher- education innovation, collaborating with one another to craft something very special for both parties. It is time for a new definition of eureka.

### **Magna cum latte**

In the spring of 2014, Starbucks announced with great fanfare it was scrapping its existing employee tuition reimbursement programme in favour of an exclusive partnership with Arizona State University.

Open to any of its 135,000 'partners' who work at least 20 hours per week, including part-timers, Starbucks offered to pay for a bachelor's degree. Fantastic, many claimed, though employees had to earn 21 credits from ASU's online programmes first (and pay themselves) before reimbursement would happen toward the other 99 credits required for graduation.

What worried me most, however, was that the investment was allegedly being made by Starbucks without involvement by the company on how the degrees might benefit the organisation, employees and the university itself in the long run.

Yes, it is an excellent example of corporate citizenship and a demonstrable illustration of improving employee engagement and the lives of its employees. The question remains whether Starbucks, ASU and employees missed an opportunity to build an innovative Edison- esque working lab to provide a truly innovative (and successful) higher-education programme.

### **What if?**

TELUS is a global telecommunications company headquartered in Vancouver, Canada, with \$11.7 billion in revenues and millions of customer connections. Like countless other corporations worldwide, we are proud of the investment we make in our team members.

Since 2010, for example, TELUS has invested well over \$200 million in various learning and development efforts for the 44,000-plus team members that are a part of our organisation. When we work with external education partners, one of our steadfast rules of engagement is that the partnering educational institution must become immersed in our mission, objectives and leadership values.

In simpler terms, the education institution becomes one of us... not the other way around. TELUS does not simply send its team members to external courses and hope for the best. On the contrary, we want the education institutions we collaborate with to be as engaged as possible with our corporate culture. We want them to act as if they might be TELUS team members themselves.

It is important for us to have a two-way, innovative partnership that benefits our team members, our objectives and the partnering institution. It most certainly is a working lab of innovation and an example of the Bennis and O'Toole business model not the scientific model.

In early 2014 we made the decision at TELUS to take our learning and development efforts one step further. Never one to believe in the status quo, we issued a request for proposals to 10 business schools across Canada for a new type of MBA: the TELUS Masters of Business Administration in Leadership and Strategy.

If we were going to invest thousands of additional dollars in our team members, why not do so in an Edison-like business model living lab, where both TELUS and the winning business school could co-create the final outcome, experiencing *communitas* along the way?

The winning institution — University of Victoria's Peter B Gustavson School of Business, accredited by AACSB and EFMD's EQUIS — understood our vision and is now hard at work (with us in partnership) on a new Corporate MBA.

The launch of the new programme, developed and delivered in partnership with TELUS, means there will soon be a new cadre of leaders with a unique mindset that allows them to see the world differently.

The first TELUS cohort is slated for 2015 and we are even entertaining the possibility of offering this unique MBA to our consumers, customers and partners in the future.

### **Business as unusual**

TELUS is now in a friendly and collaborative partnership with the University of Victoria to develop something for the future that will benefit our team members, our organisation, our customers and, of course, our partnering university.

The programme will be co-developed by university faculty and TELUS team members, taught by both the University of Victoria and TELUS, and utilise face-to-face and virtual methodologies. Our Executive Chair, Darren Entwistle, is fully engaged in the project.

It is definitely 'business as unusual' but in the spirit of Edison, Ford, Bennis and O'Toole. Isn't that what innovation should be about? Eureka! ■

**Dan Pontefract is Chief Envisioner at TELUS and prime for the TELUS Masters in Business Administration Leadership and Strategy programme. He is also author of Flat Army: Creating a Connected and Engaged Organization. Visit him on Twitter (@dpontefract) his blog ([www.danpontefract.com](http://www.danpontefract.com)) or at TELUS Transformation Office ([www.telustransformationoffice.com](http://www.telustransformationoffice.com))**

Is there such thing as a  
gender wage gap?



Gender discrimination in the workforce is yesterday's  
problem, suggests Ben Southwood

## Introduction

There is a persistent 'gap' between the average annual, weekly, and hourly wages earned by men and women in developed countries. Within the EU, it ranges from close to 25% in Estonia to more like 3% in Malta; within the OECD from over 30% in South Korea to around 5% in New Zealand.

