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Sir Andrew Cahn: World's biggest trade deal on track to be completed

Raoul Ruparel writes that the TTIP has great potential but there are no guarantees

Can we predict Europe's future? Yes, we can! says Raoul Kirschbichler

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Europe at the crossroads

Europe faces a decision that will affect its citizens for a generation. Its political class must decide whether it believes in an industrial base and quality employment or de-industrialize and rely on its public sector. Incredibly it seems to have chosen the latter. This is borne out by the energy policies of the EU, forcing the closure of efficient coal-fired generation (despite the resistance of Poland),piling more taxes on gas, despite its lower emissions, and pouring subsidy into renewables which they know cannot provide the base-load required.

The French at least have nuclear; however they are determined to destroy the shale gas industry at birth. If more nuclear was being built in quantity in the EU, at least there would be some rationale, but there is not.

Huge quantities of shale gas are available notably in England, but despite tinkering at the edges with tax incentives, no tangible progress is being made.

To the amazement of the writer, the UK is purchasing forward contracts for shale gas from the United States, despite reserves which would have been celebrated as a national bounty 20 years ago.

As the EU moves towards a free trade treaty with the USA, it appears to be accepting that its chemical, steel and even its car industry, will have the opportunity to offshore to the USA safe from tariffs. These industries are currently paying double or even treble for their energy compared to their American competitors.

As the EU's political class merrily carry on devising new carbon taxes, the industries affected have a clear choice to follow major Middle Eastern investors and offshore to the USA with no risk. ■

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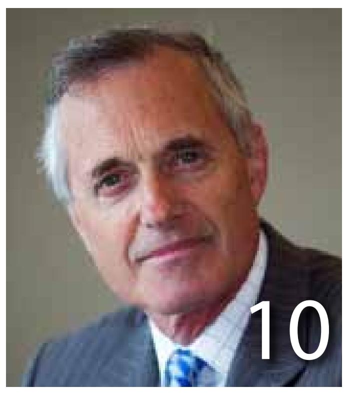

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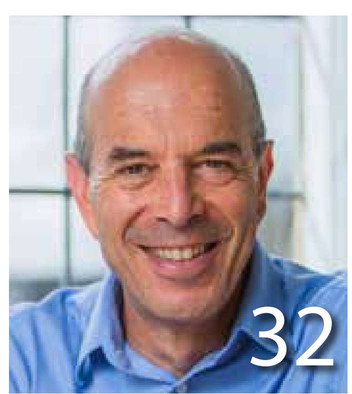

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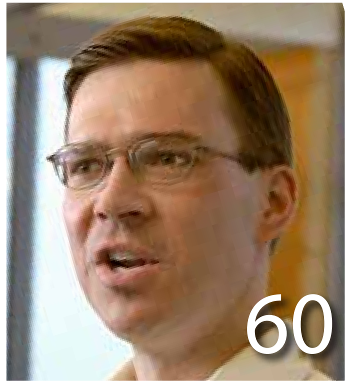

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ICC hails Bali agreement as welcome news for the world economy

The International Chamber of Commerce (ICC) has hailed the historic agreement reached this month at the 9th World Trade Organization (WTO) Ministerial Conference in Bali as a result that will not only restore confidence in the multilateral trading system but also generate a much needed stimulus of $US1 trillion and 21 million jobs to the world economy.

Congratulating ministers and WTO Director-General Roberto Azevêdo for their tireless efforts to reach consensus, ICC said that the agreement reached on trade facilitation was expected to reduce cross-border transaction costs for companies by 10-15% and was significant for businesses in all sectors and of all sizes around the world.

"We are very pleased with the outcome which re-establishes the centrality of the multilateral trading system. This is good for business worldwide, especially for small- and medium-sized enterprises and developing countries," said Victor K Fung, former ICC Chairman and Chairman of the ICC World Trade Agenda, an initiative undertaken in partnership with the Qatar Chamber of Commerce and Industry.

ICC is confident that impetus from the agreement reached in Bali will drive further negotiations at the WTO in Geneva to complete other important elements of the Doha Development Agenda.

"The door is now open to proceed with a forward-looking post-Bali trade agenda that meets the needs of today's global economy. This new trade agenda should include talks towards a multilateral framework on investment," said Jean-Guy Carrier, ICC Secretary General.

ICC Chairman Harold (Terry) McGraw III said: *"Our efforts to push governments to show the political will needed to conclude a deal here have paid off and the positive result will go a long way to restoring business confidence in the WTO as the global forum for negotiating trade rules. It also restores faith that governments have the capacity to achieve tangible results multilaterally for the benefit of all members."*

On the day talks began in Bali, ICC hosted a unique business forum to provide a platform to ensure constructive business contribution to the talks and which aimed to demystify for participants what was on the table in Bali and what was at stake.

Suryo Bambang Sulisto, Chairman, KADIN, the Indonesian Chamber of Commerce and Industry, said: *"Much of the real*

The Bali Business Forum offered a platform for closer engagement between the private sector and the WTO

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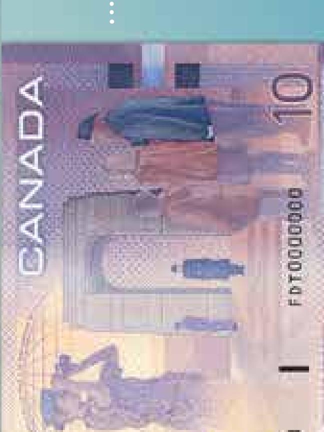

"ICC is confident that impetus from the agreement reached in Bali will drive further negotiations at the WTO in Geneva to complete other important elements of the Doha Development Agenda"

work at this point can be done on the sidelines at events like this one."

Featuring some of the world's leading economists and moderated by ICC Secretary General Jean-Guy Carrier, the first of four forum sessions aimed to explain the quantitative benefits of a Doha trade round deal.

"A small decrease in transaction costs applied across the large volume of traded goods and services yields a very big number," explained Jeffrey Schott, Senior Fellow at the Peterson Institute for International Economics. *"The opportunity in Bali is to kick start not only more improvements on trade facilitation but also to kick start a broader post-Bali agenda of agreements."*

An ICC-commissioned report conducted by the Peterson Institute entitled *Payoff from the World Trade Agenda 2013* estimates that the deal on trade facilitation reached in Bali could augment global GDP by US$1 trillion annually.

McGraw said: *"There will be substantial benefits from the trade facilitation agreement which could boost global gross domestic product by US$960 billion and increase developing countries' exports by US$570 billion and developed countries' by US$475 billion."* The agreement is also projected to help create 18 million jobs in developing countries and 3 million in developed countries.

In the lead up to the Bali ministerial, ICC, through its World Trade Agenda initiative, had called on WTO members to show political will at the highest levels to reach an agreement on trade facilitation and to make commitments and compromises that recognized a common interest in success and the collective cost of failure. ■

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ICC held a private roundtable between CEOs and ministers

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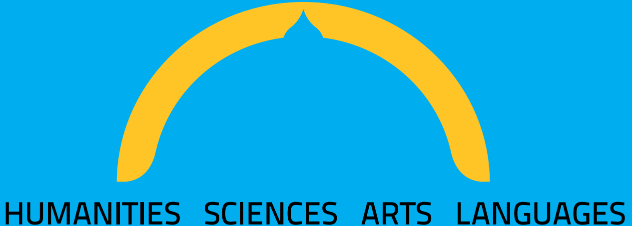

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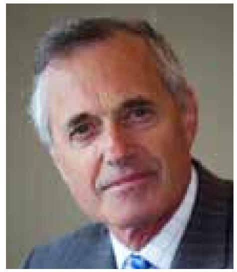

World's biggest trade deal on track to be completed

Sir Andrew Cahn is a Non-Executive Director of Lloyd's of London, and of Nomura International; he is Chair of the City of London's International Trade and Investment Group; he was CEO of UK Trade and Investment from 2006-11. Sir Andrew also sits on the Board of Business for New Europe

If my experiences in both the public and private sectors have taught me one thing, it's that trade is the most important factor in economic growth. The development of trade benefits the world by facilitating the flow of goods and services across borders, and allowing the citizens of one nation to benefit from the talents and skillsets of others. By keeping tariffs, subsidies and quotas to a minimum, and by ensuring the working of an effective regulatory environment, you can help make better the lives of millions. In my 40 year career, the most useful thing I ever did, certainly the one that benefited the most people, was to be part of the team that designed and created the European Single Market.

In November, the second round of talks aimed at achieving a Transatlantic Trade and Investment Partnership (TTIP) between the European Union (EU) and the United States (US) were held. The EU and the US account for almost half of global GDP and almost a third of world trade. If completed, it would be the largest bilateral trade deal in history, one capable of improving and strengthening the position of both parties. The goal is to eliminate tariffs, open up services, investment opportunities, and procurement, and promote regulatory cooperation to ensure high levels of health, safety and environmental protection while cutting unnecessary costs.

Benefits

The benefits of completing such an agreement are enormous, and it's essential that politicians and the business community do all they can to back it.

First, the deal hopes to create a free market encompassing 800 million people, potentially boosting our collective GDP by £180 million. Take the effect we hope the TTIP will have on the UK economy alone. In the event of a successful deal, we would see our economy grow by an extra £10 billion per annum. It could lead to a rise in the number of jobs in the UK car industry of 7%. The £1 billion currently paid by British companies of all sizes to get their goods into the US could be removed altogether.

Second, this is also a value-driven endeavour. In a world scattered with powerful emerging economies, it is an opportunity to shape the global economic system so that trading nations play by our rules. The trading partnership created by a successful TTIP agreement would be so large, that other nations would likely follow suit, thereby setting standards in everything from intellectual property rights to car safety standards well into the future.

Third, it is a good news story for the European Union. It would show that the EU can work to the benefit of its constituent nations and their citizens. It will also be a clear statement that it is committed to improving the fortunes of the 500 million souls that live within its borders. It will be the greatest indication yet of the power of the EU as an economic bloc on the world stage.

Finally, TTIP would re-energise the EU-US relationship, drawing us together in an age when our ability to project economic power on the world stage is not what it was. Whatever our differences, there is more that binds us together than separates us. This deal represents the West joining forces in advance of an uncertain 21st century.

Challenges

However, the TTIP talks will only be successful provided the two sides can overcome a great many challenges. While most transatlantic tariffs are less than 3%, some are much higher, and removing them will mean tackling vested interests. There are also investment constraints, such as on foreign investment in US shipping.

Other more well publicised differences will also present difficulties. For example, Europe and the US have diverging views on GMOs. The French have also raised concerns about no longer having the capacity to protect and promote cultural output such as film, literature and music. How best to do this without distorting the enlarged market has already become a point of conflict.

Furthermore, in the federal United States, public procurement has been regulated at the state and local level, while EU negotiators are intent on opening it up to the market. Standardised privacy rules must also be part of any deal. The information detailing the American intelligence

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community's monitoring of European data has damaged the transatlantic relationship. This cannot be allowed happen again.

Another reason TTIP will present challenges is because for once, it is a trade agreement between economic equals. Both the EU and US have signed a raft of trade deals with smaller states, and as such, have very often held the trump card. This time, the EU and US will have to compromise for the sake of an overall agreement. That could be the greatest challenge.

If one or any of the above derail the talks, the consequences could be very serious. A failure to conclude TTIP would perpetuate the jobs crisis and prevent the rebooting of our sluggish economies. If the two sides do not take advantage of this opportunity, the rest of the world will take advantage.

In light of these challenges, it has been argued in some quarters that the UK could conclude a better trade deal if it left the EU and negotiated as an independent entity. The US is, after all, the UK's second largest trade partner (the EU is number one). However, although the UK sends around £80 billion worth of its exports to the US, and a bilateral trade deal would undoubtedly be to the benefit of both sides, only about 4% of US total exports go to the UK. Britain would therefore be in a much weaker position and have much less clout in any talks (not to mention being outside the European Union).

Light at the end of the tunnel

Yet there are reasons to be wholeheartedly positive about achieving a positive outcome. Although many in government circles in both Europe and America have their reservations about engaging in such a deal with the other side, the business community has no such qualms.

Airbus and Boeing, for example, once fought vociferous trade wars, drawing the European and American governments into the field of battle to snipe at each other over state aid and market access. Now however, the focus is not on each other, but emerging markets. State aid has been removed from the market and Airbus is even building a factory in Alabama.

The most important reason for hope in concluding a TTIP deal is the rise of China. Standards and regulations, if not set by the EU and US, will be set by China and other emerging economies. TTIP is about making sure Europe and the United States remain standard makers rather than standard takers. If we do not unite behind common standards it will soon become difficult to uphold our own standards.

Consequences for the wider global trading framework

Therefore, if the EU and US are successful, the deal will have huge consequences for the wider global trading framework and its governing body, the World Trade Organisation (WTO). As it stands, the Doha round of trade negotiations are blocked. This is attributable to a number of factors, but the primary one is the newly acquired economic prowess of many emerging nations. While this is a positive news story, especially for those who live in those countries, it inevitably has an impact on the nature of world trade. The election

"TTIP is about making sure Europe and the United States remain standard makers rather than standard takers"

of Roberto Azevêdo as Director General of the WTO is one of the most prominent indications of late that emerging economies are asserting themselves.

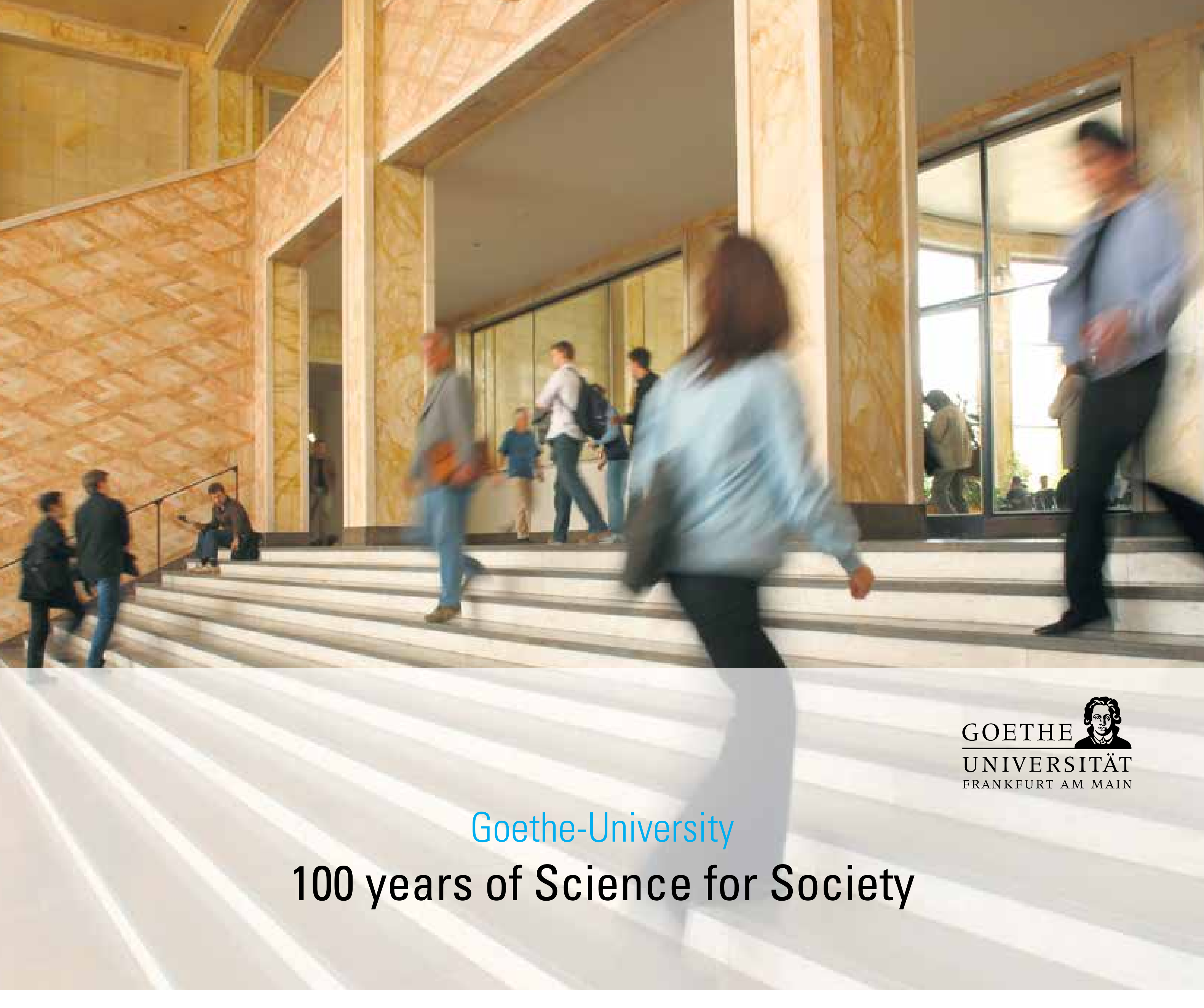
While the EU and US no longer have the capacity to take world trade talks by the scruff of the neck and move them forward independently, in the medium term, they can press ahead with liberalisation on a bilateral and regional basis. This has its risks, but it benefits those involved and offers a template for those outside such agreements to follow. While the purpose of the deal is not to force other jurisdictions into a particular set of standards, any deal that applies to half of the global economy is of course going to affect those not directly involved.

In fact, the TTIP will actually benefit those nations outside the agreement from the outset. This is because the deal on the table does not discriminate against those not taking part. So, if you are a European or American car manufacturer, you will of course benefit, but so too will those who export from other nations, because they too no longer have to adhere to two different sets of standards.

The Canadian precedent

The TTIP will likely benefit greatly from the EU-Canada trade deal that was agreed last month. The conclusion of the Canadian deal offered hard evidence that TTIP would be possible, coming after four years of tough negotiations which dealt with many of the same difficult issues that will need to be addressed in the TTIP negotiations. Both sides demonstrated the willingness to compromise on difficult domestic issues such as GMOs and market access for beef farmers. When deadlocked during the summer, Canada granted the doubling of tariff-free quotas for European cheese, and the Europeans increased the market access for Canadian fresh meat. This involved tackling powerful vested interests which have a lot of influence in domestic politics. Much of what was accomplished can be replicated in the TTIP negotiations, such as the how the EU convinced the Canadians to give it greater access to government tenders. The deal will add £1.3bn to the UK economy, increase exports by a third and create thousands of new jobs.

The EU has also signed free trade deals with the likes of South Korea and Mexico, while talks with India and Japan about similar deals have already begun. The road to completing TTIP negotiations will be long and arduous, yet, there is every chance it will come to fruition. The hope is that it will be completed by the end of 2014. This would be a victory not only for the EU, but also for the UK. It would show that the UK's influence on the world stage is greatly amplified by being part of the EU, and also that the EU can work in our interests, focusing on issues that improve our economic wellbeing. If TTIP is successful, the UK and the other 27 nation states within the EU can be enormously proud of what they have achieved. ■



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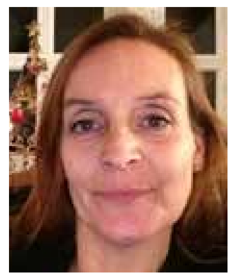

The Transatlantic Trade and Investment Partnership agreement – a global win-win solution?

Camilla Jensen is Associate Professor in International Business & Entrepreneurship at the University of Southern Denmark and Research Fellow at CASE - Centre for Social and Economic Research, Warsaw

Since the summer of 2013 the EU Commission and the US Government have actively been negotiating a new trade and investment agreement – the Transatlantic Trade and Investment Partnership – or in short TTIP, to cover trade in most goods, some services and also incentivizing investments through further liberalization efforts across the Atlantic. The second round of negotiations will be concluded in December and further negotiations will continue into 2014.

According to independent research conducted at the London-based think tank Centre for Economic Policy Research (CEPR) the benefits of the agreement are expected to be substantial and in the order of €95 billion per year on the US side and €119 billion per year on the EU side. Most of the gains are expected to result as gains from trade and 80% of these gains should result alone from reducing non-tariff barriers (NTBs) such as 'bureaucracy and regulations', according to the independent CEPR study. For example, according to the CEPR study[1] that draws extensively on the prior study conducted by the consultancy Ecorys, 'NTBs can either increase the cost of doing business for firms, or they can restrict market access'.

In part the TTIP initiative is considered by observers and trade experts as a result of the breakdown of the Doha Round, which is the major contemporary WTO forum for trade negotiations across all member countries developed as developing, now counting 159 member countries in total. However, the negotiations that were initiated in Doha, Qatar broke down over the course of 2008 and are not expected to be resumed in any immediate future.

We can also view the agreement as an attempt to optimize the trade engine in times of crisis among the richest countries in the world and the increasing trend towards rising income disparities in the most highly developed parts of the world. From the extensive work on new trade theories by the Nobel prize winning economist Paul Krugman we have learned that trade among similar level income countries is much less likely to cater to the traditional divergent interests of the classical factors of production such as capital and labour.

In the new trade theories benefits from international trade may arise on both sides of the Atlantic by leading to a seemingly greater choice in the variety of goods that we encounter as consumers. Whereas in reality the total number of firms will go down in any given industry which leads to a reaping of greater scale economies and thereby potentially lower prices for consumers in both the EU and US. In the real world we often encounter this effect as happening through mergers and acquisitions among some of the traditional

Table 1: Key facts about the Transatlantic Trade and Investment Partnership (TTIP)

% of world	US	EU	TTIP (US+EU)	World
Population	4.5	7	11.5	
GDP	25	27	52	
Foreign trade (goods & services)	10	38	48	
- hereof trade with TTIP partner	21	19	-	
Expected annual gains according to CEPR study	€95 billion	€119 billion	€214 billion	€100 billion

Source: World Development Indicators from the World Bank and CEPR (2013)

rivals in each industry. Competition authorities around the world and especially in the EU and US spend thousands of man hours each year to estimate the likely effects of these mergers and acquisitions on end-consumers and whether these agreements could lead to higher rather than lower prices for consumers in the longer term.

In this short article I address what I think are considered the most salient and important questions that have not been investigated yet in depth, as to the global welfare effects of the agreement with a focus on developing countries and from the perspective of EU firms and consumers.

For developing countries the overshadowing question is on the effects of the agreement on their agricultural exports and a few other traditional developing country export strongholds such as textiles, including also more recent growing developing country industries such as electronics and cars. Developing countries should be concerned in particular about the potential trade diversion that the agreement could lead to. In some sense the agreement can be perceived as a nearing between two of the largest regional trading blocs in the world, potentially resulting in what would be a free trade regional mega-merger.

This is somewhat into the future; however, the preferential aspect of the agreement already now can give rise to what the Canadian economist Jacob Viner conceived as a trade diverting effect of regional trading blocs. This may seem a less obvious argument today where traditional trade barriers such as tariffs are low. This argument could hold equally for non-tariff barriers such as standards even though standards work in a qualitatively different way and are more complex to incorporate into the standard international economic toolbox.

For example, if the US and EU through the agreement agree to a universal set of standards it can potentially lead to a discrimination against developing country producers that are not reckoned to meet the same standards. One proclaimed aim of the agreement is in fact for the TTIP to set global standards. Therefore the agreement is more important for global welfare than we would immediately think.

A possible solution to this problem of recognizing standards from third country producers exporting into the TTIP could be the EU's current trade regime with developing countries, the General System of Preferences (GSP). On an experimental basis the EU has started to develop an NTB-oriented extension to this regime called the GSP+ related with standards and in particular ethical conduct and practice in areas such as human rights, good governance and environment. These standards often aim at disciplining the behaviour of the Union's own multinational producers operating out of developing countries and for good reason.

Even though economists like to think that multinational firms follow the highest standards when operating abroad, this is far from reality and it cannot be ignored that our producers feel they must follow the local institutions or rules of the game to survive in the tropics or Siberia. If the EU and the US allow, through the TTIP agreement, to leave a back door open for developing countries to be included in NTB aspects by agreeing to the same set of standards as TTIP producers, but by volition it could rule out a lot of potential trade diverting effects on developing countries. Furthermore, standards can create development in and by themselves simply by making growth inclusive to all and it is through this avenue that countries but perhaps not individuals become truly enriched.

"For EU firms the most interesting aspect is the potential for more cross-Atlantic investment and ... the opening up for more rationalization of sourcing, production and marketing"

For EU firms the most interesting aspect is the potential for more cross-Atlantic investment and related herewith the opening up for more rationalization of sourcing, production and marketing. Even though in business schools we teach about the global strategy of multinational firms, significant barriers still exist to the development of such truly global strategies. Often strategies are more regional than global in scope. The truth today is that while the EU firms have invested extensively in some parts of the world such as Eastern Europe and Asia, and the US has invested significantly especially in Latin America, most foreign direct investment (FDI) is still among the highest developed countries and in the EU most of the investment is in principle home market investment now that the Internal Market is a practical reality of doing business in Europe.

This implies that there is a lot of scope for continued cross-investment over the Atlantic.

It is uncertain how much of this investment potential will be realized via more loose arrangements such as strategic alliances, collaborative ventures such as joint ventures or by establishing own subsidiaries via the greenfield or acquisition route. From an EU perspective in particular there could be the hope that the TTIP will help to trigger a greater spur or competition trigger on innovative efforts of firms and individuals in the EU, while also giving a wider room for collaborative ventures with the typically more innovation successful US firms.

At the same time should the EU also seek to maximize the gains from the agreement on their innovation prospects by opening up for more R&D intensive FDI from US firms. Exactly how this can be achieved through public policy and with the best results is one of the great research questions currently facing EU researchers specialized in innovation policy. For example, could regional policy efforts be better redirected at incentivizing R&D intensive forms of FDI, in particular centres of excellence, across Europe? Should Europe seek to copy the US venture capital model and could that give

“... there is a lot of scope for continued cross-investment over the Atlantic”

incentive for more R&D intensive investments from across the Atlantic? Will US takeovers of EU firms and vice-versa benefit the Union in terms of more R&D investment with us? These are salient questions that public policy-makers in the EU must consider.

The effect of more cross-Atlantic mergers and acquisitions is the large question with potential benefits for EU consumers. Will the TTIP pave the way for us benefiting more from the lower and competitive US prices? Or are these prices really a reflection of a different economic system inhabited by different institutions, fundamental values and beliefs?

For consumers, both price effects and the impact of negotiating and compromising on standards need to be taken into account. In the economic models that seek to capture with a single number the net-benefits of these types of agreements, often underlies extremely simplified assumptions about what happens when NTBs such as standards are removed.

The typical assumption is that taking away standards rather than adding them will be welfare enhancing. Here there is a need for advocacy for a combination of a quantitative and more qualitative approach to understand how institutions and preferences really affect the economic system. It cannot be assumed that these effects are always linear, eg. more is worse, less is better – it could be that the optimal standard is in the middle.

For example, the financial crisis has amply proven that standards in the financial sector are extremely important to uphold for the long-term benefit of consumers. Another important example is the food industry where China’s experiences with wild capitalism unaccompanied by standards can lead to very inferior solutions in terms of food safety and security.

These gruelling lessons from the past must lead economics to look at its own assumptions more critically, since it might be suspected that our models in fact are wrong and that the standards, whether they pertain to the environment, food safety or labour rights, are in fact to the benefit of countries and that only those that seek them can expect to advance in terms of economic, social and human development.

Therefore the EU should not be lenient in negotiating standards with the US and needs to take a case-by-case approach.

A very positive effect of the TTIP might in fact result contrary to model predictions if the rule is followed that the highest standards should prevail. For example, if the US has higher standards for requirements to IT security as part and parcel of company policy those standards should prevail everywhere. Whereas the EU, with higher standards in terms of the requirements to energy efficiency of electrical goods and machinery including cars, those standards should take effect everywhere. In other words this is the opposite world of negotiating tariffs, the highest rather than lowest common denominator should prevail.

There may be a short-run adjustment cost but in the longer term the effects might be very beneficial. If cases are encountered where rules seem to be unjustified in common development goals such as a combination of pursuit of income, clean environment and human development, then of course policy-makers should seek to eradicate them. But only when based on common sense rather than simplified assumptions construed by economist to make models meet ends. If the developing countries through volition start to adopt the same set of standards that the TTIP could become exemplary off, eg. in setting the highest global standards, then the effect of the agreement on global welfare could greatly surpass any expectations that come out of the general equilibrium models. ■

1. CEPR, (2013), Page 16: ‘Reducing Transatlantic Barriers to Trade and Investment – An Economic Assessment’, Final Project Report by Joseph Francois, Miriam Manchin, Hanna Norberg, Olga Pindyuk and Patrick Tomberger, Centre for Economic Policy Research, London.

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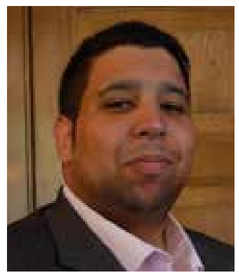


TTIP has great potential but there are no guarantees, especially from the UK perspective

Raoul Ruparel is Head of Economic Research at Open Europe

Since it was announced, there has been a tidal wave of endorsements for the US-EU free trade agreement – known as the Transatlantic Trade and Investment Partnership (TTIP) – including ringing ones from US President Barack Obama and UK Prime Minister David Cameron. And rightly so.

However, beyond these platitudes it is important to tread carefully when championing the potential, but as yet unrealised, benefits of what could become a crucial policy. After all, this is not just about economic benefits but also the political repercussions – notably for the UK's membership of the EU.

But let me begin, if you will, with a few endorsements of my own. Firstly, this is exactly the type of action which the EU should be pursuing. Far too much time and effort within the EU is spent on the wrong things – burdensome and often pedantic regulation, grandiose promises to tackle foreign policy issues and recycling cash between member states which often ends up adding little value. These are all areas where the EU adds little value for significant effort and in many cases the job would be better left to national governments, which are closer to and more responsive to local needs.

However, trade negotiations are a prime example of an area where EU states can benefit from working as a group and if they are able to pull (broadly) in the same direction. Here the EU's collective weight, if used effectively, can truly add value beyond what the member states could likely achieve alone.

Secondly, this deal could allow the EU to further its relevance in a global economy which is set to become increasingly dominated by large trading blocs and two massive economies in the US and China. Despite originating as a trade focused organisation and a proponent of free trade the EU's recent track record on this front is somewhat sketchy.

The eurozone crisis has evoked protectionist feelings in many countries, while the recent free trade negotiations with Canada, India and Ukraine have dragged on significantly with negotiations beginning for all back in 2007. While the Canadian agreement is finally essentially tied up, the Ukraine deal all but collapsed in recent weeks due to pressure from Russia while the Indian deal has been stalled since 2010.

Securing the TTIP would send a big message that this area of EU policy is firmly back on track. Furthermore, it also provides a solid foundation from which the EU can build further agreements, although this will require a clear decision on whether to make TTIP inclusive or exclusive, something which seemingly remains far from decided.

The third important potential benefit is an oft underreported one – it could help spur internal EU reform. If TTIP is to achieve its stated goals and deliver the significant economic benefit, touted at €2 billion per day, it will require some internal reform of the EU's single market. Significant non-tariff barriers remain, while protected professions or even entire industries are commonplace in the EU.

TTIP could help push for these to be removed, not least because the competitive pressure from the other side of the pond would force firms in Europe to ensure their goods and services are up to scratch. At the very least, it will help focus minds on this issue and provide a reminder that for all the talk of the single market, much more can be done to remove internal barriers.

With my clear support lodged, I would like to turn to a more cautious tone. When these sorts of statements are made, they seem to inevitably assume that TTIP will have a positive impact no matter what – this seems a spurious and potentially harmful assumption.

The first point to make here is that the risks of failure should not be underestimated. With most policies and negotiations there is no harm done if they fail and things carry on as before. This is not necessarily true of TTIP. A lot of political capital has already been invested in TTIP and even more will be over the coming year. As described above, the benefits have been widely touted and held up as a crucial development for the EU in many ways.

If the negotiations fail or if the final TTIP deal falls short of what was expected, it may serve to bolster the view that the EU is failing at some of its fundamental tasks and is no longer suited to the new geopolitical setup. This becomes doubly true if the deal is blocked by the European Parliament, which has already lodged its concern, or by deep divisions between member states. It is not hard to imagine how this would be viewed in the UK, or even Germany and Sweden (other key

proponents of free trade); questions would certainly be raised as to whether countries would be able to gain quicker and more efficient deals alone.

The second point here is that, even if TTIP does succeed, it is not guaranteed to pull the EU closer together and in particular, it is not guaranteed to pull the UK closer to the EU. TTIP could result in a significant boost in US-EU trade, the UK in particular is perfectly placed to take advantage of this, building on its already strong links with the US. If it proves successful, the UK could increasingly look towards the US on trade and related issues, as it already does on many foreign policy issues.

The prospect of a transatlantic trading bloc could be discussed as a viable alternative to the EU's single market. While this is a very distant and hypothetical possibility it should not be dismissed out of hand given that the discussion of alternative trading arrangements other than the EU is already well developed in the UK. Indeed, there has already been talk of using TTIP as a basis for an 'Economic NATO'; again this could be seen as an alternative rather than a complement to the EU for some countries.

From a UK perspective, the role TTIP can play in its potential relationship with the EU and subsequent referendum should not be overstated. While an agreement (or lack of one) would certainly make for big headlines the reality is that the actual economic impact will probably not have time to filter through. Negotiations over TTIP are likely to conclude in mid to late 2015, if all goes well. With a referendum currently scheduled for 2017, there will be little time for the economic impact to filter through to the real economy, it may barely begin to show up in some economic statistics. The impact, then, will be more about political presentation and the more comprehensive the deal is the easier it will be for a British Prime Minister to sell as an EU success story. If the deal is limited or frustrated, critics of the EU will seize upon it.

The final note of caution is on the wider repercussions of the deal. There is a flip side to the positive point of the deal setting the tone for future negotiations – it will set the tone for future negotiations. By this I mean that the deal will play a large role in determining future relations with many countries but notably the US, Russia and China. Whether or not the deal is inclusive or exclusive and exactly what sort of access (if any) Russia and China get will be a key point in future negotiations.

"If the negotiations fail or if the final TTIP deal falls short of what was expected, it may serve to bolster the view that the EU is failing at some of its fundamental tasks and is no longer suited to the new geopolitical setup"

There is also the huge unknown of how these two countries will react to the deal. Within the EU views on how to deal with these two countries are divergent to say the least – see for example the Georgian crisis in 2008 and the recent trade disputes with China. Add the tricky US/China and US/Russia relations into the mix and managing this deal to send out the right signals becomes incredibly tricky. Controlling the impact of the deal, whether it succeeds or fails will be an important task and something which countries have to face up to.

Overall then, there is plenty of reason to be enthusiastic about TTIP. However, there are also reasons to be cautious and not to be presumptuous about its success or impact. This is no better encapsulated than by the final wider point I would like to make. The end of negotiations is only the beginning. It is vital that TTIP becomes a 'living agreement' that is subject to continued enforcement and oversight to ensure it meets the standards set by the initial agreement.

As we have seen with many EU projects, particularly the single market in services but even to some extent goods, as time passes enforcement becomes lax and barriers begin to creep up. Given the number of borders covered under TTIP, it is particularly susceptible to this problem. Once political pressure and enthusiasm evaporates, as it inevitably will, the structures must be in place to ensure continued adherence to the deal, otherwise it could quickly fall by the wayside. ■

Can we predict Europe's future? Yes, we can!

Raoul Sylvester Kirschbichler is a Director at the Austrian Economics Center, Vienna

I often like to play a little thought experiment with some audiences. Let's try to imagine, I tell them, what historians will say about the European continent at the end of this century. Will they say that the eurozone failed? Will the European Union even exist? There are many who think not.

So, what might the historians of the future identify as the root cause of Europe's demise? Will they say that the rules and regulations that were implemented in our day in response to the economic crisis deepened the recession and worsened the situation? And will they recognize that the irresponsible behaviour of some members of the eurozone created the very instabilities that wreaked havoc on the other member states of the EU?

If the historians of the future are good, properly trained historians, they will turn their attention to our days – to the opening decade and a half of the 21st century – to find the causes of Europe's decline and fall. It is here, in our day, as a result of the decisions of our policy-makers, that we can find the reasons why Europe is well on the proverbial 'road to serfdom'.

It is true that Europe has usually been thought of having a sovereign debt crisis - and it has. But the origins of the euro disaster lie less with government profligacy than with excessive private borrowing. Let us consider the case of Greece to illuminate these issues.

A Greek tragedy

Greece did get into trouble because its government spent too much and collected too little in taxes - but the role Greece played in Europe is much more complex. Greek citizens were victims of a political elite, as well as strong unions that espoused big government ideas and strict business and labour market regulations.

The lack of competitiveness and corruption that resulted from this are the typical results of big government - often in collusion with big labour. Greek government workers and powerful labour unions both behaved as if money simply grew on trees!

But Greece was also made a scapegoat for the economic crisis. It is true that the Greek economy was in dire straits. However, in 2009, at the height of the financial crisis, the Greek crisis was used to divert attention from other, larger, looming issues. This was exactly the same time that big banks in Europe were on the edge of bankruptcy. Most, if not all, of the big European banks had received trillions of dollars in bailouts.

Indeed, it was the Federal Reserve Bank that saved Deutsche Bank. What would have happened had we known that Deutsche Bank had liquidity problems back in 2009? The answer is quite clear: the European Union would have collapsed within six months. And even Germany could have been bankrupt.

But then Greece entered the scene. It seemed an ideal candidate to divert attention from what was going on elsewhere in Europe, though in the long-run, it certainly offered no solution to the crisis.

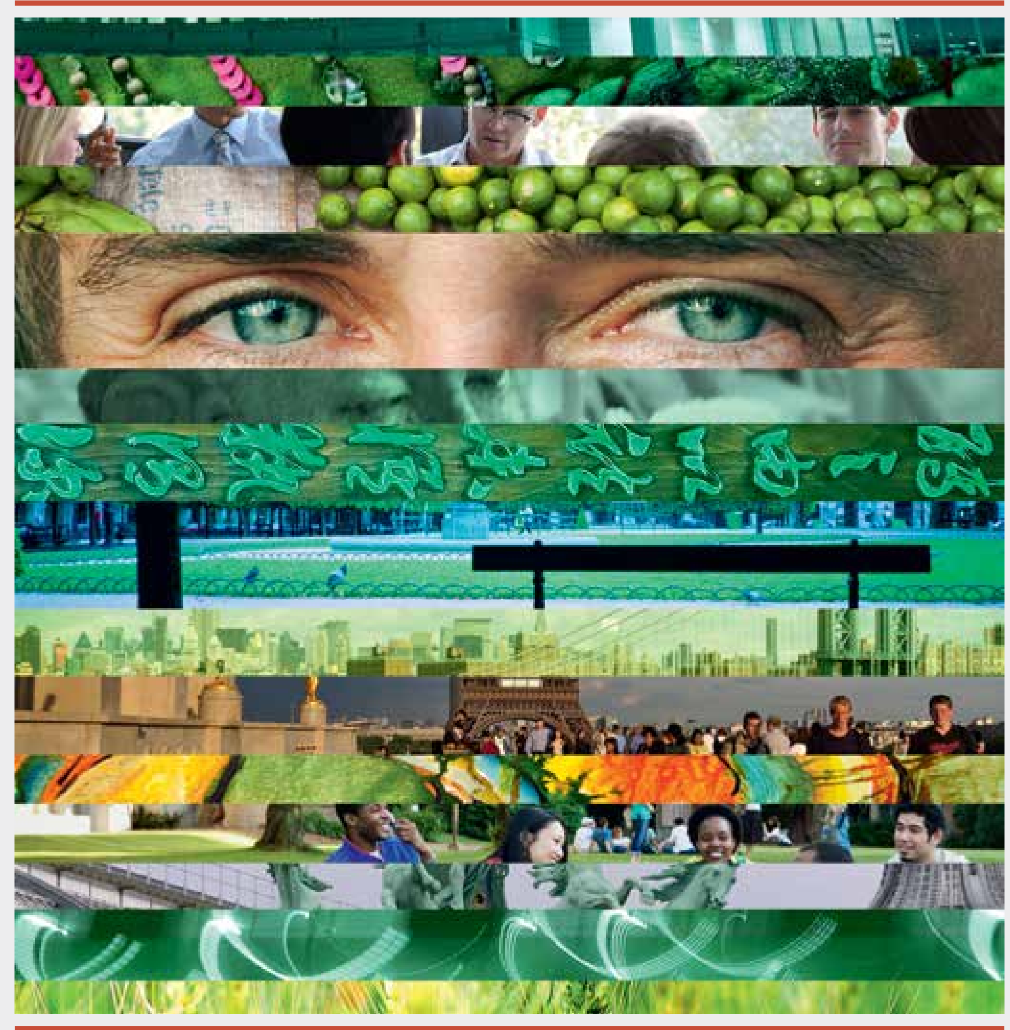
Few actions taken

Incidentally, despite it being in the news so often, Greece has not been bailed out. It's true that trillions of dollars have been used - but not to save people or countries but big banks. Consequently, the money went to save those who created the crisis in the first place, with their irrational and high-risk lending practices. Since then, Greece has been on extended life support, like more and more countries in the eurozone.

Everything has just been delayed. But amid the imminent breakdowns and crack-ups, the end is already in sight. It will come slowly; but it is inevitable. Why? Simply because almost nothing has been done to actively address the lack of competitiveness of the major eurozone economies.

In other words, solving the inherent problems with the euro hasn't gone much beyond the formulation of a bailout system designed mainly for the European banking sector. Meanwhile, the urgent need for serious structural reforms has been completely neglected. We can see how far that's gotten us: not very far.

Christopher, 43 years old. Managing Director, Marseille, ESSEC Executive Education, Class of 2011.



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Ignoring Europe's diversity

Politicians are now demanding more control and supervision systems - things like a banking union - and have proposed trying to manage the continuing crisis with even more regulations. Politicians and policy-makers seem to ignore the very thing that gives Europe strength: its diversity. Instead, they seem obsessed by the thought of controlling Europe from a couple of desks in expensive offices in Brussels.

While an extraordinary large and complicated bureaucratic system composed of many nations continues to try to find a compromise solution that can level all the differences among its different members, their diverse histories and traditions of each single nation continues to be ignored. The top-down Brussels-centric approach is thus a wholly unrealistic approach to the problems of Europe.

Whither Europe?

We should have let all those big banks fail. Even if there had been a shock to the financial system we all would have by now come out stronger. I don't think it is an exaggeration to say that the euro is the most dysfunctional currency in the world. It has to die - and it will soon do so.

You cannot have a central bank that issues a currency without a treasury that issues the bonds. There is no federal treasury in the EU that issues bonds. Without the 'mutualization' of debt, you cannot have a common currency. And, eventually, the eurozone is going to break apart.

Once, in 2009 the Federal Reserve Bank saved the euro because its fall would have resulted in the disintegration of the European Union which, in turn, would have had significant consequences for the American economy. In a way, this was like trying to put out a fire in your neighbour's house to save your own house from catching fire.

But what about today? Will the Americans once again provide the bailout funds to help Europe? They have their own house fire to take care of now, which means Europeans need to take care of business for themselves by themselves for once. But what are they going to do? What can they do? The only thing they will likely continue doing is keep squeezing the economies and sectors of the eurozone tighter, tinkering with policies and imposing new regulations to protect the banking and financial system, while continuing to ignore the plight of the vast majority of hard-working Europeans.

That is why, a hundred years from now, when the historians look at the remains of Europe, they will likely say: *"Here was a continent and a peoples that were suffocated by their own leaders."* ■

The cold hard reality of EU renegotiation

Robert Oulds is Director of the Bruges Group

David Cameron has promised a referendum on EU membership. This, according to his timetable, is set to take place in 2017 following the conclusion of negotiations on reforming the European Union or changing Britain's terms of EU membership.

In the Prime Minister's so-called Bloomberg Speech, David Cameron set out his commitment to staying in the EU's single market but through negotiations delivering five significant changes. These are competitiveness through less regulation, flexibility by allowing countries to opt-out of EU rules, a return of powers to member states, democratic accountability with a greater role for national parliaments and finally fairness.

In short exiting from the political aspects of the EU and only keeping the economic links. On a political level this will appeal to many. The date earmarked for the referendum, 2017, is however not only impractical but indeed impossible, this is if he really does want to present to the public the results of his proposed renegotiation.

The timescales, with discussions in earnest beginning after the general election, does not allow for any negotiations to deliver any tangible results by 2017. What is more, to change the terms of membership requires treaty change and under EU on how this is conducted it is highly unlikely that Cameron's objectives will even be on the table. He will not control the agenda of an Intergovernmental Conference, the convention that is required to change the EU's constitution.

And even if other EU leaders were like minded any cursory understanding of treaty negotiations shows that they take years to complete. The process of discussions between the

heads of state and government in the EU will alone take three years and that is before the equally lengthy process of ratification begins in each member state.

Surely David Cameron understands this. Why then has David Cameron settled on the date of 2017?

In the second half of that year the British government takes over what is known as the Presidency of the Council. This six monthly rotating responsibility puts the relevant British minister for each area being discussed in the chair of Council meetings, one of the two legislatures along with the Parliament in the EU. It will also be incumbent on the British civil service to co-ordinate discussions between the bureaucrats of the EU's 28 member states on draft legislation.

Whilst holding the rotating Presidency is essentially a powerless position, the unelected Commission has the sole right to propose legislation, it will allow for British ministers to grandstand. They can claim to be at the heart of Europe and spin the conclusions of meetings hosted in the UK to give the appearance of Britain winning in Europe.

If a referendum is held, and it is just an if as the in/out referendum pledge is not locked in and can be opted out of, then it will be against the backdrop of the little understood but essentially impotent British presidency.

If David Cameron wants to stick to his pledge he must start now. The reason he does not try and begin serious discussions with other EU leaders is that reform has already been tried and rejected. Guido Westerwelle, the German Foreign Minister dismissed the idea that terms can be significantly changed. He warned that *"cherry-picking is not an option."* Furthermore, President François Hollande of France ruled out the possibility of an *"à la carte"* Europe. David Cameron's attempt to return the national veto over financial services regulation in exchange for his signing the Fiscal Compact was rejected out of hand in December 2011.

The charade of the British Presidency will be used to offset the cold hard reality of EU membership. The EU cannot and will not be reformed. Yet this does not mean that the principles as set out in Cameron's Bloomberg Speech calling for a new relationship are unobtainable?