Many campaigners worry that this gap is down to discrimination. Even if it's not down to direct discrimination when employers hire or set pay, activists worry that it may be down not to preferences for different sorts of work, but social pressure or discrimination at another level. Talented women may be stuck in lower-ranked roles, earning the same in absolute terms, but less relative to their talent. Women might be directed away from certain careers and into others by their parents or social groups treating girls and boys differently, or by schools, where teachers could potentially lead girls into humanities and boys into sciences. Typically women take on more childcare work when couples have children, and in many countries women do more housework. If these 'gaps' are down to socio-cultural conditioning or pressure we might have concerns there.

According to some left-leaning activists, any differences between men and women's career trajectories, even on average, must be down to 'structural' or 'socially-constructed' factors, since they believe men and women are biologically very similar, at least in all career-relevant ways. On one view these socially constructed differences aren't necessarily bad for women, if women rate their lives as equally (or more satisfying) and happy as men's. But there is also some evidence of biological differences between men and women. Whether or not differences come from biology or society I will assume that what matters are people's preferences, happiness and satisfaction with life.

The situation, as suggested above, appears quite different across developed countries. Indeed, general perceived gender discrimination also varies almost as widely as the gender wage gap. But, in sketching a broad picture of how I think the landscape is best understood, I will take research from advanced countries to be sufficiently general such that research for, say, Sweden helps inform us about the situation in, say, Switzerland. And data from the UK will be taken to be informative about relations in the USA.

## The UK situation

According to the *2014 Annual Survey of Hours and Earnings*, in the UK, women working full-time earned a mean of 9.4% less than men per hour while women working part-time earned 5.5% more per hour. Since full-time workers earn more, women earned 19.1% less than men on average (again per hour). This was the lowest figure on record—back in 1997 women earned closer to 30% less than men.

This aggregate figure obscures some very interesting variation. For example, among those working 30 or more hours a week, women aged 22-29 earned 1.1% more than men aged 22-29, and also very slightly more than men aged 30-39. The aggregate gap only appears for women aged 40 or more.

Combined with the overall decline, this could either suggest: first that men and women's labour market experiences are getting more similar over time and newer cohorts suffer less in the way of discrimination; or second that something happens later in life to open up a gap.

I shall lean more towards the second explanation (though both have a role to play) because a body of persuasive evidence suggests that liberal labour market policies and reduced overall societal gender discrimination lead to more difference between the genders not less. Women use their freedom and increased wealth to express gendered characteristics. Women earn more than men before age 40 because they earn more and better qualifications. They earn less later because they prefer to work less and more flexibly, often, but not always, because of childcare preferences or responsibilities.

*Gender discrimination in the workforce is yesterday's problem*

## Discrimination

The simplest form of what I call the 'discrimination hypothesis' is that men and women who do the exact same job earn different amounts. Undoubtedly there are cases where this has been true—including some reality TV programmes—but we have powerful reasons to expect that the practice of paying men and women different amounts for the exact same job wouldn't be persistent or widespread.

Basic economics tells us that discrimination is not a sustainable strategy in a moderately competitive market—even if a large proportion of firms are run by sexists. All we need is open markets and a small fraction of non-sexist people, or just people whose greed overpowers their sexism. This, shown early on by University of Chicago Nobel Prize-winning economist Gary Becker, is because that firms that pay women less than their productivity are losing out on profit their less prejudiced or more greedy competitors can freely grab. If a woman can do £20 of work an hour and is being paid only £10, then any firm can try and bid her away from her current occupation by offering her up to £19.50 or £19 or whatever leaves them their minimum profit margin.

And the evidence seems to bear this out in practice. According to Erica L Groshen's 1991 paper *The Structure of the Female/Male Wage Differential: Is It Who You Are, What You Do, or Where You Work?* even back then women and men (in the USA) were earning exactly the same for doing the same job. At the very least, we are not seeing employers miss out on very obvious profit opportunities. They are not allowing their competitors to bid away, for example, their female clerks by offering wages ever closer to the male wage for the same job—or that process has already occurred.