There is hope for David Cameron's alternative vision for Britain and the EU. He can deliver the new relationship with other EU states, involving all of what he set out in his Bloomberg speech, but not through staying in the EU but by exiting.

This need not be difficult. The UK is a member of the EU and the European Economic Area (EEA) this is essentially the EU's Single Market. Leaving the political EU, which entails cancelling our commitment to ever-closer union, whilst retaining access to the internal market will deliver in a stroke the practical results of what Cameron hopes to deliver through impossible negotiations.

> ***"The UK is a member of the EU and the EEA, this is essentially the EU's Single Market. Leaving the political EU, which entails cancelling our commitment to ever-closer union, whilst retaining access to the internal market will deliver in a stroke the practical results of what Cameron hopes to deliver through impossible negotiations"***

Leaving the EU need not be difficult, nor does it actually require a referendum. Through using the Royal Prerogative the Prime Minister can invoke Article 50 of the Treaty on European Union which is giving notice to leave the European Union. This will automatically happen after two years after notifying that we wish to leave and sooner if a withdrawal agreement is concluded.

It is time that David Cameron stopped making politically points about the EU and started delivering practical measures. It is within his power.

How will all this affect the general public? At this time when the cost of living remains an issue, especially as the Prime Minster has ruled out tax cuts until the end of this decade, exiting the EU can help solve this problem. It can give the treasury the room for manoeuvre that it needs. Leaving the EU has the potential to save the £13.5 billion the UK has to pay to the EU each year and freeing business from excessive regulation will increase economic growth and tax receipts by a further £10.83 billion per annum. Exiting the EU can therefore give George Osborne as much as £24.3 billion of our money.

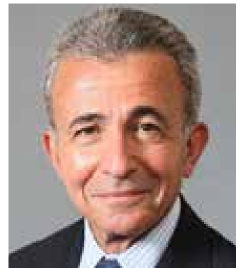
This can allow him to cut nearly 6.58p in the pound from the basic rate of income tax. David Cameron and needs to understand that there are simple solutions to the great question of our age, EU membership, which can help lift the cost of living crisis from its citizens. ■

ABOUT THE AUTHOR

Robert Oulds is author of 'Everything you wanted to know about the EU but were afraid to ask' published by Bretwalda Books.

He is also the Director of the Bruges Group, Margaret Thatcher's think tank on European issues. The Group's current President is Lord Tebbit. As one of Europe's leading analysts on the EU Robert Oulds is a finalist in the prestigious IEA Brexit prize competition about how Britain can leave the EU.

Source for calculations: HMRC Tax expenditures and ready reckoners 2013-14
eurostat, Taxation trends in the European Union, 29th April 2013



A second thought on economic sanctions

Richard N Sawaya is Director of USA*Engage

President Woodrow Wilson famously declared in 1919: *"A nation boycotted is a nation that is in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force. It is a terrible remedy."* Since Wilson, economic sanctions have been a perennial staple of US foreign policy, currently touted as effective 'coercive diplomacy' in the case of Iran and its ostensible nuclear ambitions.

Indeed, compared to previous sanctions regimes, the US-led multilateral sanctions visited upon the Iranian economy have wreaked indubitable damage upon it. As Juan Zarate details in his recently published book, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, the unprecedented power of the sanctions to cause economic harm is directly commensurate with the unique position major US banks play in the global financial system and the digital information revolution enabling that position.

Simply put, all financial roads pass through US banks. The anti-terror financing measures articulated in the USA Patriot Act of 2001, developed from earlier US Treasury anti-money laundering initiatives, constitute the 'big data' systemic heart of the sanctions regime. The money can be followed and frozen.

The exploitation of US financial dominance to implement the sanctions upon Iran is enabled by a concomitant technology-driven phenomenon: the renaissance of US oil and natural gas production by virtue of hydraulic fracturing/horizontal drilling and real-time, micro-seismic data transmission and analysis. The steady decline of US crude oil imports has in turn enabled Saudi Arabia, as swing marginal producer, to replace Iranian crude exports in the global market without an increase in world prices. Put another way, while the sanctions on Iran have not produced a price increase, they have arguably put a floor under prices tolerable to both producers and consumers.

The Obama Administration touts its management of the financially-based economic warfare directed at Iran in contrast to that of its predecessors. And comparisons are made to US drone strike hegemony similarly developed under its watch.

But, as former Secretary of Defense Robert Gates has cautioned regarding the use of drones, there may well be strategically compelling reasons to harbour severe doubts regarding the new financial warfare. Secretary Gates's point about drone reliance is essentially Darwinian. In the knowledge universe, adaptation to momentary superiority is inevitable. Just as Al Qaeda terrorists have continued to adapt to, and exploit the Internet and social media, so the objects of US financial instruments of control will adapt.

Iran's exposure to the financial stranglehold placed upon it is a consequence of its conventional participation in the global economy, which in turn still depends upon the dollar's place as the global reserve currency. But workarounds can become alternatives. The continued distortion, indeed manipulation of US banking beyond generally accepted norms of combating money laundering and criminal enterprises, may indeed encourage financial alternatives to the strategic detriment of the US financial sector.

Effective sanctions also create winners and losers. In the case of Iran, the Revolutionary Guards (IRGC) have clearly been winners. As the financial sanctions have removed 'secular' participants from the Iranian economy in sector after sector, the IRGC has profited from the vacuum, and by some estimates now control more than 10 percent of the entire economy. If sanctions were to be lifted, those in the revolutionary elite who have profited from their imposition will be loath to relinquish their gains.

Within the US government, conversely, the human capital devoted to administering Iran sanctions has grown substantially, in step with the successively byzantine network of measures put into place by Congress year after year. If institutional history is any guide, the sanctions apparatus will not be terminated, even in the case of an otherwise successful negotiation with Iran over its nuclear program. Indeed, the sanctions bar in Washington legal circles continues to grow.

The point, in sum, about the advertised success of the 'smart' financial sanctions - their indubitable capacity to do real harm to the Iranian economy - is that the success is temporary, contingent upon a moment in the global oil trade, and not without consequences inimical to ordinary commerce.

In fact, it will remain for historians to judge whether it is the financial warfare waged upon Iran that brought the country

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"... the unprecedented power of the sanctions to cause economic harm is directly commensurate with the unique position major US banks play in the global financial system and the digital information revolution enabling that position"

to the negotiating table. The fact is Iran's progress to so-called nuclear 'break out' capability occurred in the teeth of ever more draconian sanctions. Commentary in Iran since the announcement of the interim agreement indicates that those who have profited from the country's internal sanctions workarounds oppose a final settlement and by extension the dismantling of the sanctions. For the numerous winners - ordinary Iranians - there will be powerful losers.

Outside Iran, the principal naysayers to the interim agreement - the seemingly strange bedfellows Israel and Saudi Arabia - may also have reasons beyond the nuclear issues per se to prefer the status quo of an Iran ostracized from the global and regional marketplace. Saudi Arabia's role as the world's global crude oil swing producer has already been noted. Iran's full participation in crude oil trade with Asia, coupled with the production renaissance in the United States, could make for hitherto unseen competition.

Besides Turkey, Iran is the only country with the human capital capable at present of matching Israel's economic might, and, with a population exceeding 70 million, the potential to exceed it. And Turkey does not possess Iran's natural resource base.

No one can predict that the ongoing nuclear negotiations will result in a comprehensive success. Indeed, the interim deal is little more, substantively, than an agreement to negotiate under the rubric that nothing is decided until everything is decided. The sanctions relief proffered is both modest and contingent. The veritable blockade of Iran's economy remains structurally intact.

Predictably, those who believe in the efficacy of financial warfare insist that the Obama Administration continue to escalate the campaign and join forces with Congress to enact further sanctions to 'bring Iran's economy to its knees.' Proponents warn that the modest, provisional relief accorded Iran in the interim agreement, coupled with its open-ended negotiating calendar, in effect permits the Iranian regime to have its cake and eat it too: enjoy sufficient economic relief and remain in a state of permanent de facto break-out capability.

Patrick Clawson, Director of Research at the Washington Institute for Near East Policy, who has long pressed for maximum confrontation with Iran, also takes this view: double down on sanctions precisely in order to increase the chances for a comprehensive agreement. He proposes, however, an approach that has the potential to break apart the bureaucratic technology of financial warfare that Congress has legislated to go by itself. Specifically, he proposes that the next sanctions legislation include a provision that if a verifiable comprehensive agreement is reached, the President has the authority to repeal all sanctions on Iran, period.

Given the inertial force of economic sanctions in US policymaking, such a stratagem has much to recommend it. And, in the event of success, rather than trumpeting the instrumentality of economic sanctions, US policymakers would do well to embark upon unilateral disarmament.

The United States has embarked upon an ambitious trade negotiations with Asian countries - the Trans-Pacific Partnership - and with the European Union - the Transatlantic Trade and Investment Partnership. By their nature, economic sanctions depart from the principle of free trade among sovereign states, governed by equitable and transparent rules of engagement. If diplomatic negotiations succeed between Iran and the P5+1 countries, would it not make strategic sense for the United States to stand down its arsenal of financial weaponry?

While highly improbable, such an act of unilateral disarmament would send an unmistakable message that the United States has redoubled its commitment to the benefits of global trade. Moreover, after the lessons of US misadventures in Iraq and Afghanistan and blowback from the Snowden revelations, perhaps it is time to wipe the foreign relations playbook clean, and think again about the essentials of national security interests and tools of diplomacy. ■

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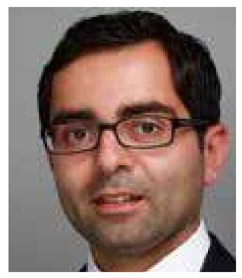

An end to support for renewables? The wrong battle to fight

Fabio Genoese is a Research Fellow at the Centre for European Policy Studies (CEPS), Brussels

In October, the CEOs of 10 European energy utilities, which own about half of Europe's electricity generation capacity, convened a joint press conference in Brussels to issue a warning that the European energy infrastructure is 'in jeopardy'. Modern power plants would soon be closed for good, because they are making losses under the current market conditions. As a result, they warned the electricity system *"may face situations close to blackout... every winter from now on"*.

To explain the unfavourable market conditions, they singled out the rapid increase of renewables in some member states because of subsidies. The CEOs specifically mentioned Germany, which is currently forming a new government. They called for an end to support for renewables because wind and solar were mature technologies that no longer require support.

Is it only renewables?

Whilst it is true that conventional electricity generators (gas, coal) have been overwhelmed by the speed with which renewables have been deployed, they have also overestimated the demand for new conventional capacity. They are currently struggling with overcapacity and wholesale market prices that no longer guarantee adequate remuneration for previously profitable power plants.

By 'unfavourable market conditions', conventional generators essentially mean that they are selling less electricity at lower prices. In fact, since 2008 the wholesale market price, ie. the price at power exchanges, has nearly dropped by half in many EU countries. No one would contest that renewables are the major driver behind this development: renewables have reduced wholesale market prices by pushing conventional, mainly gas-fired[1] power plants out of the market[2] and, as a consequence, have also reduced the market share of conventional producers.

But the causes go beyond renewables. The total electricity demand has still not recovered from the 2009 decline caused by the financial crisis: the EU-27 electricity demand in the year 2011 was 95 TWh lower than in 2008 (-3%). This is a significant amount, as it roughly represents the combined electricity production of wind, solar and hydro power in Germany in 2012. Moreover, some conventional producers have overinvested in generation capacities during the last decade. While the installed capacity of fossil fuel-fired power plants in the EU-27 increased by 18% from 2000 to 2010, the expectation of a growing electricity demand has not fully materialised, as the consumption only increased by 10% in the same period of time.

Reforming renewable energy support schemes

It is understandable that conventional generators are calling for an end to subsidies for renewables altogether in order to stop the build-up of renewable capacity. But how realistic is such a move? The massive deployment of renewables has been a political choice and part of the 2007/08 EU Climate and Energy Package. A reversal of this policy seems very unlikely: as stated in the EU low-carbon roadmap,[3] there is no decarbonisation scenario without a full decarbonisation of the power sector and, according to the EU Energy Roadmap,[4] every decarbonisation scenario will feature a high share of renewables, ie. at least 64% in 2050.

Moreover, support schemes have succeeded in their objective of increasing the market share of renewables while reducing their investment costs.

Despite this, conventional generators have a point. The negative effects of current support schemes on today's electricity system are greater than expected. This is mainly due to uncontrolled growth, in some cases excessive subsidies, unconditional grid priority, and more generally, a lack of market integration: electricity should only be produced when there is demand and, more importantly for renewables, production should be stopped when the demand is satisfied[5] in order to avoid negative market prices. In the short-term, further adjustments are needed to increase the efficiency of support and to reduce its negative effects, as enumerated below:

(1) Payments for renewables should not be fixed but rather should depend on the market value of electricity (eg. on wholesale market prices).

(2) Renewables should have to contribute to grid stability (ie. they should have a scheduling and forecasting obligation, which is usually referred to as 'balancing responsibility').

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"Rather than fight a battle against renewables, would it not be better for conventional generators to explore new business models built around a reliability pricing system?"

(3) Subsidy caps should be introduced (ie. payments for renewables should be stopped once the development targets have been achieved).

Defining such caps will also help conventional generators, as this reduces the uncertainty on the need for conventional capacities. A harmonised EU policy is preferable but not mandatory to improve the efficiency. Instead, common European framework guidelines could be developed, where different support schemes are allowed to compete.

Payments for both capacity and electricity?

In the long-term, reforming renewable support schemes will not be enough to maintain supply security. While the demand for electricity generated by conventional power plants is in decline, the demand for secured power - which as of today is mostly provided by conventional units - does not decline in the same way. This is why conventional generators are asking to be paid for the secured power they bring to the market in addition to the energy they produce. However, before putting an additional burden on consumers, it is worth exploring alternatives.

Like in other grid-based services, it is not only about the delivery of a certain amount of electricity. It also about having access to electricity, ie. about the reliability of the service. Still, the reliability part is mostly disregarded in contracts between consumers and suppliers. A transition to a so-called 'reliability pricing system' could be a viable option in which nearly 100% reliability would be guaranteed for base load but not for peak demand. Consumers could then choose between different 'reliability' levels for their peak demand. This could reduce the need for secured power and therefore reduce overall costs. To help this transition, other tools such as demand response based on smart grids and also involving DSOs should be explored.

Given the unlikelihood that EU decision-makers will renege on their decarbonisation or renewable energy targets, it appears that support for renewables is here to stay. Rather than fight a battle against renewables, would it not be better for conventional generators to explore new business models built around a reliability pricing system? ■

1. Coal-fired plants are currently less affected due to both low coal and carbon prices.
2. It is worth noting that this is not due to grid priority granted to renewables but due to the difference in generation costs. Renewable technologies like wind and solar have close to zero generation costs while fossil fuel-fired power plants clearly face generation costs.
3. COM(2011) 112 final.
4. SEC(2011) 1565 Parts 1 and 2.
5. Ultimately, this means to stop granting unconditional grid priority to renewables.

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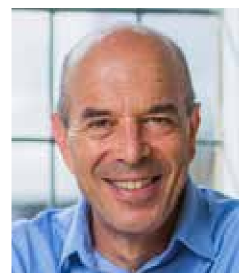

Sustainable growth requires a long term focus from business

Professor Ian Goldin was Vice Chair of the Oxford Martin Commission for Future Generations and is Director of the Oxford Martin School at the University of Oxford

Since the crisis of 2008, many financial institutions have struggled to regain public confidence as originators of sustainable growth that can benefit the many, rather than the few. And yet an attitude of 'business as usual' persists. Corporations continue to feel acutely the pressure of the ticking clock, with hyper-speed trading systems, impatient stakeholders and quarterly earnings targets all conspiring to reinforce a focus on the short-term.

Short-term returns can be a useful measurement of success. Firms that cannot navigate the short-term die before the prospect of even the best laid long-term plans become reality. Successful firms need both – a sharp focus on short-term effectiveness and an ability to scan the horizon and prepare for the longer-term. Planning for the long-term needs to be embedded into business practice and culture.

For businesses to not only survive but thrive in the long-term requires both a focus on business opportunities and investment as well as a broader consideration of corporate governance and social responsibility. It is time for a re-thinking of corporate governance, for firms to shoulder part of the responsibility for leaving a sustainable world for future generations. Sustainability must be hard-wired into corporate practice to mitigate the risk of leaving a damaging legacy. While the private sector is the biggest source of jobs and growth, unsustainable growth models can heighten financial instability and cause irreparable harm to the environment.

Systemic reform of the current growth model must take place to fulfil commerce's necessary role in ensuring a sustainable future for people and planet. There are already good examples of this; with initiatives such as the B Team, set up by Richard Branson and Jochen Zeitz, and Unilever's work on sustainable business practices, but the vast majority of business leaders are yet to embed long-term planning into their corporations' DNA.

The Oxford Martin Commission for Future Generations, chaired by Pascal Lamy, former Director-General of the World Trade Organization, was born out of the shared concerns of its members that governance requires a dual

The Oxford Martin Commission for Future Generations members include (from l to r) Lord Rees, Lord Stern, Dr Mo Ibrahim, Professor Ian Goldin, Pascal Lamy, Julia Marton-Lefèvre and Roland Berger

vision: a commitment to address current needs *and* to build the foundations for vibrant generations in the decades ahead. The future is full of opportunity, but our increasingly integrated and inter-connected world presents growing systemic risks, meaning we can no longer operate on the basis of 'business as usual'.

The Commission's report, *Now for the Long Term*[1], sets out a number of practical recommendations for changes to the private sector, to ensure future generations can enjoy the benefits of corporate success and economic growth. We endorse the recommendations of the G30 on long term finance, particularly the call for the creation of dedicated long-term financial institutions. These could include infrastructure banks, green finance, small business banks and innovation funds, and would require the public and private sectors to work more closely on the mobilisation of long-term capital, overcoming the mismatch in assets and liabilities. This is particularly acute in the long-term markets where the savings of individuals to fund their pensions are not matched by investments in infrastructure and other long term assets.

'Health' assessments could be developed for listed companies, concentrating on long-term value creation and absolute performance. This should take into account portfolio churn, remuneration incentives, length of investments, shareholder voting rights, organisational talent and tenure, time dedicated to long-term strategy deliberations, and innovative capacity.

Our call to 'revalue the future' also builds on the work of the World Bank, the Mo Ibrahim Foundation, Transparency International and other agencies in measuring governance. We propose the development of a Long-Term Impact Index to rate the effectiveness of countries, companies and international organisations in addressing longer-term challenges. The Commission also recommends the creation of a Voluntary World Taxation and Regulatory Exchange, to promote information sharing, enhance transparency and harmonise company taxation arrangements. The Exchange would reinforce the overall framework of the OECD/G20 Base Erosion and Profit Shifting Action Plan (BEPS Project), to ensure that multinationals pay their fair share, and that profits from the digital economy are not unfairly and artificially shifted to other jurisdictions.

"The future is full of opportunity, but our increasingly integrated and inter-connected world presents growing systemic risks, meaning we can no longer operate on the basis of 'business as usual'"

We believe that while the private sector is the necessary engine of sustainable growth and development, owners and boards need to embrace longer-term responsibilities. The extraordinary advances of recent decades promise remarkable opportunities for both current and future generations; only with a collective shift in focus can the corporate world play its part in ensuring these are not squandered. ■

1. *Now for the Long Term, the report of the Oxford Martin Commission for Future Generations, was published by the Oxford Martin School. The School is a unique, interdisciplinary research community of over 300 scholars working to address the most pressing global challenges and harness the potential opportunities. To download the report, visit www.oxfordmartin.ox.ac.uk*

Historic opening of arbitration centre set to advance Palestine/Israel commercial dispute resolution

Israeli and Palestinian business leaders joined the leadership of the International Chamber of Commerce (ICC) in Jerusalem November 18 to inaugurate the first dedicated Israeli-Palestinian centre for the resolution of commercial disputes between businesses in Palestine and Israel. Former British Prime Minister Tony Blair attended the official signing of a tripartite JAC agreement in Jerusalem.

John Beechey, President of the International Court of Arbitration® of the International Chamber of Commerce, Andrea Carlevaris, Secretary General of the International Court of Arbitration® of the International Chamber of Commerce and Jean-Guy Carrier, ICC Secretary General were in Jerusalem to witness the historic launch of the Jerusalem Arbitration Centre (JAC) and the signing of a memorandum of engagement.

"We are hopeful the US$4 billion in annual trade between Palestinians and Israelis will expand significantly now that there is a mechanism in place to bring swift and fair resolution to commercial disputes and create greater certainty for the business community," said Harold McGraw, ICC Chairman. *"By strengthening commercial relations and improving economic cooperation between the Palestinian and Israeli people there are new opportunities to attract investments and enhance long-term economic growth in the region."*

The opening of the Centre is the first measure to be taken, since the Oslo I Accord was signed in 1993, to establish an internationally accepted arbitration mechanism to resolve commercial disputes between Israel and Palestine. ICC has been instrumental in establishing the JAC, a joint venture agreement between ICC Palestine and ICC Israel.

The Centre will serve as a wholly independent provider of dispute resolution services for the settlement of commercial disputes between Palestinian and Israeli businesses using specific rules drafted for the JAC based on the ICC Rules of Arbitration.

John Beechey, President of the International Court of Arbitration® of the International Chamber of Commerce said: *"The Jerusalem Arbitration Centre is a truly neutral and independent forum, the purpose of which is to provide dispute resolution services in which parties from Israel and Palestine can have real confidence. The International Court of Arbitration® will continue to offer active support to the Centre, notably in the form of on-going training and guidance on issues such as the criteria for selecting arbitrators and establishing jurisdiction."*

A unique achievement for the region and for ICC, the Centre's opening takes place just weeks after the Middle East Quartet presented an economic initiative for political agreement within the next year. The JAC has received the approval of Israeli and Palestinian officials and is tangible proof that agreement between Israelis and Palestinians on measures to promote resolution of commercial disputes in the region is possible. The Centre will be recognized by judicial authorities

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in Israel and Palestine with its arbitration awards enforceable in both Israel and Palestine, based on legal coordination with the relevant authorities.

"There is no other institution like the JAC in the world today. At this time when there is almost no dialogue between Israel and Palestine at the civic society level, we are putting aside our political differences to the benefit of resolving our business and commercial disputes in both regions," said Oren Shachor, President of ICC Israel.

Until now, companies have relied on a mechanism provided by the Oslo Accords, signed by the Palestinian Liberation Organization and the State of Israel in 1993, to resolve Palestinian-Israeli civil disputes. However, as this mechanism involves governments, case work is often stalled by political and security related issues in both jurisdictions.

Samir Hulileh, Vice-Chairman of ICC Palestine said: *"We believe that the arbitration mechanism will provide a decent and internationally respected means to resolve commercial disputes in the hopes to enhance fair bilateral trade between Palestine and Israel. We are confident that the JAC initiative will help support the political efforts by US Secretary of State John Kerry to resolve the conflict, as only a political solution can unleash the full potential of an economic revival in the region and bring long- term benefits to the legal profession in the region."*

The Centre's international arbitration committee (the JAC court) comprises nine members, including its President Yves Derains, former Secretary General of the International Court of Arbitration® of the International Chamber of Commerce. ICC Israel and ICC Palestine will each be entitled to recommend two members of the Court. The remaining four members, including the Vice-President, will be recommended by the President. Subsequent members of the Court will be appointed jointly by ICC Israel and ICC Palestine with the consent of the International Court of Arbitration®.

"The Centre will serve as a wholly independent provider of dispute resolution services for the settlement of commercial disputes between Palestinian and Israeli businesses"

The Centre's governing offices are located in ICC Palestine's office in Ramallah and in ICC Israel's office in Tel Aviv, while the secretariat and hearing centre are based in East Jerusalem. Under the leadership of Secretary General Nadia Darwazeh, the JAC secretariat currently employs one Palestinian lawyer, one Israeli lawyer and one international lawyer.

The ability to resolve commercial disputes peacefully has been a core activity of ICC since it created the International Court of Arbitration 90 years ago, in consonance with the organization's steadfast mission to facilitate international commerce as a source of peace and prosperity.

Following the official signing of a tripartite JAC agreement, Mr Shachor and Munib Masri, Chairman of ICC Palestine will be presented with the ICC Merchant of Peace Award in recognition of their contributions to the creation of the Centre.

"The founders of ICC called themselves Merchants of Peace, because they believed that trade and investment foster peace and prosperity," said ICC Secretary General Jean-Guy Carrier. *"Oren Shachor and Munib Masri have worked to create the Jerusalem Arbitration Centre, for the peaceful resolution of disputes, in the spirit of true Merchants of Peace. This highest award given by ICC recognizes their contribution to peace and prosperity in this region and in the world."* ■

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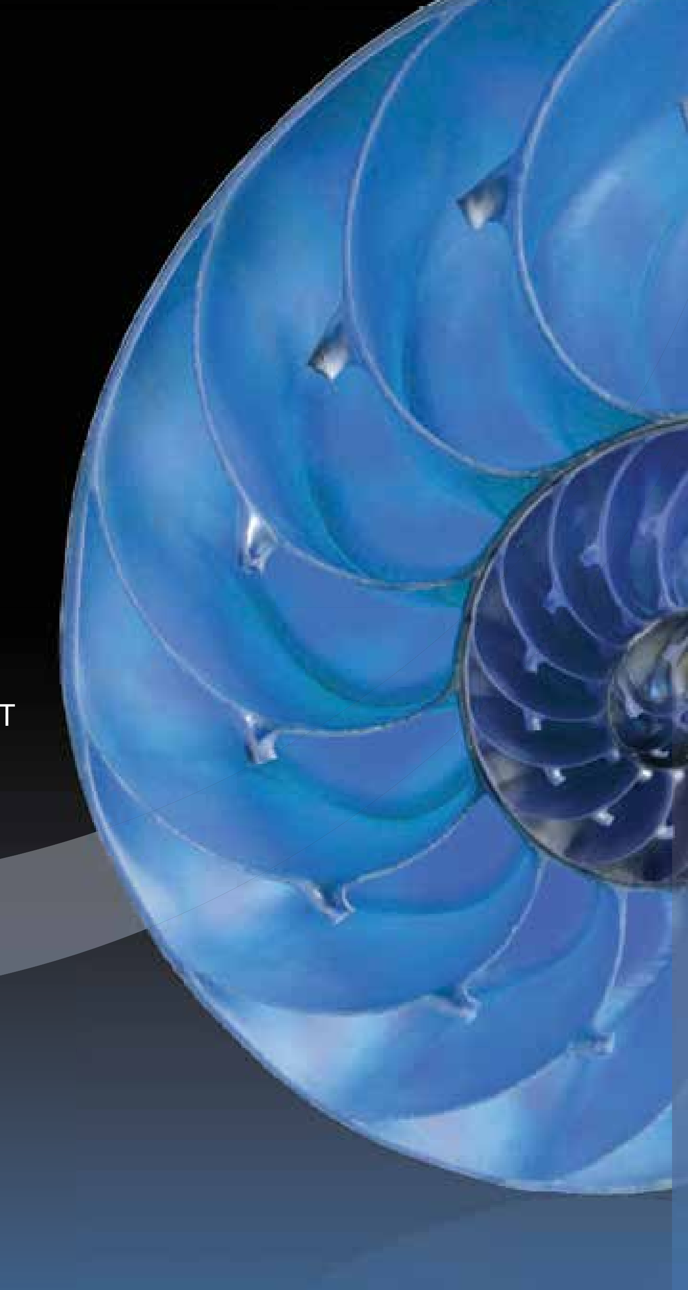

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Regulatory recognition: facilitating growth

Anthony Belchambers is the Chief Executive of the Future and Options Association

While it is true that the transatlantic market place has two different market structures ie. the US market-based model versus the US bank-based model and, since the crisis, there has been a significant decline in cross-border flows, the fact remains that some 70% of the world's financial services business flows through it and EU and US financial institutions are strongly represented in each market. The potential for a significant increase in cross-border trade in financial services is considerable, but that is heavily dependent on the removal of unnecessary trade barriers and the creation of a coherent regulatory framework for cross-border business.

Clearly, a considerable number of initiatives, protocols and dialogue have taken place since 2003 precisely for the purpose of delivering on these two objectives, but they were overtaken (understandably) by the post-crisis need to develop and implement a major regulatory and market repair agenda. This has centred on establishing a safer financial system, recapitalising banks and plugging regulatory gaps and 'loopholes' – but there is also the equally important post-crisis need to incentivise business recovery and economic growth, enhance risk management capability and facilitate competition.

This last more commercial and economic group of objectives requires choice, diversification and the ability to access markets, products, services and providers. It is perhaps not surprising therefore that, despite the severe consequences of the crisis, G20 emphasised in its communique following the 2008 Summit the need to *"underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty"* and in the communique released after the 4th Toronto Summit that *"Vigilance is also needed to ensure open capital markets and avoid financial protectionism"*. For its part, the European Commission, in its Communication 'Driving Economic Recovery' (4th March 2009), emphasised that *"protectionism and a retreat towards national markets can only lead to stagnation, a deeper and longer recession and lost prosperity"* (page 11).

While the prioritisation of regulatory objectives post-crisis over these other more economic objectives is understandable, the fact is that they have foundered just as much on the tendency of governments and regulatory authorities to set the perimeter of their regulatory responsibilities beyond their own borders, and establishing standards of rules' equivalence so high as to become more a vehicle for protectionism than liberalisation. A classic example of a protocol that is increasingly looking more like words than actions was the 'The Path Forward' accord reached between the CFTC and the European Commission. This was intended as a transatlantic roadmap for harmonising the regulation of derivatives business. However, the CFTC's recent anti-avoidance rules have since been described by the European Commission as *"another step away from the kind of inter-operable global system that we want to build"* and as running counter to the spirit and purpose of the accord. That said, it should be remembered that the European Commission does not enter this debate with entirely 'clean hands' insofar as its approach to the regulation of CRAs, early drafts of the AIFMD and extra-territorial elements in EMIR and MiFIR/MiFID have all come in for criticism on the grounds of protectionism.

Another example is the scope of the Transatlantic Trade and Investment Partnership (TTIP) where the US authorities have insisted on the exclusion of financial services. The EU would like it to be included to increase competition and choice, harmonise investor protections and facilitate growth in financial services. By way of analogy, the Centre for Economic Policy Research report *Reducing Transatlantic Barriers to Trade and Investment: an Economic Assessment* (2013) anticipated that, depending on scope, the outcome of TTIP could be to generate a possible increase of between 3.37% - 5.11% in cross-border trade flows and to deliver up to 80% (potential) gains through reduction in regulatory and other public sector costs. A successful outcome to the TTIP could also lead to a permanent infrastructure for monitoring access and mediating disputes – and that too would be a significant advantage for trade in financial services.

On the other hand, it is inevitable and entirely understandable that governments and regulatory authorities, particularly in the aftermath of the recent financial crisis, are wary of foreign regulatory 'loopholes', and the importation of extra-territorial risks on the back of foreign-sourced business. Nevertheless, the fact remains that saving, investing, managing risk and raising capital are becoming more and more global with the result that national siloed regulation appears increasingly dysfunctional and out of step with business realities.

The determination of governments and regulatory authorities to comply with and implement the G20 objectives for regulatory repair are laudable, but, unfortunately, that

cannot be said of the G20 objective to *"reject protectionism and not turn inward"*. Bedevilled by regulatory territorial skirmishes, extraterritorial application of rules and regional and national differentiation in the implementation of global standards, the only outcome has been to increase regulatory incoherence and stridency and add to customer confusion over the types and kinds of protections that are applicable to their financial service activities, compliance complexity, legal risk and the cost of cross-border business.

The need for greater regulatory coherence and effectiveness as regards cross-border business is, however, not just a transatlantic issue! In an increasingly global marketplace, it is international and there are many bilateral dialogues taking place which are designed to facilitate cross-border business in financial services between jurisdictions. Clearly a multilateral dialogue would be very difficult to achieve in this area, but not impossible. For this reason, the recent initiative by the International Organisation of Securities Commissions (IOSCO) to establish a Task Force to review the 'tools' for delivering regulatory recognition, substituted compliance and exemptive relief is to be welcomed. Of course, IOSCO suffers from the fact that, unlike the newly established European Supervisory Authorities, it has no compulsive powers in relation to the implementation of its standards, but it is still very well placed to energise the dialogue on mutual recognition insofar as:

- a multilateral approach involving the 100+ IOSCO members (which, between them, regulate over 90% of the world's financial markets) will avoid the emergence of bilaterally negotiated agreements based, inevitably, on divergent determinations and using different threshold criteria;

- IOSCO is an international college of regulatory authorities with proven experience in establishing consensual regulatory standards and Principles which, while not in themselves sufficient for this purpose, provide a basic foundation on which to build regulatory recognition;

- IOSCO has no direct supervisory responsibilities and therefore no regulatory (or rules') position to defend in the dialogue to accommodate adequate levels of substituted compliance;

- IOSCO's sole focus is on the financial service sector, which means that progress in financial services regulatory recognition should not be blocked by lack of progress on other non-financial sectoral dossiers.

The process of recognition involves the analysis of three 'gateways' for modernising and converging the regulation of global business – mutual recognition, exempted relief and target rules convergence[1]. However, the process of recognition also sits in three interlinked but different regulatory layers, each of which may have very different outcomes when it comes to determining adequacy and comparability, namely:

(a) determining whether or not there is sufficient compatibility between national or regional regulatory frameworks to support regulatory recognition;

(b) identifying individual rules within those regulatory frameworks which are sufficiently similar or 'equivalent' to support substituted compliance; and

(c) determining, at the operational level, whether a particular foreign or host state competent authority has sufficient resource and expertise for a home state competent authority to justify outsourcing its supervisory and enforcement responsibilities as regards foreign licensed intermediaries and infrastructures ie, there may be significant differentiation in the degree of outsourcing reliance placed by a home state authority on a foreign authority if regulatory interdependence is to be accommodated safely and confidently.

"A successful outcome to the TTIP could be the establishment of a permanent infrastructure for monitoring access and mediating disputes – and that would be a significant advantage to trade in financial services"

In the final analysis, effective delivery of regulatory recognition and cross-border market access will require:

(a) greater granularity in the standards developed by IOSCO to establish a deeper foundation for determining comparability/equivalence; and extending the process of harmonisation into implementation of those standards to prevent undue national or regional differentiation;

(b) taking into meaningful account delivery of the public policy objectives referred to earlier in this article, securing commercial benefits for all the various 'stakeholders' involved in cross-border business and ensuring compliance complexity, investor confusion and barriers to access are kept to a minimum;

(c) developing a common set of threshold criteria and methodologies for measuring whether there is or is not sufficient compatibility/equivalence to facilitate recognition or substituted compliance;

(d) ensuring that all reasonable steps are taken to bring together (proportionately) differentiated frameworks or rules in such a way that regulatory recognition/ substituted compliance can be achieved to the maximum possible extent ie. through targeted rules convergence;

(e) empowering IOSCO to have a more robust international role with regard to the implementation and continuing observance of its standards e.g. through powers of investigation and (voluntary) mediation -

“regulators need to rely more on foreign regulation where it has achieved the same regulatory outcomes. This avoids overlaps, inconstancies and conflicts”

but this is a sensitive issue and should not involve any assumption of specific interventionist or enforcement powers.

While it can be anticipated that, notwithstanding that the marketplace is going global, there will be some jurisdictions which will look to preserve absolute regulatory sovereignty, this kind of controlled evolution is a natural development in the role of IOSCO. In the EU context, additional powers had to be afforded to the EU college of member state regulators in such a way that it has now become a formal regulatory harmonising authority ie. ESMA. The creation of a more effective international standard-setting body to develop market and conduct standards which would mirror the role of the Basel Committee in the setting of prudential standards is now a necessary priority.

The advantages of establishing a more coherent and effective framework of regulation for cross-border business are self-evident and a ‘win-win’ for all its stakeholders:

(a) potential reduction in systemic risk and regulatory weaknesses by eradicating, through the dialogue, regulatory gaps, conflicts and overlap and delivering more effective regulatory capture of cross-border market activity;

(b) reducing needless jurisdictional, legal and regulatory conflict (particularly in the area of cross-border supervision and enforcement), legal risk and compliance complexity particularly for firms, and confusion over applicable investor protections standards;

(c) enhancing domestic regulatory efficiency and effectiveness by allowing the primary focus to be on the needs of a competent authority’s own jurisdiction, providing, of course, that the authority is properly satisfied that the relevant host state authority is fulfilling and continues to fulfil the threshold standards of recognition, etc.

(d) positive incentivisation on regulatory authorities to establish and maintain shared regulatory policies, standards, rules, outcomes and resources to avoid losing recognition status;

(e) significant reduction in duplication of regulatory processes, resources and reporting systems to the benefit of both regulatory authorities and firms regulated by them;

(f) significant reduction in extraterritorial supervisory responsibilities which are time and resource intensive and carry high levels of public accountability for the authorities carrying out those extraterritorial responsibilities.

This article started out with a number of quotations. It concludes by referring to the IOSCO statement in its Introduction to its Principles for Securities Regulators (2010), that *“an increasingly global marketplace also brings with it the increasing interdependence of regulators”* and the observation by Steven Maijoor, Chairman, European Securities and Markets Authority, in his speech to the American Bar Association in 2013 that *“regulators need to rely more on foreign regulation where it has achieved the same regulatory outcomes. This avoids overlaps, inconstancies and conflicts”*. Regulatory acknowledgement of the need to engage in a recognition dialogue is there, but that will not amount to much if there is an absence of meaningful delivery.

Perhaps the last word should go the business and commercial ‘stakeholders’ of regulatory recognition. Clearly, there needs to be very close engagement with not just the providers of financial services, but also the market infrastructures and the consumers of financial services to ensure that the recognition dialogue is driven not just by the needs of regulatory authorities, but by delivering economic benefits for all stakeholders and securing the advantages of choice, competition and market access. ■

1. In 2005, a group of leading EU and US financial services industry associations came together as the Transatlantic Coalition on Financial Regulation to address the urgent need to simplify the regulation of wholesale Transatlantic financial services business and these three ‘gateways’ were at the core of its approach and provided the basis of its various reports.

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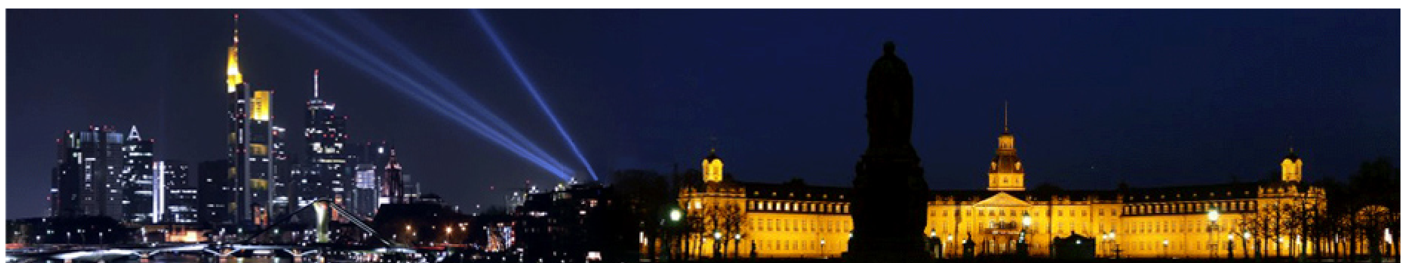

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Takaful: strong growth perspectives in Europe

Sohail Jaffer is Deputy CEO at FWU Global Takaful Solutions

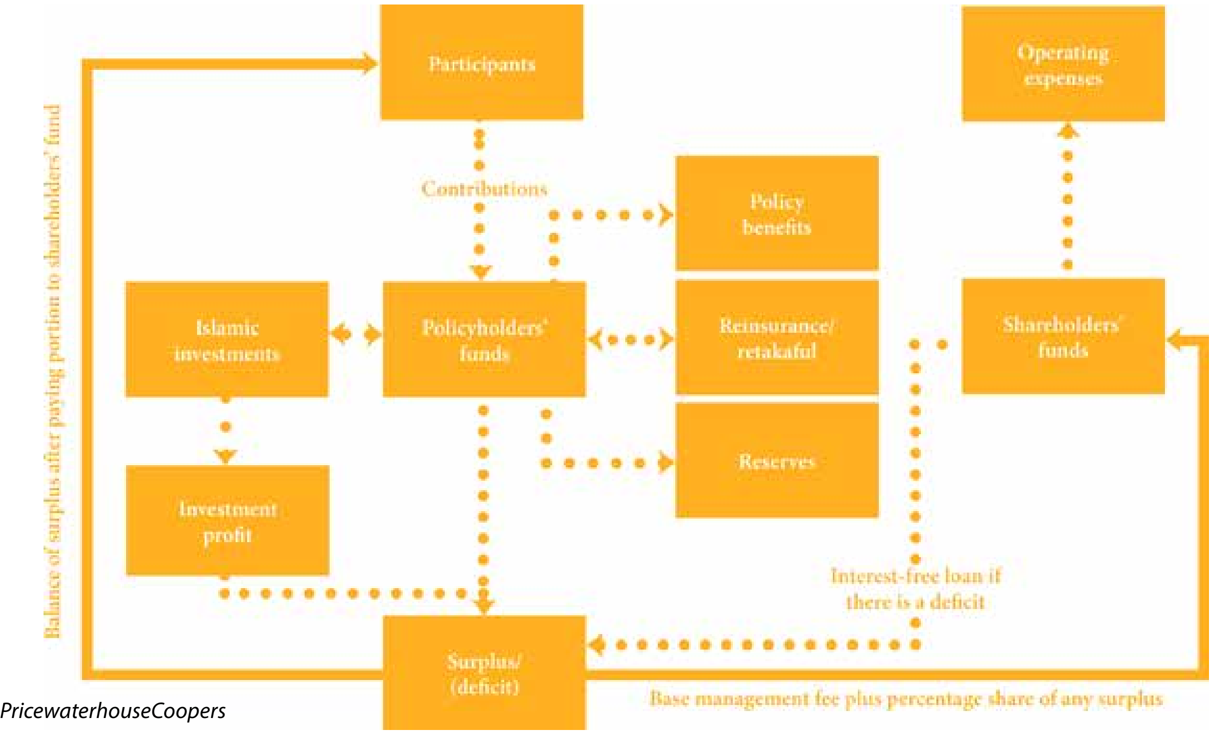
The universe of risks is expanding. Globalization and new economic and technological activities mean new risks for the future, and with these new risks come more development opportunities for the insurance industry.

Historically, there have been three basic corporate models to deliver insurance: conventional, mutual, and cooperative. A fourth model has emerged three decades ago and has evolved quickly reaching phenomenal growth rates and expanding across the world. Takaful, is simply a form of insurance, that is shariah-compliant, this means it follows Islamic tenets as well as is deemed fair, transparent and ethical. Takaful companies have to follow Islamic finance principles, and appoint a board of shariah scholars to ensure that both the products and the operations of the company comply with shariah law.

Takaful rests on several basic principles: a participant-owned fund, mutual guarantee, shared risk, no uncertainty nor speculation, no charging of interest, and investments must be screened and confirmed shariah-compliant and finally, operational models (Wakalah and Mudarabah) must be transparent and fair. Takaful arrangements can be used to pool either general insurance risks or life (known as family takaful) risks, covering the same spectrum as conventional insurance.

The aim of the shareholders is not trade or profit from other people's money; their goal is solely to distribute risk among themselves, there is a clear segregation between 'participant' and 'operator'. In the Wakalah model, the takaful operator acts as an agent for the policyholders. In this model, the shareholders' fund is paid a pre-agreed proportion of the contributions paid by the policyholders from the takaful fund in return for running the takaful operations on their behalf (wakeel fees). In the Mudharabah model, the operational structure is similar except the shareholders' fund receives a share of the profit (or loss as the case might be) from the policyholders' takaful fund. Mudarabah is known as the profit-sharing model. Today, wakalah has become the model of choice with most Takaful operators, as the fees are pre-determined.

Mudharabah Model



Source: PricewaterhouseCoopers

There is a clear convergence between mutual insurance, cooperative and takaful. Takaful in principle is 'mutual,' based on solidarity and risk-sharing principles, and 'co-operative' insurance in principle is mutual, the cooperative insurance values are defined as : self reliance, self responsibility, equality, equity and solidarity.

Just like mutual insurance, the takaful fund is not owned by shareholders but by the policyholders, which eliminates the conflict of interest that can occur for conventional insurance companies. For cooperative insurance companies, the shareholder and the policyholder are the one and same person. The policyholder, through his or her role as part owner of the fund therefore the company, has the right to elect members of the management, hence have a say as to the strategic decision process of the 'mutuelle'.

The corporate structure fort is similar, but integrates another element into the mix: the Shariah Board, which is made of three Islamic scholars who are involved in the development of products as well as in the issue of fatwa, (ruling on a point of Islamic law ie: approval of the Board regarding the shariah compliance of a given product). The Shariah Board ensures that the products to be issued on the market do not contain any elements which could be considered 'haram' (forbidden). As an example, if the takaful fund plans to invest in a certain stock, the Shariah Board makes sure that the stock has been properly vetted ie: that it doesn't invest in the financial sector, alcohol, the entertainment industry armament or tobacco. Once the stock gets the approval of the Shariah Board, a fatwa (a formal certificate of authenticity) is issued, deeming it fit to be invested in. The takaful operator can do so, safe in the knowledge that the policyholders will subscribe an insurance policy, whose underlying assets are compliant with their religious and ethical beliefs. Operator is expected to provide an interest free loan (qard al hasan) in case of a deficit in the fund which will be repaid out of future surplus arising.