It's still possible that men are getting more aggressively promoted than similar women. But the data comes out against that too. George Levi-Gayle, Limor Golan and Robert A Miller, in their 2012 paper *Gender Differences in Executive Compensation and Job Mobility* find that the reason (American) women make up fewer high level executives is mainly because they trade down to lighter work or leave the workforce entirely. If you just look at women who 'stay' in the workforce, they earn more than men and are more likely to get promoted:



*Fewer women than men become executive managers. They earn less over their careers, hold more junior positions, and exit the occupation at a faster rate. We compiled a large panel data set on executives and formed a career hierarchy to analyze mobility and compensation. We find, controlling for executive rank and background, that women earn higher compensation than men, experience more income uncertainty, and are promoted more quickly. Among survivors, being female increases the chance of becoming chief executive officer. The unconditional gender pay gap and job-rank differences are primarily attributable to female executives exiting the occupation at higher rates than men.*

And overall this should not be surprising, given the data on the overall wage gap mentioned above: it doesn't exist until later ages, when women take time out to work less or spend more time looking after their children.

## **Fertility**

The link between fertility and the gender wage gap is very clear, and the mechanism is obvious. Women take time out of the workforce to have their children, and they often take time out to raise them—instead of, for example, sending them to childminders, nurseries, and so on. When their kids go to school they often prefer to work part-time and flexibly, to allow them to take their children to school, help with homework, make dinner and so on. These are not legal requirements or imposed by firms, and are down either to women's preferences or social pressure.

A wide range of studies provide strong evidence for this conclusion from various angles.

A 2014 paper - *Fertility Effects on Female Labor Supply: IV Evidence from IVF Treatments* by Petter Lundborg, Erik Plug and Astrid Würtz Rasmussen — studied Danish women who applied for IVF treatment. Their results, displayed in the charts above, show steadily inclining wages for women until they have a child or get IVF treatment. If they are successful and have a child, their wages drop off a cliff as they take time off. When they start growing again, it is at a lower trend, consistent with them having lost skills or built up skills less, or their being unwilling to work long hours. This drop looks a lot like the drop from non-IVF fertility, suggesting that it truly comes from fertility.

Another 2014 paper — *The Gender Pay Gap Across Countries: A Human Capital Approach* by Solomon Polachek and Jun Xiang - looks around the world rather than at changes within one population. They find that fertility rates are one of the main drivers of the wage gap, along with top tax rates and the average age gap between men and women at first marriage (which is possibly a proxy for general social discrimination against women).

This paper explicitly concentrates on labour market institutions that are related to female lifetime work that affect the gender wage gap across countries. Using ISSP (International Social Survey Programme), LIS (Luxembourg Income Study) and OECD wage data for 35 countries covering 1970-2002, we show that the gender pay gap is positively associated with the fertility rate, positively associated with the husband-wife age gap at first marriage, and positively related to the top marginal tax rate, all factors which negatively affect women's lifetime labour force participation.

A third 2014 paper, again by Solomon Polachek but this time working with Xu Zhang and Xing Zhou and entitled *A Biological Basis for the Gender Wage Gap: Fecundity and Age and Educational Hypogamy*, reinforces this by looking at the effect of China's one-child policy on the gender wage gap. They find that the implementation of the policy, which drove fertility in China down by 1.2-1.4 births per woman, led to hugely narrowed educational gaps, a narrower division of labour in the home, and a diminishing pay gap twixt husband and wife.

Women themselves, according to a report out this year from the ILO, rate inadequate non-discrimination laws as the least important issue needed to help women advance in business. By contrast they rate family responsibilities and societal roles of women as the most important two issues.

There's a lot more evidence out there, although fertility is far from the only cause. Even women who don't have kids tend to prefer shorter working days and shorter working weeks; less competition; and jobs whose benefits are mainly non-pecuniary.

## Preferences

The interesting question is mainly whether the gender wage gap is down to women's preferences or down to firm or societal pressure. One way of deciding this question is looking to see if there is firm discrimination or societal pressure. Another is looking at women's preferences.

A late 2014 paper, *Life Paths and Accomplishments of Mathematically Precocious Males and Females Four Decades Later*, from authors David Lubinski, Camilla P Benbow, and Harrison J Kell does just that.

Two cohorts of intellectually talented 13-year-olds were identified in the 1970s (1972–1974 and 1976–1978) as being in the top 1% of mathematical reasoning ability (1,037 males, 613 females). About four decades later, data on their careers, accomplishments, psychological well-being, families, and life preferences and priorities were collected.

Their accomplishments far exceeded base-rate expectations: across the two cohorts, 4.1% had earned tenure at a major research university, 2.3% were top executives at 'name brand' or *Fortune 500* companies, and 2.4% were attorneys at major firms or organizations; participants had published 85 books and 7,572 refereed articles, secured 681 patents, and amassed \$358 million in grants. For both males and females, mathematical precocity early in life predicts later creative contributions and leadership in critical occupational roles.

On average, males had incomes much greater than their spouses', whereas females had incomes slightly lower than their spouses'. Salient sex differences that paralleled the differential career outcomes of the male and female participants were found in lifestyle preferences and priorities and in time allocation.

The results are very striking. Women favour short working weeks, clean working conditions, respect and flexibility. Men want merit pay, the ability to take risks, a well above average salary and to work with things as well as or as opposed to people.

These differences in preferences surely explain a large amount of the differences in career outcomes. Women simply desire different career trajectories to men. These different career trajectories (especially shorter and more flexible work weeks) lead to different pay. This difference in pay isn't necessarily fair or unfair—it simply reflects lower skills built up due to lower and less sustained time on the job.

In fact, a 2014 paper from Claudia Goldin ingeniously explains exactly why these different preferences result in a gender wage gap. She finds that there is no or next-to-no gap in any industry where there are constant returns to work. Any sector where your tenth hour in a day produces just as much value as your first has no gender wage gap. By contrast, those sectors, for example law, where one must build up experience and capital, have increasing returns to hours. A sixty-hour week produces more than double a thirty-hour week. Women's preference for working less, combined with the inherent technology in a field, leads to a gender wage gap.

Men and women are having different sorts of careers—but are they differentially satisfied? Perhaps unsurprisingly, the fact that careers are in line with preferences tends to lead to greater job satisfaction.

Although, interestingly, there is a wide and growing literature on the 'paradox of female happiness'—women are tending to report lower happiness the more they focus on have a traditionally-male career, and the less they focus on traditionally-female activities.

For example, Marianne Bertrand's 2014 paper *Career, Family, and the Well-Being of College-Educated Women* found:

*The biggest premium to life satisfaction is associated with having a family. While there is also a life satisfaction premium associated with having a career, women do not seem able to 'double up' on these premiums. A qualitatively similar picture emerges from the emotional well-being data. Among college-educated women with family, those with a career spend a larger share of their day unhappy, sad, stressed and tired.*

Betsey Stevenson and Justin Wolfers found in a 2009 paper, that:

*By many objective measures the lives of women in the United States have improved over the past 35 years, yet we show that measures of subjective well-being indicate that women's happiness has declined both absolutely and relative to men. The paradox of women's declining relative well-being is found across various datasets, measures of subjective well-being, and is pervasive across demographic groups and industrialized countries. Relative declines in female happiness have eroded a gender gap in happiness in which women in the 1970s typically reported higher subjective well-being than did men. These declines have continued and a new gender gap is emerging—one with higher subjective well-being for men.*

A paper from Brookings scholars Carol Graham and Soumya Chattopadhyay from 2012 backs this finding up: that women tend to report lower satisfaction, well-being and happiness as they move more into traditionally male areas.