"Many industry experts argue that the maturity of the insurance industry in Europe could make the expansion of takaful more dramatic in Europe"

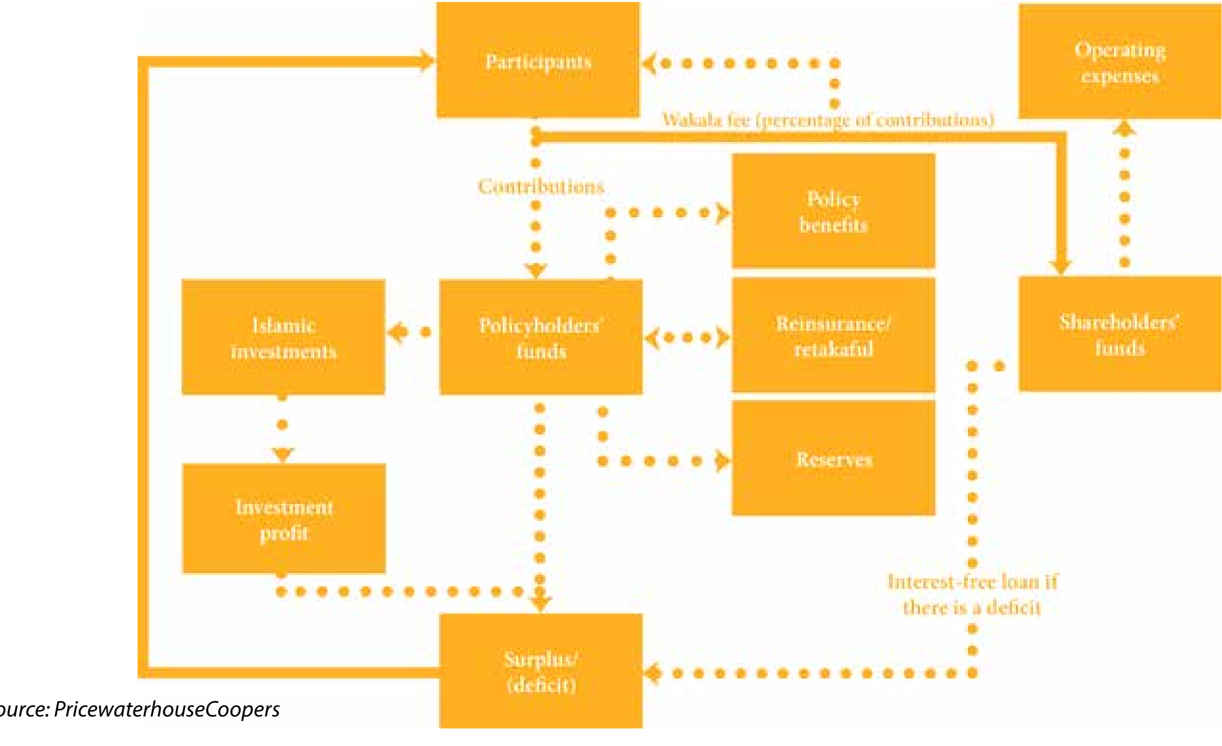
Opportunities for takaful in Europe

The focus in providing Islamic financial services in Europe has been primarily in the area of banking. But as the retail Islamic banking share grows, demand for shariah-compliant insurance will have to follow especially when the awareness and tendency to purchase insurance is undeniably much greater in western jurisdictions than in developing countries. Hence, takaful would seemingly target a much more informed market segment, including the 53 million Muslims residing in Europe where coverage is viewed as something necessary rather than exotic.

The largest volumes of takaful contributions may still be in the Middle East and South East Asia but its dramatic growth has enticed major conventional insurers to buy into the concept. Axa, Allianz, Aviva, UK Prudential all have entered the takaful fold with shariah-compliant operations.

Re-insurance giants such as Munich-re, Hannover-re, Swiss-re and Scor have also followed by setting up suitable re-takaful solutions. Although outside of their home markets, these European players are well equipped to transfer their takaful expertise, as the call for alternative offerings is growing, opening up western markets for takaful in its next phase of development.

Wakala Model



Source: PricewaterhouseCoopers

Many industry experts argue that the maturity of the insurance industry in Europe could make the expansion of takaful more dramatic in Europe than in the traditional markets of Middle East and South East Asia, provided the right products and regulatory balance can be found. Given the maturity of life market in Europe, family takaful is forecast to have vast opportunities to develop especially with the growth predicted for private pension plans. Mutual insurance which is a popular protection product especially in some European countries such as France, has outperformed the conventional insurance in the past few years, in a number of European countries, reflecting that value based insurers are attracting more customers than their conventional peers.

The transparency of contracts used in takaful and the avoidance of industries such as alcohol, gambling and tobacco in the investment portfolios of takaful companies potentially appeals to customers looking for ethical financial services especially with the increasing interest in SRI (socially responsible investments). Takaful has still not seen major developments in Europe although, the first takaful company found home in Luxembourg more than a decade ago in 2002, followed by the UK further in 2008 when Britain's first shariah-compliant insurance company was launched.

No additional dedicated takaful companies have been established but few products have been introduced, such as the recent initiative by Swiss Life which has launched what is believed to be Europe's first family takaful product, primarily aimed at French customers looking for Islamic finance or ethical investment solutions. Salam Epargne & Placement, a life insurance product aimed at French residents, enables policyholders to invest in the various UCITS of the Salam-Pax Sicav, a 'shariah-compliant' fund of funds. It has been

Exhibit 1

	Takaful	Cooperative insurance	Mutual insurance
Contracts utilised	• Donation and mutual undertaking based on non-renumerative/ non-commutative contract • Not an exchange/commutative contract	• Mutual contract	• Mutual contract - considered to be an exchange contract on principles of mutuality
Company's responsibility	• Manage the participants' fund • Pay claims from underwriting fund • Provide interest free loan to underwriting fund in case of deficit	• Pay claims with underwriting fund • Pay for deficits if any	• Pay claims with underwriting fund
Participants' responsibility	• Pay contributions	• Pay contributions (and pay for deficits in some models)	• Pay premiums (and pay for deficits in some models)
Capital utilised for underwriting business	• Participants fund and in case of shortfall, temporary access to shareholders' equity on a qard al hasan basis	• Participating capital and accumulated surplus	• Participating capital, accumulated surplus and guarantee capital (if applicable)
Investment considerations	• Shariah-compliance and prudential	• No restrictions except prudential	• No restrictions except prudential

Source: EYs The World Takaful Report 2012

	Mutual insurance	Takaful	Conventional insurance
Contract forms	Bilateral contract	Donation and mutual contract	Exchange contract
Company's responsibility	Pay claims with underwriting fund	Pay claims with underwriting fund, and interest free loans in case of shortfall	Pay claims with underwriting fund and shareholders' equity
Participants' responsibility	Pay contributions	Pay contributions	Pay premiums
Capital utilised	Participating capital	Participants' funds	Share capital
Investment considerations	No restrictions except prudential	Shariah-compliant	No restrictions except prudential

Source: Clyde & Co

certified by the European Independent Committee of Islamic Finance (CIFIE).

In Germany, FWU, the Munich based financial group has also launched in 2012 a Family Takaful Savings plan distributed through financial intermediaries.

Major opportunities for Islamic financial services remain in the UK, France and Germany due to the concentration of Muslim communities in these countries. France in particular has been very proactive in integrating the alternative finance with major tax and regulatory reforms in favour of facilitating the introduction of shariah-compliant products to the market.

Community banks such as Chaabi Bank, the long-established French subsidiary of Moroccan Groupe Banque Populaire., has already launched the first shariah-compliant deposit account in France last year, and plans to roll out a full set of alternative financial products in the near future.

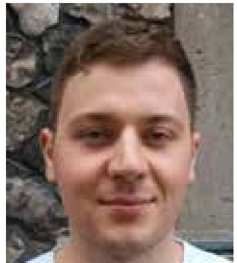
Germany has also witnessed some recent action in terms of welcoming shariah-compliant finance. The first bank to operate under shariah principles was issued a license in 2010, and in the same year, Meridio, an asset management company headquartered in Cologne, the first actively managed Islamic fund.

Conclusion

It seems that takaful, which knows outstanding growth in more mature markets such as the GCC and South East Asia, has the opportunity to grow in Europe, should the right conditions such as regulation, distribution, cross-border selling and marketing be put together. We have seen that locally, especially in France and Luxembourg, governments have embraced the idea of developing takaful in their respective countries. And the target market should not necessarily faith-based, takaful has the attributes to appeal to a larger customer base including non-Muslims. Product innovation, with a customer centric approach, consumer education, easy access to fair and ethical investment vehicles, as well as corporate governance, are key factors that can contribute to takaful gaining critical mass in Europe, the experience and skills gained by European major insurers, reinsures and banks will play a major role in facilitating the inclusion of takaful in the western market.

The various regulatory reforms that were conducted across Europe to integrate shariah-compliant finance, coupled with mandatory insurance and European passport instituted in 2002 that allows insurance providers registered in a member of the EU to provide their services to the whole European market, will speed up the expansion of takaful products further.

If the several attributes of mutual and cooperative insurance that takaful has will facilitate its inclusion within the European insurance market in general, some markets such as France can also benefit from the few differences that should help accessing another customer community within the country, and also in Francophone Africa where French banks and insurance companies have a footprint like Morocco, Tunisia, West Africa etc. ■



Stable monetary policy is the only means to a stable economy

Ben Southwood is Head of Macro Policy at the Adam Smith Institute

Markets are extremely robust. Surprisingly robust. Astonishingly robust. Catastrophic real shocks like the 9/11 terrorist attacks or the 2011 Japanese earthquake-tsunami-nuclear meltdown barely budge unemployment or output numbers. Giant stock market crashes like 1987's have little impact and don't start the ruinous business cycles we see in the real world - even with all the regulations, taxes and other interference that impede markets in their progress. Markets are great at finding prices and allocating resources in ways that make the individuals in society better off.

But the success of market outcomes depends on prices, and while real prices - prices in terms of one good relative to another - are determined purely by the supply of and demand for those goods, nominal prices also depend on the supply of and demand for money. Critically, they depend on both the supply of and the demand for money. This wouldn't matter if market actors always worried only about real prices, but we know in fact that many of those interacting in some crucial markets consider nominal, not real prices (at least for non-trivial periods of time). Looking at nominal prices is what we call 'money illusion' - missing the forest for the trees.

This is particularly prevalent - and particularly significant - in the labour market. It is very difficult to reduce workers' pay

packets in money terms, even if it isn't difficult to keep them flat when inflation is roaring ahead and their real purchasing power is falling. There are many interesting attempts at explaining exactly why this is - one fairly convincing account, borne out by surveys of employers, is that cutting money/nominal wages damages trust and reciprocity much more than cutting jobs. This is important because for many workers their biggest contribution is often not their direct output, but their contribution to organisational capital - internal trust, stable networks and low transaction costs.

Others hypothesise that workers are unaware that the value of their human capital has fallen, so they refuse lower offers. Other economists assume everyone does know the crucial facts, but that contracts are fixed in advance, and for different time periods - since other shocks occur while firms and workers are waiting to readjust, it takes a long time for all prices to return to market price. Whichever way they come about (and in all likelihood many of them are significant), nominal wages that take considerable time to adjust (downwards) provide a huge role for money.

The value of a pound is how much it can buy, ie. the inverse of the price level. If prices all double, a pound is worth half as much. But another way of stating the value of a pound is in terms of the demand for it and supply of it. If the money supply doubles, the public is now holding too much money relative to their demand for it. So they reduce their cash balances - getting rid of money like hot potatoes - until the price level rises so they have the value of money they demand. Conversely, if the demand for money jumps (perhaps because the public is uncertain about their own financial future and the future of the economy as a whole), prices will fall until their existing stock of nominal holdings represents a large enough stock of real cash. So two potential causes of destabilisation are immediately obvious: shocks to the money supply, and shocks to money demand. A stable regime, then, cannot just look at the money supply. To neutralise the impact of jumps or crashes in money demand (also known as 'velocity', how fast money is circulating) we'd want to stabilise the net result of both supply and demand.

Economist Scott Sumner, recently termed 'the blogger who saved the US economy', has a useful analogy for how prices clear labour markets - a game of musical chairs. The right number of chairs represents a market-clearing wage; when the music stops everyone can sit down (and get a job). If the demand for workers at this nominal price falls, but their nominal wages haven't dropped to bring demand and supply back into line, there are too few chairs and when the music stops, some end up sitting on the floor (unemployed). What's crucial to remember is that while this tendency is exacerbated by government intervention in labour markets such as minimum wages, policies that enhance union power, and mandated non-wage benefits, even basic worker and firm psychology alone can generate it.

Thus we need to have a stable monetary policy - avoiding fuelling an unsustainable overheating economy in the good times and avoiding catastrophic collapses in the money supply as well. How is this achieved? One way it clearly isn't achieved is by freezing the monetary base (currency and reserves at the central bank). Freezing the monetary base is a central plan - free banks historically have not run monetary regimes anything like a frozen base - but it's a terrible one that allows money moves to play havoc with the economy. Neither is it achieved by attempting to fix the money supply, nor by having it grow by a set amount each year (as Milton Friedman famously suggested). This would be an improvement on freezing the base, but any swings in money demand would hit the price level, the price mechanism and cause markets to seize up.

What we want to do is freeze (or set up a fixed, stable growth rate in) the product of money supply and demand. This is not quite the same as the price level - the price level also responds to changes in productivity and aggregate supply. Using more efficient techniques to produce something, or more advanced technology, will cut the price level, but it will be balanced by a symmetrical move in money demand (households will not demand to hold as much cash because they don't need as much to buy what they want). Targeting the price level would be a form of monetary destabilisation, as it would react to this sort of price move in the same way as one created by a genuine shock to money supply or money demand. Since productivity improvements are unpredictable, this would create a herky-jerky, unpredictable path for the economy, exactly the sort of environment that is not conducive to economic success. A 'flexible' price

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level target, that ignores these supply moves, and responds only to money movements works in theory, and is arguably responsible for the 'great moderation' between 1992 and 2008 in many Western countries. But it has the severe flaw of expecting a small clique of economists on a rate-setting committee to guess what impact supply has had on prices - an impossibly difficult task.

But it turns out that there is a policy regime that does just what we want.

Inflation Targeting	NGDP Level Targeting
Considers (and aims to stabilise) only a fraction of the economy by looking at just consumer prices	Considers the whole economy
Bygones are bygones - one shock means an entire future of adjustment (rate targeting)	Targets a path, so credibly promises to make up below-target outcomes; shocks do not effect future past single period (level/path targeting)
Panel of nine wise men must guess when inflation movements are due to supply and should be ignored	NGDP incorporates supply shocks automatically and responds as imagined ideal inflation targeting system would
Policy responds and adjusts to data in the past	Policy is adjusted so that the target is the most likely outcome
Bank uses only its internal forecasts	Bank/computer considers market forecast, aggregating multitude of market actors' information

Since the crisis, a wide range of economists, transcending usual ideological camps, have begun to consider nominal GDP targeting - aka nominal income or aggregate demand targeting - a superior macroeconomic regime to inflation targeting. It has numerous advantages over the existing framework present in most developed economies, and all of the popular objections to it are wrongheaded.

Inflation targeting targets consumer prices, a measure of demand and supply in a large fraction of the economy, but a fraction nonetheless. With inflation targeting, sectors not included in the consumer prices index measure of inflation (eg. owner-occupied housing) could be overheating so much that, overall, monetary policy was too loose, but the central bank will ignore it. Some economists argue that this was a serious factor in the housing boom that led up to the last crisis. NGDP targeting automatically includes all sectors in the economy, in proportion to their size, and would not let unmeasured booms in some sectors destabilise the overall system.

Inflation targeting aims for a given rate of increase in prices in a period, regardless of what happened in previous periods. This means an unexpected shock shifts the whole future path of prices. Firms make long term plans predicated on a particular path that prices are expected to follow - and thus an unexpected shock forces them to re-plan their investment decisions and may cause a costly readjustment in the structure of the economy. Many economists agree that one reason the recent crisis has been so costly is that central banks have decided on a permanently lower path for demand (NGDP) and firms have had to adjust to this. But this also means that firms are uncertain about the path of future demand, since they will expect that some unexpected shocks will hit sometimes. Thus they may invest less overall, and their investment may be less efficient. NGDP targeting aims to keep the path of demand growing in a stable, predictable way, and thus will make up for any shortfall or surplus in one period by balancing it out in the next.

Inflation targeting, currently, is flexible. All economists agree that a central bank should not change its policy if it misses its target due to a shift in supply. So central banks attempt to allow above-target inflation when the supply situation worsens, and allow below-target inflation when the supply situation improves. But it is near impossible to accurately guess this out, and no central bank measure can tell them with any precision. Many economists argue that there was a huge positive supply shock in the early 2000s as more and more workers from developing economies, particularly India and China, came onto the world market, making production of many goods much much cheaper. Central banks continued to target inflation at the same rate, despite this, effectively making the economy hotter than its target would imply. Nominal GDP targeting does not have this problem, since it is effectively a composite of real output and inflation. If inflation rises due to an unexpected deterioration in supply conditions (like OPEC raising its prices in the 1970s), then real output will tend to fall symmetrically, so a NGDP target will advise no change in policy. Similarly, if inflation falls due to unexpectedly improving supply (like adding China to the world market), real output will rise symmetrically, and an NGDP target will not call for any policy action.

Inflation targeting takes official data, as it comes out, as judging its success or failure. If, absent supply shocks, inflation comes in at 2% for the year to December, the Bank of England will have succeeded, according to its remit. If inflation is higher, it tightens policy for the future; if it is lower, it loosens policy. But this means that, often, central banks have a policy stance that is expected to miss its target - it sometimes even expects it will do so itself. Paraphrasing Scott Sumner, this is like setting your course for Liverpool even though you want to go to Southampton. NGDP targeting also promises to overcome this problem. Instead of judging policy by outturns, it judges policy by what it is expected to achieve.

Inflation targeting, when it judges the impact of policy, takes its cues from the central bank's internal experts. These are often highly intelligent and knowledgeable people, and their input should, of course, be taken into account. But they are only a small fraction of forecasters, and they don't have any

'skin in the game' - they do not lose out or gain in obvious ways depending on the accuracy of their forecasts. NGDP targeting promises a better alternative - target the market view. There are two ways of looking at this: either targeting the market forecast is better because you incorporate more information, and better information because people stand to lose or gain money based on the accuracy of their estimates; or market forecasting is better because what really matters are people's expectations - they invest and plan based on what they think will happen, correct or incorrect. Both ways lend themselves to the proposal, part of NGDP targeting, to create an NGDP-linked bond and target the spread between this bond and regular treasury bonds so that the implicit forecast is always the central bank's policy target.

Wouldn't NGDP-targeting lead to higher inflation?

In the short term NGDP targets at certain levels would likely lead to higher inflation. But this isn't a problem, firstly because what really matters is not inflation but demand (ie. NGDP) - it is high and fluctuating NGDP, such as of the 1970s, which leads to problems (including shoe leather costs, menu costs, and damage to the price mechanism), not inflation. Markets are robust to price changes. This is secondly because right now arguably one of the factors keeping the recession going is the lack of downward price adjustment needed to clear markets, particularly the labour market. If cash wages won't fall to keep unemployment down, then another way of helping relative prices adjust is bringing all the other (nominal) prices up - through inflation.

But in general NGDP-targeting does not promise higher inflation than inflation targeting, and when it does, like above, this is a feature of the system, not a bug. Consider a 4.5% NGDP target for the growth path of the NGDP level. Historically, this might be made up by about 2% real GDP growth, 0.5% population growth and 2% inflation. If real GDP growth dipped, due to a negative supply or demand shock, then we'd want extra inflation either due to the changed structure of production being less efficient (supply shock) or to help wages adjust (demand shock). Indeed, an idealised flexible inflation target, as supposedly in place in most advanced countries, would allow inflation to jump in these cases too, NGDP-targeting only does this more accurately, predictably and consistently.

Wouldn't NGDP-targeting allow inflation expectations to become unanchored?

This is essentially a more sophisticated version of the first complaint, and hence broadly susceptible to the same responses. We don't - or shouldn't - so much care about inflation becoming unanchored as about NGDP growth expectations becoming unanchored. Inflation may fluctuate within the overall NGDP number without causing much damage, but big changes to NGDP expectations will clobber investors and firms and cut investment, growth and so on.

Isn't NGDP-targeting basically the same as what we're doing now?

This objection is often made, but after the above I hope it's obvious that it doesn't obtain. Still, it's worth noting that the Federal Reserve in the USA and the Bank of England in the UK have indeed taken some tiny baby steps toward a more rational policy - forward guidance - with the Fed adopting a 'Bernanke-Evans Rule' which says assets won't be sold off, and interest rates will stay low, until goals on unemployment have been met, and the Bank simply saying rates will stay low for a while. These are helpful, and since one of the key problems now is that NGDP growth is too low, they are in the right direction. But they are hardly the rules we desire. They are fairly arbitrary, have been left open to some interpretation (and are hence not particularly credible to markets), and though the Fed only controls demand, they focus on markets which have other significant inputs. Under quite similar circumstances the Bernanke-Evans rule would be inappropriate, whereas NGDP-targeting is a good policy for a wide range of developed economy situations. In general, as we've seen, flexible inflation targeting is - at best - an over-optimistic and flawed version of NGDP-targeting.

"Inflation targeting is like setting your ship's course for Liverpool when you want to get to Southampton"

If ultra-easy policy isn't doing anything now, then why would NGDP-targeting?

First off, there's a legitimate question over how we measure the stance of policy. One way is to compare with pre-recession or typical policy - and since then rates have certainly gone down, while central banks have bought trillions of dollars of assets in quantitative easing programmes - suggesting policy is indeed ultra-easy. But at the same time inflation and NGDP growth is pretty low, and money supply growth is only reasonable, at least in the UK. Things are even less suggestive of policy easiness in the eurozone and the USA. Ben Bernanke and many other major monetary economists have said the correct way to measure policy easiness or tightness is relative to their target variable. On that measure, UK policy is slightly easy, but as we have said, the CPI target is a highly flawed policy target, and tracked against NGDP/demand, a better variable to go for, UK policy has been, until very recently, tight.

Secondly, it's not clear that ultra-easy policy isn't doing anything now. It's highly likely that the UK's economic situation would be vastly worse if it had not been cushioned by a flow of money from the Bank. This is what most economists believe. Perhaps it did not do enough (the 4.5% growth path for NGDP-targeting may suggest this), perhaps the Bank did its easing in the wrong way, or perhaps the external shocks were so large that despite cushioning policy, we should nevertheless expect bad economic times for a while. Either way, it seems likely, for basic reasons from the aggregate demand-aggregate supply model that quantitative easing and low base rates have made the recession less harsh and the recovery less bumpy and lacklustre.

Would NGDP-targeting inhibit reallocation following bubbles by preventing relative prices from adjusting?

Short answer: no. Relative prices adjust pretty well in markets unless they come up against sticking points. One of those

sticking points is downward nominal rigidity - sticky prices, particularly sticky wages. Sticky wages and prices mean that some markets won't clear downwards instantly - indeed they may need to undergo an extremely costly adjustment period. Clearly, labour (and other) market liberalisation can do a good deal to make this easier, but even in countries like the UK, with one of the freest labour markets in the world, demand shocks have difficult ripple-through effects on markets, and unemployment is heightened even now, years after the original crash and recession. Boosting the total price level should have no effect on relative prices if done in a predictable fashion, but by raising the level it actually gives prices more space to adjust back towards equilibrium.

In fact it is quite possible, as David Beckworth argues, that the absence of a system like nominal GDP targeting helped blow up the bubble in the first place. While central bankers have been keen to blame above-target inflation on negative supply shocks, they have been loath to do so in response to positive supply shocks. And the Chinese and Indian entrances into the world economy, which began in earnest in the 1990s and 2000s, together constitute a massive positive aggregate supply shock. This meant, according to Beckworth, that central bankers pumped extra liquidity into the economy, potentially distorting price signals and helping to inflate bubbles. By contrast, NGDP targeting automatically allows benign deflation whilst remaining vigilant against the malign, demand-side deflation that was so damaging in, eg., the Great Depression.