### **Gender equality**

A further reason to question the discrimination narrative comes from a wide range of studies that find that countries with more gender equality in general see bigger differences in characteristics between the sexes. To survey a few of the major findings:

More gender egalitarian countries often have more sex-segregated occupations (Charles 2011)

People choose more sex-typed subjects for academic study in more developed, egalitarian countries (Charles & Bradley 2009)

The more gender equal a country, the bigger the gap in mental rotational task scores (a key measure of visuospatial skills) between girls and boys (Lippa, Collaer & Peters 2010)

Since the US has become more gender egalitarian—comparing the cohort of youths surveyed in 1979 to 1997—gender differences in competitiveness have come to account for more of the gender wage gap (McGee, McGee & Pan 2014)

Women differ across the world in personality, but most in the countries where women have more rights and freedoms (Schmitt, Realo, Voracek & Alli 2008)

## **Conclusion**

The studies from the 80s and 90s are increasingly irrelevant. Women have responded to women's liberation by in many ways increasing their expression of their gender with their new freedoms. This is not a bad thing. As we've seen, it does not lead to less happiness for women, or less satisfaction with their career or jobs. Markets do well at sending people where their skills are useful and balancing out their own preferences about work. Women prefer shorter weeks and flexible work. This, under current technology, makes them less productive workers. Firms, caring only about worker productivity, pay women less because they produce less. Where women produce the same, they pay them the same. As we've seen, women in their 20s and 30s earn more than men, on average in the UK. Women who don't leave the work force make more than men and are more likely to be promoted to chief executive.

Gender discrimination in the workforce is yesterday's problem. There is an interesting philosophical question as to whether the preferences that generate these differences come from social construction of gender identity—as many feminists argue—or from biological sex differences. But even if society is to blame, it's not clear that the wage 'gap' or discrimination model are at all useful in understanding sex and gender in the labour market. And if society is to blame it's far from clear that there is anything we can do about this difference (even if we want to when it appears to promote satisfaction and wellbeing).

There may be such thing as a gender wage 'gap', but it doesn't seem like we should care. ■

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# Human touch and the future of work

Occupations that deal with complexity, supervising, assessing, deciding, teaching, but also care and personal interaction, will be most relevant in the future, Werner Eichhorst writes

**W**hat are the occupations that will be most relevant in the future? Definitely those where non-routine cognitive, interactive or manual work performed by human beings is important, ie. dealing with complexity, supervising, assessing, deciding, teaching, but also care and personal interaction. In these areas, human beings are crucial and will likely remain indispensable – not only the most highly skilled, but also in lower and medium skill segments.

Humans shape these jobs based on qualification, experience, motivation and collaboration. Many jobs of the future will rely on this human factor, creating a huge potential of making these jobs 'richer' and more intrinsically interesting or rewarding than the jobs in the past, which were often characterized by more routine and repetitive tasks. While new technologies enable mobile working and technologically assisted interaction, we can see that communication between humans is still elementary in many respects, particularly in services tailored to individuals.

Given market pressures and competitiveness considerations, there is an increasing tendency to address human creativity and motivation more systematically via organizational and human resource practices. However, on the downside, this can be more invasive to individuals and bring about more external control, e.g. through contract-based work and stricter monitoring. As human capital will matter crucially, one can see the future of paid work as a sort of 'human capitalism.' Although this does not automatically imply 'human(e)' working conditions, the decline of routine jobs opens up new room for genuinely human activities that can be organized in more or less 'human(e)' ways.

Competition is everywhere in the economy. This puts all firms under pressure to ensure competitiveness in terms of the relation between price and quality of goods and services offered to other businesses or consumers. There are different models of competitiveness based either on quality or on cost advantages. Which way to choose depends on the market environment and on the capacities that can be built? One might distinguish between a 'high road' (competing on quality) and a 'low road' (competing on the cheapest price). This has massive implications for the types of workers needed, their qualification and working conditions.



A more demanding model favouring quality and innovation, probably fitting better with the European high wage/strong human capital arrangement, requires specific skills and potentially more long-term employment relationships with workers, allowing for flexibility, but also ensuring a fair balance between effort and reward. Such more ambitious models can only be sustained if higher prices can be set on global markets for quality goods and services.

This model must also place these firms in competition with firms choosing the low road with corresponding models of employment regarding skill formation, employment stability and pay. Thus, when firms adopt a more demanding business model, they will have to invest more heavily in the qualification, long-term employability and health of their workforce. This is a core requirement for the feasibility of such types of production and a type of 'hard' driver compared to corporate social responsibility activities that tend to be more superficial. But the sustainability of such a model basically depends on the client or consumer acceptance of a certain price for a certain quality.

The reconciliation between employer and individual objectives is probably one of the core issues when it comes to the future of work. This is because skilled workers and their ability and willingness to be productive, creative and responsible are core assets of future economic activity. And these workers tend to become an increasingly scarce resource in Europe. In fact, the future of work will mostly be shaped by corporate practices aiming at productivity, innovation and speed for the sake of competitiveness.

*The reconciliation between employer and individual objectives is probably one of the core issues when it comes to the future of work*

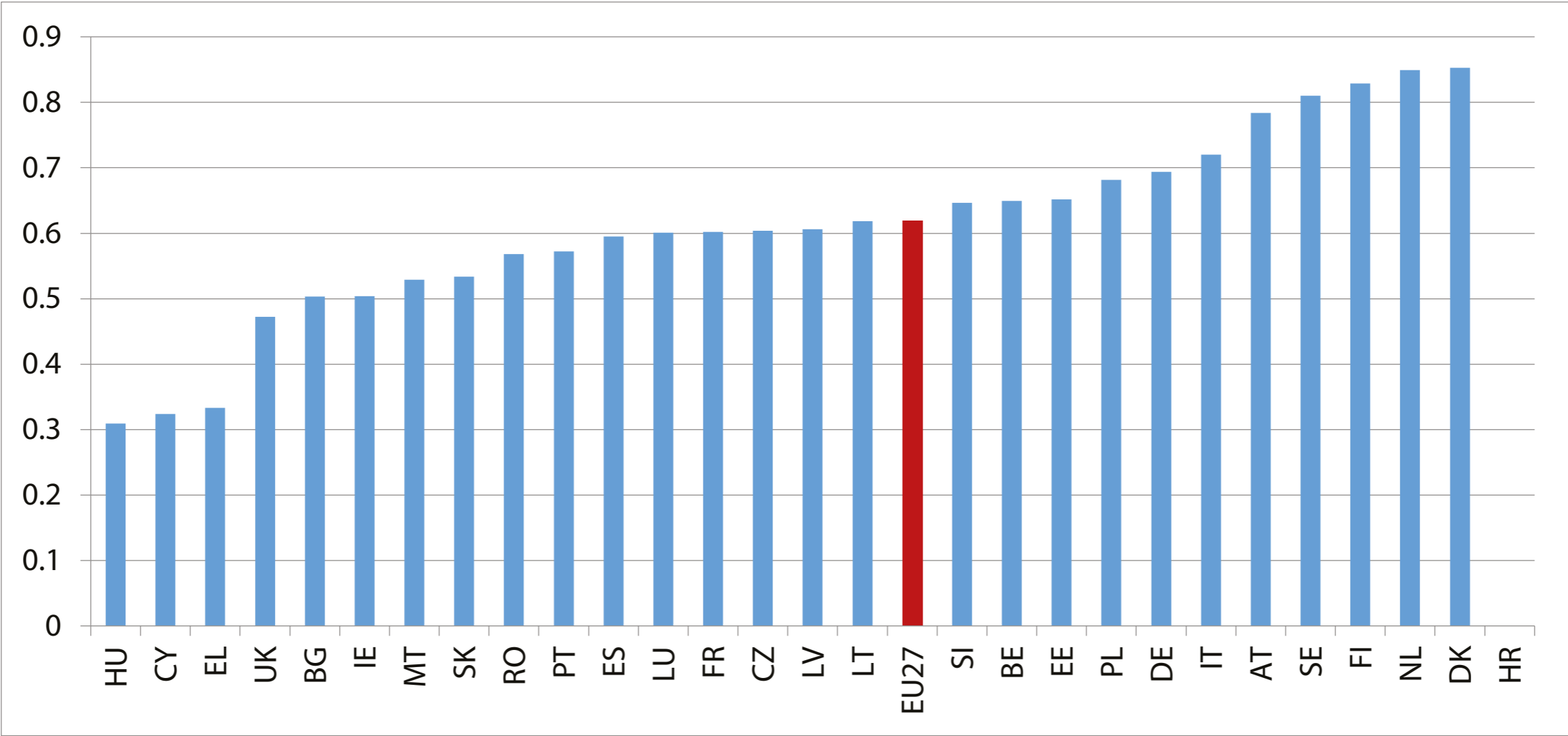
But at the same time, demands on workers cannot be increased indefinitely without creating stress and severe health problems in the long run. Physical and mental health issues have gained importance, as has the search for solutions to ensure a proper work-life balance under new economic circumstances. We know from research that job strain due to excessive demands and limited control eventually leads to severe problems in terms of employee well-being, motivation and health.