Isn't monetary policy ineffective at the lower bound?

The economic consensus, broadly, from 1992 to 2007 was that the central bank could essentially stabilise the economy by shifting their key policy interest rates. This was, unless, the nominal interest rate they'd need to pick to stabilise demand was below zero; at this point nominal rates cannot go lower because households can always choose to hold cash. Thus, monetary policy (interpreted to mean interest rate cuts) is ineffective to boost demand. This is true so far as it goes, but it completely ignores that central banks have other tools. The central bank can buy assets, as many have in their so-called quantitative easing programmes, which will boost inflation expectations due to the increased money supply, and hence lower real interest rates further. Some have worried about the central bank running out of things to buy, but this seems like a bizarre worry when world wealth is measured at around $135 trillion, while most big countries' bond purchases number under $1 trillion despite the biggest crisis in recent times. It also ignores the fact that central banks would likely need to do very little under NGDP-targeting - so long as they are credibly committed to achieving their targets, markets will do most of the heavy lifting for them.

Why will markets trust the Bank?

This may turn out to be a genuine problem, depending on the specifics. It is absolutely clear that a computer-based system - that bought and sold NGDP-linked bonds to achieve the target spread - would not fall afoul of any credibility issues, especially if it is deliberately made to be extremely difficult to deactivate. If it were widely understood that NGDP is what matters, so to speak, then intermediate systems, relying to some extent on an independent committee, would be close to as good, because they'd be incentivised to keep to the expectations target by the pressure of the relevant publics. But it's possible that ignorant (or disagreeing) powerful figures or publics could create an incentive for committee members to defy the expectations target for some other concern seen as important. This is simply a flaw of the intermediate system and it's unclear, short of farfetched or dystopian schemes how we could guarantee committee members were credible NGDP targeters. ■

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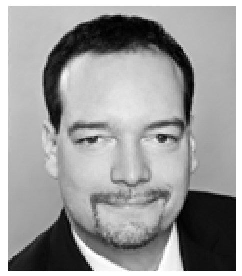

The return on investment in international succession planning

Dr Marcus A Hosser, TEP, is the founder of the German law firm DR HOSSSER Rechtsanwalt

Taking a huge effort in one`s international succession and estate tax planning is a profitable investment. That thesis especially applies to decision-makers and at the same time prospective testators, who have international points of contact. Those are by far more widespread than one would assume: Working as an expat in a foreign country, intermarriages, assets in foreign countries eg. holiday homes or even shares in a business enterprise abroad, are only a few examples to be mentioned here.

Nevertheless, a well-timed international succession planning is neglected in most cases. Even most of the rich persons who do not have a family officer who takes care of such issues, are not aware of the need to act in time.

The possible legal and economic consequences of a lacking international succession planning are severe. The advantages of such a planning for the testator's successors are significant. In such constellations the return on investment (ROI) of the succession's planning will indeed just be generated after the testator's passing away. However, this ROI often turns out to be much higher than the comparable rates of return for other common investments.

Starting point for our argumentation in favour of the ROI is to assume that prospective testators are thinking in categories of 'family fortune' and 'leaving a part of their lifetime's work to their descendants'. We will illustrate briefly that in spite of the expenses for the counselling, the bequest will be higher at the end of the day than it would be without a professional succession planning.

Most important reasons for this are international succession planning pitfalls. Illustrating them and some of their consequences seem to be the best way to illustrate the ROI. Of course, there are other reasons for the high ROI existing, like the tax mitigating effects of estate planning.

A significant number of persons live and work in foreign countries and enjoy their lives as expats. Nevertheless, the foreign country's legal system remains by far more unknown to (most of) them than the one of their home country. The assumption that the foreign law treats a potential case of succession, eg. a fatal accident, quite similar as the inheritance law of one's home country, can turn out to be wrong and expensive.

Breaches of the respective countries' form requirements can even lead to the result, that a Last Will and Testament is null and void. Not to make up a Last Will and Testament, is neither a viable solution. There will be many cases in which the perspectives of the various inheritance laws in question differ from each other significantly. The different nation's statutory rules about the testator's succession might lead to results of a quite diverse kind: the statutory participation of the surviving spouse in the estate with a quota of three quarters in one country, compared with one of one fourth in the other country is one example.

Even cases of conflict appear, in which one of the potential heirs tries to be the first one to sue the other ones in a certain country, because the legal results under that jurisdiction would be better for him (so called forum shopping). The bare knowledge of your home country's form requirements for Last Wills and Testaments and executing your Last Will in accordance with it, does not necessarily protect you from such effects. Although, there are conventions existing which shall assure the acceptance of such Last Wills and Testament's form in the other state, one should not rely too much on such rule's existence and/or the application of the rules by a judge from abroad.

A number of jurisdictions do not accept holographic (entirely handwritten and signed by the testator) Last Wills and Testaments. Those are common under German inheritance law. Others require the presence of two or three witnesses, which is completely unusual from a German inheritance law perspective. A good advice concerning form requirements is to always meet all specific form requirements, if possible.

A last example for a succession's structuring which causes problems and the need for counselling, whenever contacts to Germany exist, is the (common) law trust. Trusts are unknown in the German (inheritance) law system. The same applies for a number of other European countries' jurisdictions. Especially the split-ownership (legal owner, equitable owner) does not go together at all with the German law of property (*law in rem*) and with German inheritance law's instruments. This makes it at first necessary to translate the respective trust's meaning into the categories of German (inheritance) law. Secondly, trusts are subject to a special kind of 'punitive' taxation under the German inheritance tax and gift tax act.

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"The possible legal and economic consequences of a lacking international succession planning are severe"

Last but not least, the risk of double taxation is imminent in international succession cases. If both of the countries levy estate or inheritance taxes (like Germany does) the estate might be reduced significantly by the tax payments to both states. Only a few double taxation conventions in the field of estate or inheritance taxes exist and make milder the tax burdens which the estates or the successors have to carry.

Even more serious constellations are German-Canadian-Successions, for example, in which one state – Canada – does not levy estate taxes, but significant capital gains taxes when the testator passes away. Germany will nevertheless ask the heirs or the estate for inheritance tax payments. German inheritance tax law does not allow any crediting of the capital gains taxes paid. As an example, Germany has up to date only concluded six double taxation conventions in the field of estate tax or inheritance taxes with the United States of America, Switzerland, France, Sweden, Greece, Denmark. The risks of double taxation and the scope of the mere national tax provisions which shall help to avoid it should be checked, especially for larger international estates.

Trying to solve problems – if possible at all - of the above kind after the testator's passing away causes significant efforts and a lot more than a structuring in advance would have caused. The testator's descendants will need to assign at least one experienced advisor who helps them to administer the estate and to deal with the (tax) authorities involved. In international cases which have not been professionally planned, the attorneys' fees will reach significant amounts, given that counsels with international experience charge their services per hour, generally with higher rates than the ones of other counsels, who would not be able to adequately assist the heirs. Last but not least, most of the heirs will wish that the whole proceedings will be over soon, against the background that an unplanned international estate's administration can last many years.

Having said the above, there will be no doubt left that an international succession planning has a lot of advantages for the heirs and for the estate itself. But does it really also have a high ROI? After having paid the invoices for a lifetime counselling regarding the succession and tax planning, the testator's account balance will be lower than without it.

Nevertheless, the fees for an in advance international estate planning are – in all regularity – by far lower than the ones for a subsequent counselling, after the testator's passing away: it is always easier and cheaper to avoid legal mistakes than to correct them afterwards - if possible at all. Even if one takes the necessary costs of administration into account, which are to be paid even in professionally planned succession-cases, the planning's ROI will be high: the costs without a proper planning might be more than twice or even four times (or more) as much as such in case of a timely international succession planning. If we also take the tax mitigating effects of a proper estate planning into account, eg. structuring in order to minimize the taxes and/or avoid the double taxation, the ROI on that investment might even be *excellent*, especially for larger estates.

The testator will benefit from this, at least in two respects: he can be sure that his last wishes will be followed and, last but not least, that his successors will be grateful to him and will surely recognize what a brilliant 'investor' he was. ■

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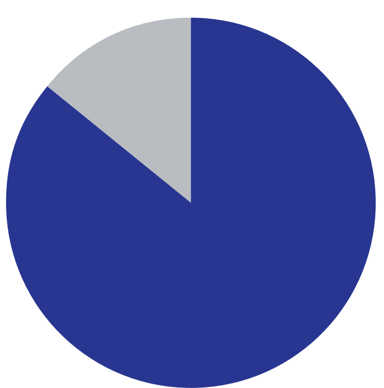

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What does the future hold for the Dutch royalty conduit companies?

Reorganising Dutch royalty conduit structures, due to several new rules and regulations that will enter into force in 2014, seems unavoidable, writes Jos Peters, the Senior Tax Partner at Merlyn International Tax Solutions Group

Introduction

On August 30, 2013 the Dutch government announced a number of measures to counter abuse and unintended use of Dutch royalty conduit companies. Curiously, this was done despite earlier announcements that the Netherlands would not take unilateral actions on this point and that any changes should be made within a multilateral context, to avoid that other countries would take lighter measures or no measures at all.

Probably the political pressure was too high: the fact that the Netherlands does not levy a royalty withholding tax allows tax payers to use Dutch legal entities to route royalty payments to tax havens. Everyone will by now have heard about the 'Double Irish/Bermuda' structures operated by big multinationals like Apple, Google, Yahoo!, Starbucks etc. In addition, the Netherlands government seems to be convinced that the OECD and the European Commission would put pressure on all countries which play a role in the royalty conduit business in the same manner, so 'staying ahead of the music' might be the best way to act under the circumstances.

A 'Double Irish/Bermuda' structure for instance only works because the royalty payments from the Irish company based in Ireland are routed to the other Irish company based in Bermuda via the Netherlands. The royalty payment Ireland – Netherlands is covered by the EU rules that prohibit Ireland to levy a royalty withholding tax. In the Netherlands a relatively small spread (1-2%) is taken out as the gross margin for the operations of the Dutch entity from which it pays all its operating expenses and realizes a small taxable profit. The onward payment of the other 98 – 99% of the royalty income of the entity in the Netherlands to Bermuda is not subject to any withholding since the Netherlands has no royalty w/h tax.

The Irish and Dutch governments have only limited possibilities to do something about this situation. The Dutch/Irish tax treaty does not contain a beneficial ownership article but in the OECD commentary to royalty articles the position is taken that such beneficial ownership is 'assumed'. In my view, if a Dutch company pays 98-99% of its income onwards under a contract to a third party, the Dutch entity is certainly not the beneficial owner of the royalties and the Irish tax authorities could in my view have done more to 'stop the bleeding'. But they haven't and the very size of the operations of Yahoo!, Apple, Google etc. in Ireland may have something to do with this.

What also plays a role here, is that the Dutch government has been heavily criticized one time earlier on the ease with which multinationals could use Holland as a stepping stone to hide royalty income in tax haven jurisdictions. This happened in 2001 as part of the 'Harmful Tax Competition' investigations by the European Commission. On that occasion the Netherlands vowed to Brussels to pay more attention to the legal end economical 'substance' of Dutch intermediate holding companies and interest and royalty conduit companies. In severe cases, if a Dutch entity would lack 'substance', this would be signalled to the foreign tax authority of the EU country where the dividends, interest payments or royalties arose, so the foreign revenue service could review the (non) withholding of tax and if needed assess the paying entity for the missing income, or get back to the Dutch conduit entity (via the usual tax treaty article dealing with mutual assistance in collecting taxes).

In practice, to my knowledge, such 'international signalling' has never taken place, however, even though the Netherlands officially put down the substance requirements in a transfer pricing Regulation on March 31, 2001. At that time the Dutch Act on the International Exchange of Tax Information was also adjusted, to allow for the signalling, by removing possible objection grounds to such signalling which were part of this Act from it.

A look into the near future

The August 30, 2013 announcement brings this international tax signalling back to life. Dutch conduit companies should have a certain legal and economical 'substance' and if they don't, the Dutch tax authorities will, without informing the Dutch company before doing so, send a detailed letter to the foreign tax authorities revealing the foreign and Dutch entities involved in the scheme, the amounts of royalty

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> **“Many tax practitioners tend to confuse beneficial ownership with substance”**

paid from year to year etc. It is then up to those foreign tax authorities to take action to recover potentially missed withholding taxes.

In the mentioned Dutch Regulation of 2001,‘substance’ has been defined by way of a list of requirements that should be satisfied in order for the conduit entity to qualify. There are rules in order to limit the number of non-Dutch resident directors of such entities, the books should be kept in the Netherlands, the accounts should be drawn up in the Netherlands and the (main) bank account(s) of the entities should be in the Netherlands. In the finance area there was also a requirement: the entity should have adequate capital as a buffer against business losses and financial headwind.

However, article 8c of the Dutch CIT Act, introduced in 2001, defined such adequate capital only for interest conduit companies (‘finance companies’). Such Dutch entities should keep a financial buffer of at minimum 1% of the outstanding loans (with an overall maximum of €2 million.). At that time, no ‘adequate capital’ requirements were made for royalties, likely because royalty payments can take many shapes and forms so neither the Dutch Ministry of Finance, nor the Dutch advance ruling team, attempted to quantify the capital requirement for royalty conduits.

Now the decision has been taken to widen the scope of the international signalling program from 2001, and to use the existing ‘substance’ rules as the source for additional anti-abuse legislation to be applied to royalty conduit entities, the question arises: ‘what will the adequate capital rule be for a Dutch royalty conduit entity as from 1-1-2014’? Signalling a flaw in a Dutch royalty conduit set-up based on unclear principles, with the potential foreign tax effects as outlined, to me, seems an unwise decision and could very well harm the Dutch reputation as a reliable country to establish a finance company or royalty company in.

This will then also have a negative effect on the attractiveness of the Netherlands to other companies that serve a number of group entities with little staff and other resources, such as intermediate holding companies. But according to the Dutch government, such holding companies are useful to avoid double taxation so the Netherlands officially promotes them!

A second draft rule that was announced will only add to this: if a tax payer that does not have any business substance in the Netherlands and just wants to operate a royalty or interest conduit entity, and takes the trouble to apply for an Advance Tax Ruling (ATR) to ensure it has sufficient risk capital, will also be subject to the signalling procedure: the ATR will be sent to the foreign tax authority in the country where the interest and/or royalty payments are intended to originate.

The trouble with all this is that ‘substance’ is not a defined tax treaty term. Tax treaties usually contain two other requirements for the Dutch royalty or interest conduit:

> a) The entity must be resident in the Netherlands (usually shown by way of a ‘declaration of residence’, an official declaration issued by the Dutch revenue service that the relevant entity is a Dutch corporate tax payer in the sense of the tax treaty between the Netherlands and the source country of the interest or the royalties); and:
>
> b) The entity must be the ‘beneficial owner’ of the income flow.

Obtaining a declaration of residence is easy: entities incorporated under Dutch civil law are Dutch resident under the Dutch corporate income tax act by definition. Consequently, they will get their declaration(s) of residence more or less automatically, on request, from the Dutch revenue service.

Beneficial ownership is quite something else and only has an indirect, undefined, tie with ‘substance’. On our website www.merlyn.eu, in the publications section, the reader may find my contribution to the *Euromoney Corporate Tax Handbook of 2013* that deals with this gap between substance and beneficial ownership. Many tax practitioners tend to overlook this gap and confuse beneficial ownership with substance, even governments!

A foreign tax authority that receives a notification from the Dutch revenue service about an ATR, which basically says that under the tax principles of the Netherlands the Dutch company has sufficient substance (including its capital buffer, which will be an essential part of the ATR negotiations), is still totally free to take the position that this statement is meaningless for the beneficial ownership test of the treaty and attack the structure, despite the ATR and the residency certificates submitted, on these grounds.

Beneficial ownership, although not legally defined in most countries, means something like ‘the recipient must receive the income for himself and not for someone else’. So a conduit company in the Netherlands that can show both a residency certificate and an ATR is not out of the woods at all if it pays its royalty or interest income almost in full onwards to a destination outside the Netherlands. So the signalling of an ATR may well trigger a beneficial ownership investigation under the exchange of information article of the relevant tax treaty.

Some other new Dutch tax features that will affect conduit entities

Another part of the August 30 announcement has been that the Netherlands will approach 23 developing countries with which it has a tax treaty to discuss the introduction of a LOB provision. Such provisions basically contain a number of additional restrictions to the application of a tax treaty:

> a) The Dutch conduit company should in majority be owned by residents of the Netherlands or other EU countries or, if they don’t, meet one or more of a list of not easy to meet other criteria (eg. acting as a regional

headquarters; or being publicly listed or being part of a multinational group that runs an actual trade or business both in Europe and in the treaty country with prescribed minimum ratios as regards turnover, etc).

b) The income should not be paid onwards for more than 50% to (legal) persons outside the Netherlands or other EU countries as tax-deductible items.

On top of this, both the European Commission and the OECD are developing plans to further restrict the use of Dutch conduit entities (usually called 'mailbox companies' even if they do meet the existing substance criteria mentioned above). These measures will be made public soon, because all institutions involved want to regulate the conduit business more strictly now, caused by the public outrage that some well-known large multinationals do not pay their fair share of taxes in any country.

The OECD attack will not only affect conduits in the Netherlands but also in several other jurisdictions, known for their conduit tax planning possibilities (in the EU: Luxembourg, Malta, Cyprus, but also outside the EU; countries like Mauritius, the Seychelles, Bermuda, Barbados etc.). The political atmosphere to take drastic measures in this area is more positive than ever before, because almost all countries have tax deficits to cover.

Conclusion

Continuing to operate a Dutch royalty conduit company without an advance tax ruling is dangerous. If the Dutch revenue service, upon a tax audit, determines that the entity lacks sufficient 'risk capital', it will inform the foreign tax authority of the country of source of the interest or royalty payments thereof. The foreign authority will most likely take this as a signal that the structure was also not in line with the rules in previous years and use its legal right to audit the royalty paying entity in its country 5 years retrospective.

To avoid this risk, it would seem that trying to obtain an ATR in the Netherlands, including a discussion on what an adequate capital buffer for the royalty conduit entity would be, is a solution. But in many cases these ATR's will be signalled to the relevant foreign tax authority as well and cause a discussion on beneficial ownership, because neither the declaration of residence, nor the ATR, really address this point. The fact that the Netherlands may soon have 25 tax treaties with an LOB provision (the 23 mentioned above plus the existing ones with the USA and Japan) will not make things easier either.

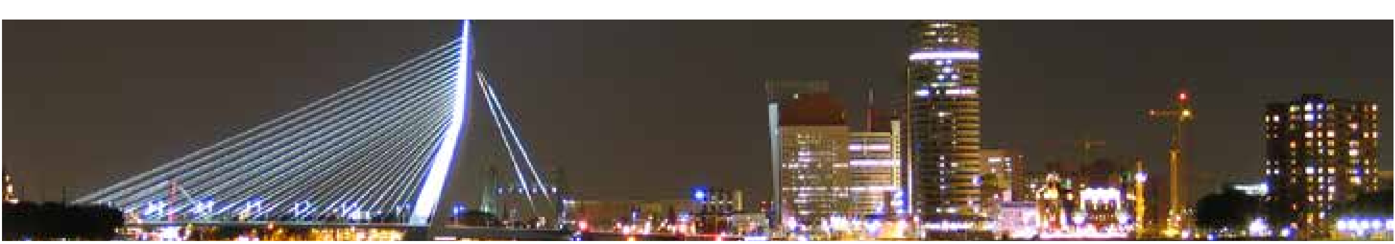
Obtaining an ATR is costly (€10,000 at least and probably more) because one will need a benchmark transfer pricing study to be performed to establish what capital buffer a third party would maintain. The amount resulting from the benchmark should then be kept available in the entity (eg, sitting in a deposit) and become 'dead money'.

"Multinational enterprises operating a Dutch royalty conduit entity should therefore keep a close eye on the developments in the royalty routing area and when the texts of all new laws, OECD guidelines, EU Directives and local country regulations are known"

As early as in 2010, our group has developed royalty conduit structures that meet the increased beneficial ownership challenge which I saw developing over the years. We have also solved the LOB problem with these slightly alternative Dutch structures. We have good hope, from all that has so far been said and published about yet another set of new rules for royalty conduits ('adequate capital') for the years 2014 and onwards, that our proprietary new structures are compliant with these new rules as well.

In the coming weeks or months, the OECD and the European Commission will launch their attack programs to the conduit business so it is now just too early to say whether or not we are right, but the writing on the wall is favourable. Multinational enterprises operating a Dutch royalty conduit entity should therefore keep a close eye on the developments in the royalty routing area and when the texts of all new laws, OECD guidelines, EU Directives and local country regulations are known, contact us to discuss the reorganization we have in mind for them to continue their Dutch royalty conduit business, without the adequate capital risk and without having to maintain a deposit where a substantial amount will be sitting idle.

Changes in the legal structure of the operations will have to be made, that much is certain. But the changes will be rather moderate from a business economical viewpoint. That's why some of our clients already decided in 2011 and 2012 to change over to our system. I therefore suggest you contact us at some point in time in the future, as soon as the entire new legal framework is known, to constructively discuss, free of charge, whether changing over to our system would be preferable over setting up an entirely new structure, eg. via another country than the Netherlands. Because the odds are that other countries that today may serve well as royalty conduit jurisdictions will be hit by the same attacks royalty conduits in the Netherlands are facing. ■



Safeguarding your company's reputation and your bottom line

Five ways to improve corporate diplomacy

Angered by Shell's arctic drilling plans, Greenpeace started a multi-stage online hoax in 2012 to raise public awareness. A YouTube video, website with an interactive ad generator, and Twitter feed went viral as millions around the world - and dozens of media outlets - spread the word. *Forbes* called it a *"social media nightmare."* Instead of invading oil rigs with boats filled with protesters, Greenpeace was able to send reputation-damaging blows without leaving dry land.

Most crises don't attract this much attention, and most aren't started by global NGOs with decades of experience and big budgets. But, according to Wharton Management Professor Witold Henisz, activists are increasingly able to access virtually everything companies or their suppliers do anywhere in the world. *"The financial and reputational damage a single individual or small group is capable of causing can be catastrophic,"* he says.

Henisz, an expert on corporate reputation management and author of a forthcoming book (April 2014) on the topic continues: *"Companies expanding into unfamiliar foreign markets to source natural resources or access growing middle classes can be particularly vulnerable, as these same countries also tend to have gaps in or weak enforcement of regulations governing human rights, environmental discharge and safety and health; local populations skeptical of foreign investors; and grassroots activists who are increasingly watching over the operations of multinational corporations."*

Henisz has been teaching executives from around the globe how to improve diplomatic skills as a consultant and in Wharton Executive Education programs. He recently became faculty director of the new four-day Corporate Diplomacy: Building Reputations and Relationships with External Stakeholders designed to help senior leaders develop a broad set of tools to manage these risks, before a crisis hits. *"Diplomacy must be an organization-wide concern,"* he says. *"You need to build a culture that involves everyone in the effort to assess stakeholder opinion and integrate that knowledge into financial and business planning as well as into every interaction between employees and external stakeholders."*

Five ways to improve corporate diplomacy

Here are five ways to improve corporate diplomacy based on Henisz's research and work with executives.