Therefore, human resource policies and organisational innovations that help reconcile productivity and attractiveness of the workplace will contribute substantially to the success of firms when competition on markets (including the market for talent) is strong. To attract qualified people, work needs to be attractive in several ways: the balance of effort and reward must be perceived as fair, and employers must be flexible in negotiating with potential and incumbent workers about their working conditions, including working time patterns, mobile working, individualised career paths, targets to be achieved, building upon existing experiences and general trends observed. This creates substantial scope for flexible, negotiated solutions at the company, department or individual level. So far this tends to be a privilege for those whose skills are scarce.

While allowing for individual differences and workforce diversity, firms also need to observe overall fairness in the treatment of all employees. Apart from general rules on employment conditions, it may also make sense to set incentives to internalize external effects of non-sustainable human resource policies through a bonus/malus system in sickness and disability insurance. For example, responsible behaviour of firms could be encouraged by lower employer contributions if fewer workers go on leave due to sickness or disability.

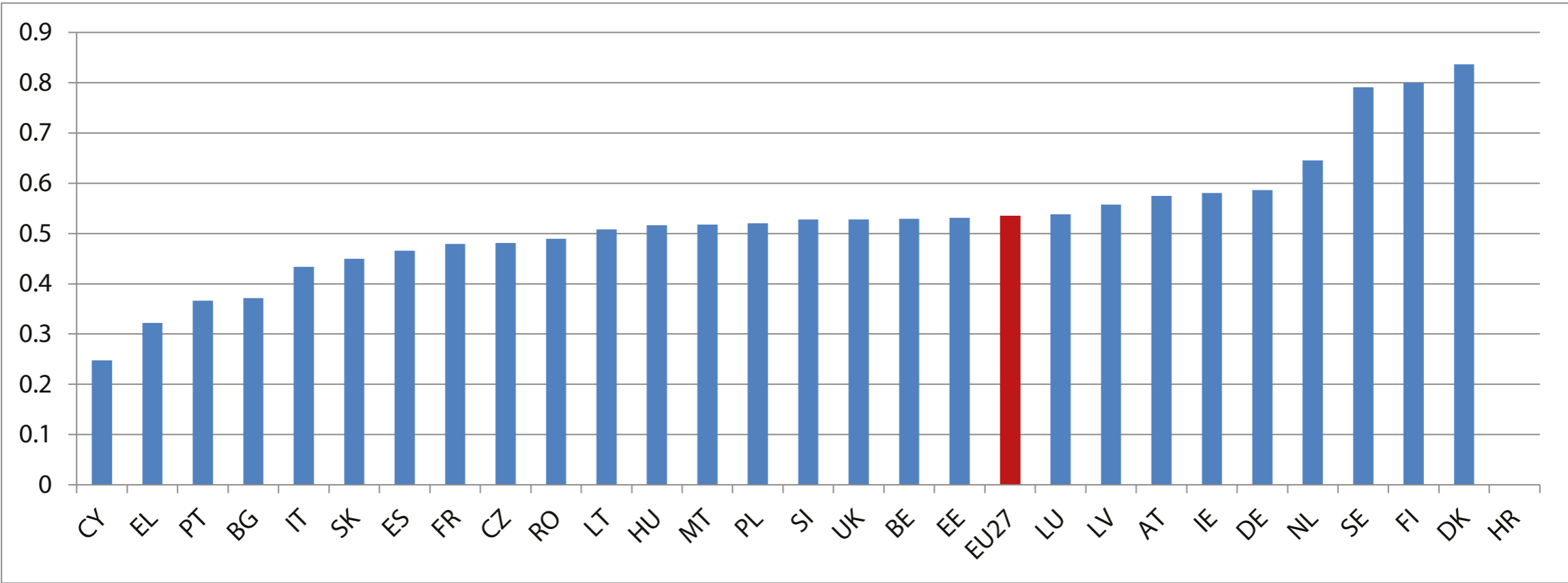
Creativity and cooperation are crucial in many occupations. In a rapidly changing environment, there is a premium for quick and efficient delivery. Strict monitoring and control, often using data continuously being collected and monitored, may raise productivity in terms of reaching certain targets in the short run, but will probably not work in the long run when it comes to stimulating and supporting innovation. At the same time, we see tendencies towards the outsourcing of creativity and innovation, and attempts at a more industrialised model of the creation of ideas.

Graph 1. Workplace NOT dependent on the direct control of your boss



Source: Eurofound, EWCS 2010, question q46e

**Graph 2. Team members decide by themselves on the division of tasks**



Source: Eurofound, EWCS 2010, question 57a

This is a quite logical development in a market-driven economy. But it may imply an even heavier hand on individual workers. Research has shown consistently that autonomy and intrinsic motivation within work tasks is a core element of job satisfaction, in particular in skilled, non-routine work. Employees need appropriate control over work processes and resources to cope with job demands, deal with high work intensity and avoid negative stress, job strain and eventual health problems leading to sickness absence or disability. Work intensity and productivity are clearly related with autonomy if stress is to be avoided.

In a more general sense, 'richer' jobs in terms of these characteristics tend to be perceived as more rewarding than classical hierarchical progression. If skills, motivation and experience at the individual level matter most, individuals have to be respected with regard to their individuality and particular strengths, but also their weaknesses.

Autonomy, trust and professionalism based on skills and experience is therefore important – and more productive – than rigid hierarchical control and permanent close monitoring. Regarding the relevance of autonomy-friendly work environments on the one hand, and employee wellbeing or the avoidance of job strain on the other, we can observe major differences across sectors and across occupations, but notably also between European countries.

Working conditions seem to be most employee-friendly and autonomy-oriented in Scandinavian countries (Finland, Sweden, and Denmark) and the Netherlands in terms of working time, autonomy and the avoidance of stress and job strain. These countries also have the most learning-oriented work environments.

Of course, there are notable differences by sector, occupations and the skills structure of workers in different types of work organisation, but there is also a strong national influence on the way work is organised. All in all, these countries tend to have models of work that are, on average, better prepared for the future than elsewhere. Many other countries have large untapped potentials when it comes to 'modernizing' work arrangements to meet future requirements.

The future world of work will certainly be demanding – perhaps more so than in the past – on individuals, but it will also offer many new opportunities. All jobs are potentially subject to change and can become obsolete. Rather than absolute security of employment, there is a permanent situation of trial, probation and assessment. Future jobs can still be long-term and permanent, of course, but this is no longer guaranteed.

In many cases, future work will be fluid and virtually unlimited in its interaction or integration with the rest of life – with a stronger emphasis on subjective involvement, requiring self-organisation, professionalism, articulation and communication. This is particularly relevant for knowledge- and project-based work. To cope with these demands, education and life-long training matter – not only formally, but also informally based on practical experience in similar non-routine work. These jobs are potentially rewarding as they allow for tasks to be shaped individually according to talent, taste or style.

However, while full engagement and identification are seen as desirable and competitive assets, this raises psychological issues in terms of stress, potential exhaustion and mental health. The demands of the new world of work will require a more in-depth discussion of these issues.

The future world of work will reward the psychological disposition to work effectively under demanding conditions for a long period of time. To some extent we are already seeing this now: Heavy subjective involvement and deep identification with the job can be characteristics of a high performer, but this may also lead to mental health problems, stress and burnout symptoms in the long run.

Moreover, there are naturally differences across workers in terms of preferences regarding work and life boundaries, working conditions and employment types. But there are also notable differences in talents and mental capacities to cope with the demands of the labour market. Preferences for a proper work-life balance, expectations regarding job satisfaction, and mental health issues are at the core of people's ability and willingness to cope and adapt to the modern world of work.

Individuals must learn to perceive and articulate their needs, to see potential risks, and to set limits for themselves and co-workers. It is important that individuals not only learn how to shape the way they work, but also how to bear responsibility for themselves and others. ■

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