1. Don't focus solely on finance (defining investments and determining the risk-adjusted rate of return). This narrow view misses the strategic element of interacting with stakeholders.

2. Question conventional wisdom about which countries to avoid - some of your best opportunities may be in locations where others haven't succeeded.

3. Gain a deep understanding of your stakeholders to determine what is important to them, who is most important, who to reach out to, and what to say. Conduct interviews, check the local media, and read blogs to create a 360 degree view.

4. Develop a company-wide strategy for reaching out to external stakeholders that takes a more integrative perspective towards risk, and that recognizes that better management of stakeholder opinion is critical to its long-term success. The entire C-suite must be committed to it.

5. Recognize that stakeholder engagement is more than just a promise to do good. It's a commitment to do better. If people perceive you as being driven solely by financial returns and not genuine interest in how you can achieve mutually beneficial wins, they'll never accept you. ■

"Activists are increasingly able to access virtually everything companies or their suppliers do anywhere in the world. The financial and reputational damage a single individual or small group is capable of causing can be catastrophic"

Witold Henisz, PhD, Professor of Management at The Wharton School

The future is out there

Andrew Crisp reports on a major new study that explores the future challenges facing business schools

Turmoil is probably too strong a word but 'uncertain' may not be strong enough to describe the landscape that business schools are operating in today. Much has been written and many conference speeches given about the impact on business schools of the global financial crisis, growing international competition, the importance of sustainability and ethics, and more recently the likely impact of new technologies.

To put some data behind these predictions and get a view of what students and employers are thinking, CarringtonCrisp, with the support of EFMD, has recently run a new study called *See the Future*. With 5,375 respondents drawn from 137 countries, the data clears away some of the fog for those planning their business school's future.

Conducted online, the study sought to seek the views of prospective students, current students, alumni and employers. Questions were set out under five broad headings: the role of business; the value of a business education; sustainability, ethics and corporate social responsibility; internationalism; and the place of technology. Data was collected in May 2013.

The good news is that more than seven out of ten respondents believe business is a force for good in society. However, few expect business to continue as it is. The same number also expects business models to change to allow better engagement with society. Over 81% agree that business and business education needs to be about more than just maximising shareholder value. The starting point for the study was to understand better the attitudes to business as a whole.

Recent media coverage of business, whether it has been the performance of the banks, chief executives of car companies using executive jets when their businesses are failing, youth unemployment in the eurozone or even cities going bankrupt in the US, will undoubtedly influence perceptions especially among young people.

While an overwhelming majority of respondents agree that business leaders should behave ethically at all times, 8% of prospective undergraduates disagree and the number rose to 15% among current postgraduates from China and 13% of current Indian undergraduates.

Given the interest in changing business models and moving away from shareholder value, it is not surprising that more than 80% of respondents also agree that 'sustainability and ethics should be embedded in all business education programmes'.

Many schools have already introduced ethics and sustainability modules to their business programmes but the demand from both employers and students is that these subjects be a seamless part of the curriculum whether students are studying finance, marketing, HR or any other aspect of business.

Of course, before thinking about curriculum, schools need to consider what attracts students to them.

Rankings have long been known to have a significant influence, yet the only business school rankings that considered sustainability in a major way, Beyond Grey Pinstripes, was recently suspended.

137

The *See the Future* study had 5,375 respondents drawn from 137 countries

"The good news is that more than seven out of ten respondents believed business is a force for good in society. However, few expect business to continue as it is"

Despite the absence of sustainability in rankings, just under half of all respondents in the *See the Future* study agree that 'schools that don't teach sustainability, corporate social responsibility and ethics should be ranked lower than those that do'.

Without sustainability rankings, prospective students will seek other measures of a school's commitment to such issues.

Over 60% of respondents in the study agree 'business schools should run projects to give back to local, national or international organisations and communities'. Many examples already exist – from supporting reading schemes in local primary schools through to helping social enterprises in emerging economies.

The study data seems to suggest such projects may have a quantifiable impact on business school selection among potential candidates.

Many prospective students suggest that choice of school is often based on study outcomes, most often associated with their future careers. For many years money was a focus of those outcomes as students sought highly paid jobs in banking and consulting.

Money remains important, especially given the high fees associated with many business degree programmes. However, the study suggests that more students value a business education as a way to a more fulfilling job rather than a more highly paid one.

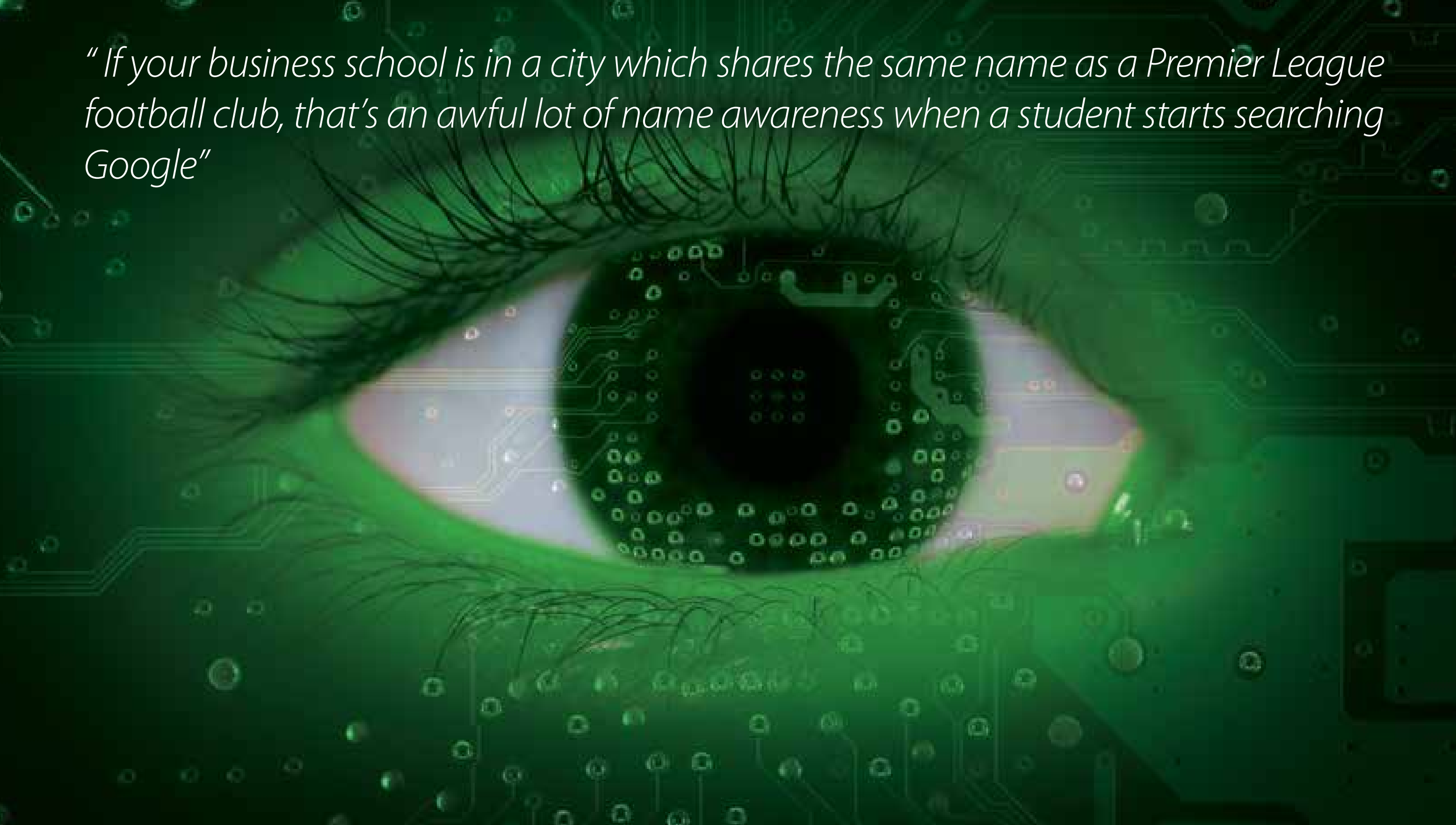
For many graduates, employment may also have an international dimension whether that means working overseas or simply dealing with international organisations and companies. Over the last 20 years internationalism has become an accepted part of a business school's offer, delivering little by way of differentiation from competitor schools. So what do students and employers really want when they talk about internationalism?

To start with, more than two-thirds of all current and prospective students would be interested in studying abroad for all or part of their degree. The US remains the most popular destination with the UK second but Singapore and China are on the rise, ranking fourth and sixth respectively with many respondents.

Selection of where to study internationally is primarily based on the reputation of a school and of a country but employment prospects on graduation also play a part. For more than 30% of those responding to the survey the attraction of an international study destination was based in part on 'the sporting and cultural profile of that country'.

Just think about the Premier League in the UK. In 2012/13 the television coverage of the League reached 212 territories with a total audience of 4.7 billion in 643 million homes and more than 185,000 hours of coverage.

If your business school is in a city which shares the same name as a Premier League football club, that's an awful lot of name awareness when a student starts searching Google.



Of course, few decide where to study based on a football team but when in conversation about global brands with young people in China and the first three spontaneous answers are Nokia, Manchester United and David Beckham, the power of sport becomes clearer.

Employers perhaps have a less emotional view of how internationalism should fit into a business school.

Almost all agree that a good business education should develop an understanding of business in different parts of the world. Interestingly, though, just over a third of all managers and directors also agree that 'graduates should learn another language as part of their degree'.

Increasingly that language learning might be delivered via technology, perhaps utilising native speakers at the end of a Skype connection rather than lecturers in the classroom. And it is technology, especially MOOCs (massive open online courses), which currently account for much of the discussion about the future in business schools.

80%

Over 80% of all managers/directors agree that 'I expect my organisation to use technology to deliver more workplace learning in the future'

The *See the Future* study found a degree of scepticism about MOOCs but at the same time a desire to embrace technology for learning.

The generation entering business schools today has grown up with digital technology. It is a core part of their lives. They expect it to be a part of education and understand it offers the opportunity not just to enhance the classroom experience but for lifestyle learning around their other commitments.

More than 50% of all prospective and current students agree that they 'would not study a business programme in a MOOC' though around 40% would study for some of their business degree online.

Around half of all managers/directors agree that 'I am uncertain of what a MOOC offers and how it can be part of a business degree' and that 'I would not recruit a graduate who had only studied online'.

Despite the embrace of technology among prospective and current students, around three-quarters agree that 'I don't believe an online degree offers the same opportunities for a student as traditional campus study'.

While MOOCs may offer a cheaper alternative plus the opportunity to study at a time and place convenient to the student and the potential to study under some of the best

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81%

Over 81% of respondents agreed that business and business education needs to be about more than just maximising shareholder value

teachers from around the world, there is still some way to go to convince students and employers that the opportunity offers the same benefits as traditional campus study.

Where technology and learning seem likely to have a greater impact in the short term is in informal settings as well as the workplace.

Over 70% of prospective students, current students and alumni want lifestyle learning, using technology to learn without disrupting work and family commitments.

Delivered via video and podcasts or through apps on a smartphone or tablet, technology offers the opportunity for 'anytime anywhere learning' with students getting taster sessions or the chance to bring skills up to date.

At the same time, more than 80% of all managers/directors agree that 'I expect my organisation to use technology to deliver more workplace learning in the future'.

Predicting the future is a difficult business.

Should a business school focus on money or fulfilment, China or Chicago, sustainability or shareholder value, on campus or online?

Whatever choices schools make, there is no escaping the 'unknown unknowns' as Donald Rumsfeld, former US Secretary of State for Defence, put it.

But customer insight does provide the opportunity for informed choices. ■

ABOUT THE AUTHOR

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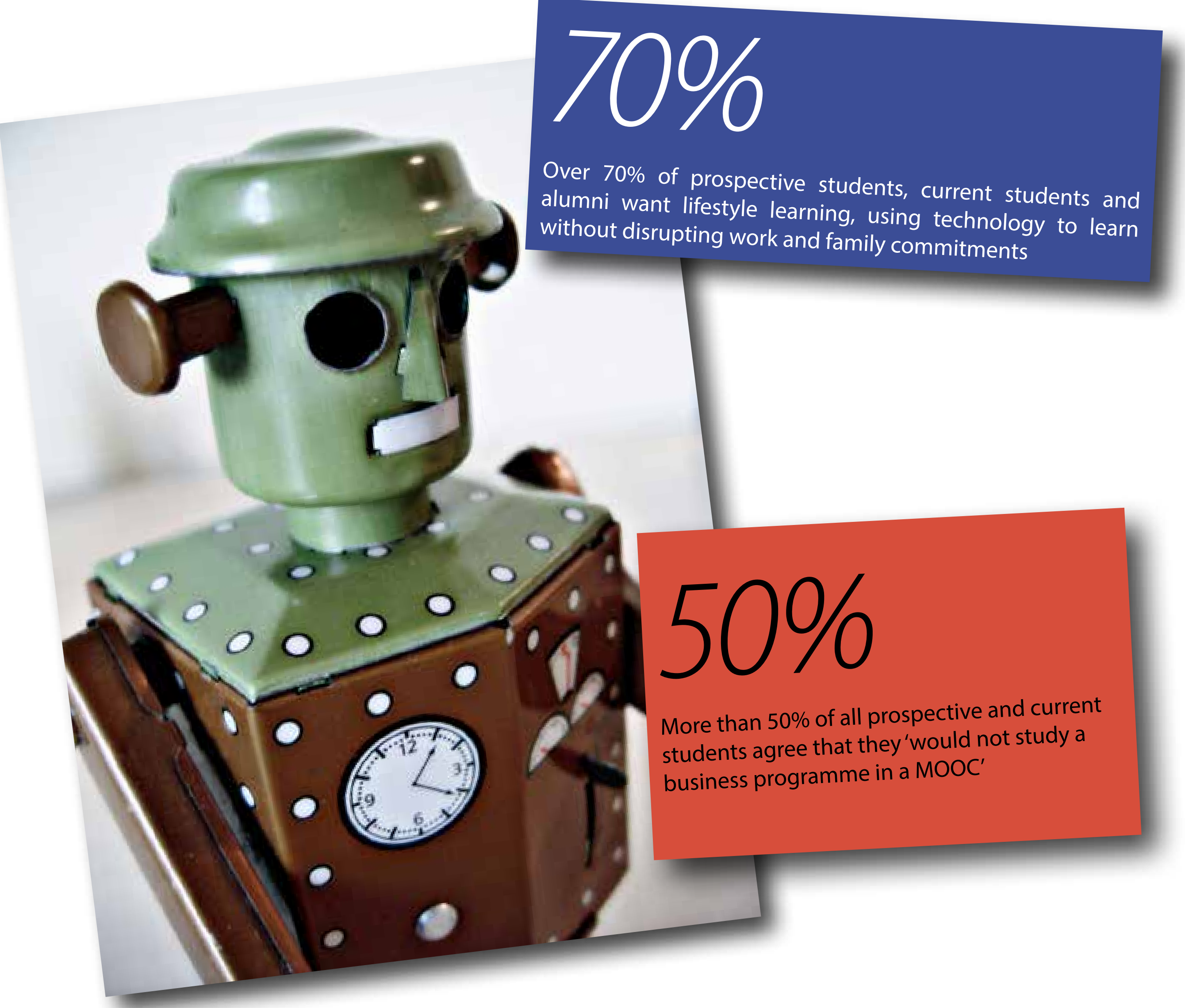

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New Mexico State University is home to a leading Master of Business Administration program as well as doctoral programs in business administration (marketing and management) and in economic development.

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- Expert faculty members, including three state winners of the Carnegie Foundation U.S. Professor of the Year award
- Our accreditation by AACSB International, which places us in the top 15 percent of business programs worldwide

A CUT ABOVE THE REST

A staple of the educational hub in the UAE, Paris-Sorbonne University Abu Dhabi remains true to form, keeping each and every standard of academic excellence and tradition.

Part of the Abu Dhabi Economic Vision 2030 is to make Abu Dhabi an educational hub in the region, and there are many great local and international universities that have appeared since this Vision has taken effect. However, Paris-Sorbonne University Abu Dhabi takes it one step further. Unlike most, the Abu Dhabi campus of Sorbonne University is not simply a branch campus; it is an identical education to that offered in Paris. The courses are the same, the professors are the same and, moreover, the diploma is the same, issued by the Sorbonne in Paris.

Paris-Sorbonne University Abu Dhabi has gone to great lengths to ensure that the academic experience is exactly the same as it is in Paris. All of the courses are predetermined by each programme as they are in Paris. The extraordinary part is that professors are brought directly from Paris on academic missions in order to cover precisely the same material in both locations. The university also maintains very selective admissions process to uphold the same rigorous academic experience and keep class sizes small.

In terms of location, Abu Dhabi is rapidly establishing itself on the global map. The capital city of the emirates provides safety and modernity to its inhabitants. Furthermore, the city as well as the country is emerging, a feat not to be overlooked in a global economy, which has seen a downturn in recent years. Abu Dhabi is thriving and determined to cultivate the world's talents and knowledge, providing the perfect environment for education. Its quick adaptability allows the city to pick up on global trends and progress and educate the future leaders in new and influential sectors.

A bridge between civilisations, the motto of Paris-Sorbonne University Abu Dhabi takes advantage not only of bridging the civilisations of France and the Middle East but also their strong tradition of academic excellence with the forward-thinking approach of Abu Dhabi.

Sorbonne was one of the first universities in the world, and it was one of the reasons behind the partnership between Paris-Sorbonne University and the Abu Dhabi government when they decided to open a campus in the UAE capital in 2006.

Paris-Sorbonne University Abu Dhabi combines the legacy and experience of two significant and legendary French universities – Paris-Sorbonne University, dedicated to arts

and humanities, and Paris-Descartes University, specialized in Law, Political Science and Economics. This year Sorbonne Abu Dhabi announced that Pierre and Marie Curie University will be joining the team to offer an undergraduate program in Physics.

This new addition of the field of sciences at Sorbonne Abu Dhabi opens a window to the goals of the university, to respond to the job market needs and create innovation across all fields. Sorbonne Abu Dhabi is not exclusive to the theories of the humanities, but also the concrete sciences taught by leaders in their field. This additional direction in the future may open up the university to chemistry, engineering and other similar practical domains. These disciplines require extensive research and development, which the Sorbonne Abu Dhabi has not overlooked.

Establishing a research centre is one of the objectives assigned to the university by President Jobert, President of Paris-Sorbonne University and President of the Management council of Paris-Sorbonne University Abu Dhabi. A university anywhere in the world is fully complete once it integrates education, training and research. Sorbonne Abu Dhabi is creating a research centre answering to the local authorities request; hence this new momentum enters the university on a mature stage. Paris-Sorbonne Abu Dhabi represents shared strategic relationships between France and the UAE, who are cooperating in a variety of fields, from defence to culture, through energy and education. The university has a vast role to fill, driven by devotion to the Abu Dhabi's vision of creating a cultural hub and is an agent to realise this vision in 2030. The first stage of the implementation of the research centre should begin in 2014.

The curriculum reflects the environment and includes masters programmes that respond directly to the job market needs such as Masters in Banking and Finance, Museum Studies, Performing Arts Management, Marketing, Publishing and International Business as well as Sustainable Development and International Business Law, Urban and Regional Planning and Teaching French for Arab Speakers.

Abu Dhabi offers a great opportunity for Paris-Sorbonne University because the emirate promotes values of tolerance and knowledge in a strategic location between Europe and Asia at the heart of the Middle East.

Not only does the Sorbonne Abu Dhabi present itself as a bridge between the Emirati and French civilizations and those of the two capital cities, but as a university which represents over 65 nationalities from all over the world, the bridge extends globally. One might also say that because of its tradition of over 750 years as a university and its forward-thinking approach, this metaphorical bridge links a rich history with an innovative future. ■

AMBA Annual MBA Awards

CELEBRATING EXCELLENCE

The global business world, still shaken by the financial crisis, needs inspirational leaders more than ever. The financial crisis drew attention to various facets of business which had previously been disregarded, such as sustainability and ethical leadership. Following the financial fallout, business schools have started recognising the critical role they play in raising future leaders.

An MBA, the most respected business leader qualification in the world, has been producing some of the world's most influential business and society leaders since 1908, when the first MBA programme was founded. Contemporary MBA curriculums, more often than not, incorporate concepts such as sustainability, corporate governance and ethics. Business schools are creating a sense of responsibility in students to make a successful and sustainable future. Individuals and teams who are making a difference are getting more and more recognition.

AMBA (the Association of MBAs) awards play a big part in highlighting student engagement and inspirational leadership. The three AMBA annual MBA awards, sponsored by *The Independent - MBA Student of the Year Award*, *MBA Innovation Award* and *MBA Entrepreneurial Venture Award*, awarded at AMBA's Annual Awards and Gala Dinner in London on November, 7th 2013, celebrate the quality and achievements of MBA education.

Every year, 40,000 MBA students graduate from AMBA's 204 Accredited Business Schools, in 70 countries worldwide. AMBA, the only global MBA-specific Accrediting body and the international impartial authority on postgraduate business education accredits just 1% of the world's Executive MBA programmes, which indicates rigour and the highest standards of excellence.

Behind this year's AMBA awards, we uncover tree inspiring success stories from South Africa, Greece and the UK.

Making a difference

Ambitious, driven and determined to succeed, Olebogeng Glad Dibetso, an MBA graduate from Gordon Institute of Business Science from Pretoria and the winner of the *MBA Student of the Year Award*, followed his mother's advice to pursue education as the best escape from a life of poverty. Born in a family of seven children, Glad knew he had to study and excel so that he could be noticed and awarded a bursary. Following his Bachelor of Commerce degree at University of

AMBA's Chief Executive Andrew Main Wilson addressing the audience

Olebogeng Glad Dibetso, the winner of the MBA Student of the Year award, will be donating his £1,000 cash prize to BizSchool, a South-African charity

Higher education that meets higher expectations.

Getting your degree online shouldn't mean sacrificing a quality education. The University of Wisconsin-Whitewater's College of Business and Economics MBA is online, and it's accredited by AACSB International. When only 5 percent of business schools worldwide are accredited by AACSB, you know you're dealing with an outstanding institution. You can get a real, quality, accredited MBA degree, and you can get it anytime, anywhere right at your computer. Find out how at www.uww.edu/cobe/onlinemba.

"Business schools are creating a sense of responsibility in students to make a successful and sustainable future"

Cape Town, Glad became a successful young entrepreneur. However, with the economic downturn his businesses failed - impacting each other like a set of dominos - due to a combination of poor business principles and adverse market conditions.

"By November 2009 I was bankrupt and I turned to the MBA because I finally understood what my mother meant when she said that no one can take your education from you," Glad explained. *"From the very first day of my MBA I said to myself that I will not compete with anyone as that can be limiting. I promised myself that I was going learn as much as I could and immerse myself into the MBA not only academically, but also add value to my classmates and my community."* A few months into the MBA, Glad realised that he was encouraging and inspiring a lot of people. *"It was at that moment that I was no longer doing the MBA just for myself,"* he continues, *"I learned that when the purpose is bigger than self then miracles happen. I had more energy, I was highly motivated, and the more*

Simo Dragicevic, the winner of the MBA Entrepreneurship Venture Award

Professor George Ioannou, Director of the MBA International Program of the Athens University of Economics and Business, accepting the MBA Innovation Award from Chris Russell, AMBA's Chairman

I reached out to other students, the more I succeeded at both the MBA and my work."

He has recently been appointed as the MD of Dimension Data West Africa and through his work and his involvement in various global engagement initiatives Glad will continue to influence and inspire people from underprivileged backgrounds. *"If there is one message that I want to get across,"* Glad said, *"it is that it is possible to succeed against all the odds. However, quality education increases those odds significantly."*

As a sign of his continued commitment to improving business and financial skills in South Africa's youth, Glad decided to donate his cash prize of £1,000 award to BizSchool, a programme teaching South Africa's youth about the world of work and business. Glad plays an important role as a Board member and also works directly with children.

Recognising future needs

At a time when Greece is still struggling with its debt crisis, positive stories emanating from Greece are rare. However, Athens University of Economics & Business has reason to celebrate. Their specific MBA programme, which combines the best of both academic and practical knowledge, traditional MBA disciplines and e-skills, has earned Athens University of Economics & Business the *MBA Innovation Award*.

The University claims their International MBA programme is the first MBA programme in Europe to offer cutting edge curriculum and training on e-skills (eBusiness Marketing, Search Engine Optimization, Social Media, Web Analytics, Pay-per-Click, Mobile Marketing, and Conversion Optimization) as part of the traditional classroom-based MBA.

This innovative component of the programme, which was incorporated in the MBA curriculum in September 2012, follows the current trends in business education and is offered 100% on-line, enabling students to attend the courses at a pace that suits their schedule.

Accelerate your impact in the boardroom

Rotman Executive Programs offers a range of governance programs designed to help board directors effectively apply sound governance practices and improve the resilience and long-term profitability of their organizations.

Program	Location / Date
FINANCIAL LITERACY PROGRAM FOR DIRECTORS AND EXECUTIVES	TORONTO, ONTARIO MARCH 28–30, 2014
SMALL- AND MEDIUM-SIZED ENTERPRISE BOARD EFFECTIVENESS PROGRAM	TORONTO, ONTARIO APRIL 1–3, 2014
BOARD HUMAN RESOURCES COMMITTEE PROGRAM	TORONTO, ONTARIO NOVEMBER 18–20, 2014

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Moreover, it adds significant value to the MBA students as it offers them the opportunity to prepare themselves for more than 20 new highly-paid job roles, such as eCommerce manager, Social Media Manager, Conversion Manager, SEO expert etc., but also use online marketing skills to promote their businesses online.

Changing the way

Simo Dragicevic, a technology entrepreneur and a Cass Business School MBA graduate, won the *MBA Entrepreneurial Venture Award* for his Bet Buddy business venture, which provides gaming industry executives assistance in using business data to make better business decisions and drive growth in a responsible manner. A software platform offering predictive analytics, business intelligence, and player messaging products to operators in regulated gaming markets, Bet Buddy helps operators understand player behaviour from a marketing and risk perspective and help players make more informed choices about their play.

Simo, who enjoys photographing nature and mountaineering in his free time, even published his own peer-reviewed academic research in partnership with Cass academics, which proved to be critical in the early stages of his business.

Prior to his entrepreneurial endeavours, Simo was a Director at Barclays Bank. Having realised that his next promotion to Managing Director was just not within reach in the time frames he wanted, and at the same time feeling inspired by his friends who run their own businesses, he started his Bet Buddy project hoping it would give him an opportunity to do something different. *"For me the definition of success is about building a business that can grow and provide me with an interesting work that makes a difference,"* Simo explains.

Gaming is a $500bn market and data will become the key source of competitive advantage, so Bet Buddy is in a good place. Simo, who believes his Executive MBA course at Cass was an important springboard for nurturing some of the concepts behind Bet Buddy, feels they need to calibrate their strategy to capture this opportunity fully: *"When I started Bet Buddy over 2 years ago, my ideas and vision were often dismissed by people within the industry. I was told that I was addressing problems that were too difficult to solve or highlighting issues that were taboo or too sensitive for gambling operators to tackle head-on."* Looking back, he realises this was actually a positive sign: *"Good ideas are often dismissed when they are initially mooted, especially if this involves change in organisations. This is probably the biggest challenge Bet Buddy faces, in that we are trying to change the way the industry works and perceives its customers."*

Dealing with rejection on a regular basis is one of the things Simo faced when he embarked on his entrepreneurial journey. *"It's important not take these personally,"* he says, *"Most people are risk averse, and asking them to buy into new ideas and take risks is not easy. You need tenacity, a thick skin, and optimism for sure!"*

AMBA Seal of Approval

Andrew Main Wilson, AMBA's Chief Executive, who hosted the Annual Awards and Gala Dinner, was appreciative of the joint efforts accredited business schools and AMBA have been taking in recognising excellence and investing in innovation. *"While Glad's story shows that the best way to succeed is by using your talent for the benefit of others, Athens University of Economics & Business identified a clear gap in MBA curriculum related to e-marketing, e-business and e-skills courses – all business drivers for the next decade,"* he said. *"The success of Simo's venture, on the other hand, shows the power MBA programmes have in stimulating entrepreneurship, a major force for growth and development in the economy worldwide,"* Andrew Main Wilson concluded. ■

AMBA's Chief Executive Andrew Main Wilson and Bill Morrow from the judging panel with the winner of the MBA Entrepreneurial Venture Award Simo Dragicevic from Cass Business School (centre) and runners up: Mignon Hardie from University of Stellenbosch Business School, Nitzan Yudan and Samir Farrag from London Business School and Harald Trautsch, from WU Executive Academy

HE HELPED BUILD GLOBAL BRANDS. NOW HE'S BUILDING YOURS.

As the Dean of Woodbury University's School of Business, Dr. Andre van Niekerk is contributing unrivaled experience and vision to our mission of preparing BBA and MBA students for careers in the global economy. Having served as an executive coach to CEOs of various Fortune 500 companies, Dr. Andre van Niekerk is a highly sought-after international consultant and strategic marketer. He brings an extraordinarily diverse background to his position — including product development experience with some of the world's biggest luxury brands and leadership roles at renowned academic and healthcare institutions.

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Source: 2009-2013 EMBA Survey by Financial Times

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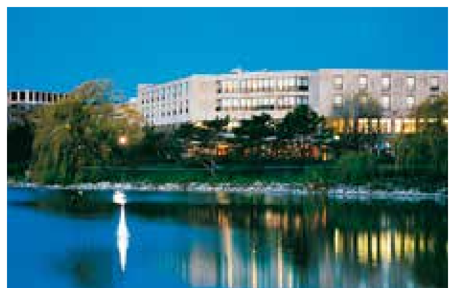
"The outstanding faculty and seasoned participants back up the Kellogg-HKUST EMBA program's reputation. The program's structure with two consecutive weekends a month allowed me to concentrate on my work in Helsinki while pursuing the degree in Hong Kong. I have done my research and find no other program has such diverse, senior and seasoned executives! If you take an EMBA, take the best one as you take only one EMBA in your life time!"

Tomi Erkkilä (Class of 2009-2010)

Pinnacle of Power - The Kellogg-HKUST EMBA program brings together leaders in a truly remarkable intellectual quest that is designed to make a difference, and to leave a mark. Our dynamic interaction of faculty and class members has inspired generations of brilliant business minds, men and women who have gone on to shape the business landscape of whole industries and entire countries around the globe. Teaching is intellectually rigorous and deeply tuned to the political and economic realities of today, designed to open up previously unexplored routes to success. But the program goes far beyond the accumulation of knowledge. We create an environment that demands deep thinking, but also one which fosters empowerment and networking at both personal and industry levels. World-embracing and personally enriching, the Kellogg-HKUST EMBA program brings together the elite from five continents and gives them all they need to shape unique futures for themselves and the world they influence. ■



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Tel Aviv University
Tel Aviv, Israel

Kellogg-WHU
Executive MBA Program
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Vallendar/Frankfurt, Germany

Kellogg-Schulich
Executive MBA Program
Schulich School of Business
York University
Toronto, Canada

Kellogg-HKUST
Executive MBA Program
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Hong Kong University of Science and Technology
Hong Kong, China

Time to learn again

Hannelore Forssbohm is Program Director of the Kellogg-WHU Executive MBA Program at WHU – Otto Beisheim School of Management in Vallendar & Düsseldorf, Germany

Life-long learning is critical to gain a competitive advantage, as executive development can help distinguish individuality in the current market.

Many companies and universities face demographic change and an intensified competitive environment. They, therefore, each have a societal responsibility to develop programs which take into account today's global challenges. Demographic change and globalization further increase competition. On one hand, companies want to attract top-notch graduates, as they realize that the retention of top talent represents a major point of differentiation. On the other hand, employees now have a longer working lifetime, switch companies more often and are sought-after globally rather than nationally. As a result, employer branding and executive development have become the main focus among various business leadership circles.

Global challenges

As the workforce became more diverse, the need for executive development has taken centre stage. Even within small to medium-sized companies, the implementation of life-long learning concepts has gained popularity. Furthermore, the so-called 'Bologna Process' has significantly changed the face of higher education in Europe. Greater comparability and a unified framework allow students to navigate between countries. In its essence, the 'Bologna Process' has fostered the notion of adult education at various life stages. The idea of studying one area as an undergraduate student, then going to work for several years and returning to school as an adult to study something completely different, is now highly praised.

Developing a studious mindset

At WHU – Otto Beisheim School of Management we have developed several ways to tackle the above-mentioned challenges. For more than ten years, WHU – Otto Beisheim School of Management based in Germany, has been offering customized Executive Education programs tailored to the specific requirements of companies looking to train their executives and managers in general or specific management topics. Each program is as unique as the clients' needs, where culture and strategy is aimed at supporting a life-long learning process within the company. Working closely with the clients on the design of each program ensures a measurable, relevant and long-term learning experience for the participants.

Having recently opened a second campus in Düsseldorf, the business school offers a two year part-time MBA, targeted at young professionals with a first degree and at least two years of work experience. Embedded into a vibrant economic hub, the part-time MBA program allows young professionals to deepen their management know-how and leadership skills while still being able to work. Similarly, the Kellogg-WHU Executive MBA program allows mid-career professionals to pursue a highly regarded degree and hone their skill-set while still remaining in their jobs.

Developing its own culture as an intellectual and creative learning environment, WHU is characterized by the engagement and commitment of all people involved – adapting to the way in which learning knows no boundaries, and respecting different life and career stages. ■

Make It Happen!

learn and lead ▪ **Lead Collaboratively** ▪ strengthen skills that matter ▪ succeed in an intellectually rigorous and character-building adventure ▪ fortify your general management perspective ▪ join a very supportive and multi-cultural network ▪ make a difference ▪ thrive with academic excellence ▪ **Network Globally** ▪ create serious imprints ▪ think big ▪ shape your working environment ▪ **Act Responsibly** ▪ build a vision ▪ experience a life-changing journey ▪ form worldwide bonds ▪ drive strength through diversity ▪ prosper from an entrepreneurial attitude ▪ flourish across three different continents ▪ **Think Innovatively** ▪ change the mindset for our global world ▪ cultivate a pro-active and co-operative approach ▪ reach beyond borders ▪ empower your team ▪ from good to great ▪ motivate well-considered action ▪ aim high ▪ **Develop Personally**

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Building impactful coaching programs

A growing number of organizations are incorporating in-house coaching programs into their training, development and talent-management plans. According to the *2012 International Coach Federation Global Coaching Study*, 14 percent of professional coaches self-identify as internal coaches; ie, professional coaches who are employed within an organization and who have specific coaching responsibilities identified in their job description. (This does not account for the percentage of professional coaches in private practice who are contracted to provide coaching services to one or more organizations.)

A growing body of research demonstrates that the reason for coaching's growing popularity is simple: for organizations of all sizes and in all sectors, coaching gets results! According to the *2009 International Coach Federation Global Coaching Client Study*, 70 percent of coaching clients reported a positive change in work performance, 72 percent reported improved communication skills and 57 percent reported improved time-management skills. In the same study, organizations that had utilized coaching reported improvements in teamwork, communication and overall corporate culture.

Two organizations that have experienced the positive benefits of coaching firsthand are the United States' Defense Acquisition University (DAU) and Turkey's Isikkent Schools. In the past half-decade, these two very different institutions have led the charge for coaching in their respective fields, developing highly impactful coaching programs that are specially tailored to meet the unique needs of the individuals they serve.

Acquiring new learning at DAU

Training, executive education and leadership-development programming is part of many organizations' overall talent-management packages, providing key and rising leaders with structured opportunities for skills development and self-improvement. There's no doubt about it: investing in learning and leadership development is a win-win for organizations and the individuals who benefit from it.

The International Coach Federation awarded Isikkent Schools its 2013 International Prism Award for excellence in organizational coaching

However, a growing body of evidence shows that training and leadership-development programs are more effective when they include a coaching component. Because coaching is client-driven, it is inherently open to individualization. As such, it is the perfect complement to already-existing programming, providing a structured opportunity to set and pursue goals and put learning from mentoring conversations and classroom training into action.

The DAU exemplifies how coaching can reinforce and enhance an already-top-notch training and development program. As the corporate university for the United States' defence-acquisition workforce, the DAU provides in-person and virtual learning opportunities and leadership development to the 152,000 military and civilian professionals associated with the largest buying enterprise in the world. In 2007, the DAU began to explore the possibility of adding a coaching service to its portfolio of offerings in order to improve acquisition outcomes and enhance the leadership capacity of key leaders.

After extensive research and benchmarking, in 2008 the DAU piloted a rigorous coach-training program oriented around the ICF's Core Competencies and Code of Ethics and adapted to the unique needs of the defense-acquisition workforce. The DAU's coaching program impacts leaders in all functional areas of the defence-acquisition workforce, including governance and oversight, program management, contracting, systems engineering, business and financial management, production and quality management, testing and evaluation, and life cycle logistics.

To date, more than 49 DAU faculty members have completed the university's training program and deployed their services to meet the needs of nearly 60 major buying organizations. Through one-on-one and team coaching engagements, these coaches - all of whom are themselves senior faculty members and seasoned defence acquisition professionals - have reached more than 220 key leaders at the strategic and organizational levels. Meanwhile, nearly 3,000 supervisors and mid- and senior-grade leaders have benefitted from a portfolio of targeted leadership-development courses designed to extend the understanding and use of coaching skills throughout the defence-acquisition workforce.

Program leaders say that coaching fills a niche at the DAU that other learning and leadership modalities have not. Whereas many of the DAU's offerings are designed with the needs of a larger group of trainees in mind, coaching is tailored to the unique needs of an individual or small group. The DAU's coaching model emphasizes job performance and leadership and organizational development. Key leaders typically participate in a six- to nine-month-long engagement where

they partner with a coach to set and pursue performance, leadership and workforce-development goals with the overarching goal of designing and implementing an extraordinary (versus predictable) future.

In recognition of the DAU's outstanding use of coaching to augment existing training programs and empower key leaders to achieve personal and organizational goals, ICF Global awarded the organization an honourable mention through the 2013 ICF International Prism Award program. The International Prism Award program honours organizations that have achieved a standard of excellence in the implementation of coaching programs fulfilling rigorous professional standards, addressing key strategic goals, shaping organizational culture, and yielding discernible and measureable positive impacts. (Learn more about the International Prism Award program at Coachfederation.org/prism.)

DAU coaching clients have reported a high return on expectations in areas including organizational change, networking, strategic thought and leadership, leadership confidence, teamwork, communication, and time management. A Kirkpatrick assessment conducted by DAU pointed to positive training and development impacts at all four levels as a result of coaching: reaction (positive 92.5 percent value), learning (a positive 90 percent value), application (top four impacts: improved strategic communication, better change implementation, enhanced stakeholder relationships, enriched leadership/ people interactions) and business impact (top four impacts: increased self/group productivity, increased customer satisfaction, increased resources, reduced cycle time).

The DAU has also cited coaching success stories within the defence-acquisition workforce. In the DAU's International Prism Award application, ICF Associate Certified Coach and DAU Director of Leadership Programs and Coaching Richard D Hansen, Jr, told the story of an admiral who spoke at a recent Wounded Warriors banquet about the key role Executive Coaching played in helping her reach her current rank.

"People say that culture trumps strategy," Hansen wrote. *"Our coaching initiative is realizing a synergy between strategy and culture as our leaders embrace the positive impact of coaching."*

An aircraft program manager who was initially sceptical of coaching reported 'immediate and astonishing' results from his engagement with a DAU coach. In a testimonial, he wrote that coaching helped him turn a well-run program into a benchmark program where people knew their value and were empowered to 'accelerate through change and land on top.'

With an annual acquisition budget of $350 billion, the defence acquisition operating environment demands a high return on every investment of time, manpower and money. The DAU's initiative has met this demand, with measurable results throughout the coaching program's 60 client organizations. One high-tech program manager who regularly oversaw projects with annual budgets of more than $5 million USD reported that coaching was instrumental in

"… investing in learning and leadership development is a win-win for organizations and the individuals who benefit from it"

yielding millions of dollars in cost savings and efficiencies. Meanwhile, the DAU has tracked workforce-wide impacts of its coaching program and calculated a non-financial ROI of 330 percent and a reported financial ROI of 743 percent.

Although the individual success stories and quantitative data DAU has accumulated on the benefits of coaching are impressive, they only tell part of the story. The full story, according to Hansen, is illustrated by the sweeping culture change taking place in the defence-acquisition workforce and at DAU itself. *"Coaching is now valued as a high-impact, 'beyond the classroom,' learning and performance engagement,"* he said. *"We have strong resource support because we are able to demonstrate that we are making a difference in the lives of the leaders we coach and their organizations. Coaching has also significantly expanded the teaching, listening and leadership skills of the faculty who have completed coach training."*

Making the grade at Isikkent Schools

Since the 1990s, coaching has been a key component of many schools' faculty-development plans. In addition to contracting Leadership Coaches and Executive Coaches to support the growth and development of administrators, a growing number of schools are using coaching and coach-skills training to enhance teachers' abilities to implement curriculum, manage their classrooms, and communicate effectively with students, parents and one another. An extensive body of research on Educational Coaching shows that coaching empowers teachers to understand and implement new instructional practices and strategies, in turn resulting in heightened student engagement.

Turkey's Isikkent Schools have taken the use of coaching one step further by developing and implementing a high-

Enrolment at Isikkent Schools has increased steadily since the implementation of coaching for teachers, students and parents

Number of Students

	2009-10	2010-11	2011-12	2012-13	2013-14
Early Learning Center	65	72	86	97	95
Primary School	181	211	243	282	290
Middle School	140	145	158	192	203
High School	158	162	178	211	214
TOTAL	544	590	665	782	802

impact program designed to directly touch the lives of every member of the school community, from teachers and administrators to parents and students.

Established in 1998 within a non-profit foundation, Isikkent provides a unique learning environment that brings students ranging from preschool through grade 12 together on one campus - an organizational model seen infrequently in Turkey. The school is also set apart by its educational vision: in a nation where most students are taught to measure their success and learning by their exam scores, Isikkent focuses on holistic education. With a creative, inquiry-based approach to teaching; a high premium on global citizenship; and a commitment to ethical speech and behaviour, Isikkent Schools strive to develop young people into highly motivated, self-aware and thoughtful adults passionate about lifelong learning.

"Isikkent has been a pioneering school on many fronts since its founding. Thanks to its alignment with our vision and objectives, coaching has yielded fruitful results for all stakeholders," wrote ICF Professional Certified Coach Vedat Erol, collaborative creator of Isikkent's coaching program, in the school's Prism Award application.

Isikkent has made a significant investment of time and money in coaching with the full support of leading school administrators, allocating 24 percent of the school's professional development budget for coach training for teachers. Since the school implemented coaching in 2009, more than 40 teachers have voluntarily completed a full coach-training program. All of Isikkent's teachers and support staff have completed several hours of coach-specific training in order to better understand and support the school's coaching culture, and coach training is integrated into Isikkent's new-teacher orientation. They're encouraged to apply their coaching skills to interactions with students, parents and colleagues.

Anyone in the school community may request coaching. The program is closely aligned with Isikkent's guidance services, and with a parent's permission, students are encouraged to schedule sessions with coach-teachers. Topics covered during coaching engagements have included goal-setting, planning for the future, interpersonal communication and conflict resolution. The coach-teachers also coach Isikkent teachers and parents on a voluntary basis, and parents have the opportunity to learn coaching skills through school-provided Parent Effectiveness Training courses.

Isikkent's leaders say their investment in coaching has paid off. Students who have received coaching report improvements in their ability to resolve conflict, set and achieve goals, and cooperate and communicate with peers. Teachers who have sought coaching provide similarly positive feedback about the experience, saying that coaching has made them more adept at communicating with students, parents and colleagues, in addition to empowering them to more-effectively set and meet personal and professional goals. Meanwhile, the parents who have learned coaching skills report that they're more able to articulate their needs to their children, more inclined to resolve conflicts with their children through compromise, and more likely to approach conflict with an eye toward protecting the relationship (versus 'resolving problems the way I like'); school leaders say that these changes at home have yielded happier, more effective students during the school day.

As coaching has grown at Isikkent, enrolment in the school has increased steadily, which school leaders attribute to the positive learning culture and highly effective faculty. In 2009, Isikkent reported enrollment of 544 students across its Early Learning Center and primary, middle and high schools; by the 2013–2014 academic year, enrolment had climbed to 802 students.

Disciplinary problems in Isikkent's middle and high schools have declined sharply since the introduction of coaching. In the 2008–2009 academic year, the middle school reported carrying out disciplinary actions against approximately 16 percent of the student population. In the high school, administrators reported disciplinary action against 26.5 percent of the student population. By the close of the 2012–2013 academic year, these averages had fallen to 2.08 percent and 4.74 percent, respectively.

Coaching has also empowered students to achieve their own goals for the future, with a whopping 94.1 percent of students

The Defense Acquisition University's one-on-one coaching program has reached more than 220 key leaders at the strategic and organizational levels

Isikkent Schools' comprehensive coaching program is designed to impact every member of the learning community

in Isikkent's 2013 graduating class earning admission to one of their top-5 university choices and 70.6 percent of students gaining acceptance to their first-choice school.

As a result of Isikkent's success in implementing a coaching program that benefits not only teachers and administrators but the school community at large, its program today provides the benchmark by which many organizations in Turkey measure their own progress toward constructing high-impact, standards-based programs that are sustainable over time. Isikkent's coaching program has also been recognized by the ICF: the school was named the overall winner of the organization's 2013 International Prism Award.

Making an impact at your organization

If you're ready to build an impactful coaching program at your organization, begin your journey today. For more information about how coaching can benefit your organization, visit ICF's 'Need Coaching?' resource at Coachfederation.org/need. This information-packed booklet will help make the case for coaching to decision-makers in your organization with a concise explanation of what coaching is (and what it isn't), and a host of compelling data showing that, in organizations of all sizes and across all sectors, coaching works. ■

The Defense Acquisition University has reported a return on investment in coaching of more than 700 percent

Bermuda, convergence capital

A history of reinvention

Bermuda has demonstrated its ability to forge ahead and develop new trades since the island was first settled 400 years ago. Realizing that catching fish and growing tobacco was not going to sustain the island, Bermudians began to trade salt, export Bermuda onions and develop a world class tourism destination which was the launch pad for a thriving international business community. On a mere 21 square miles, 700 miles from any other landmass, Bermuda continues to reinvent itself and lead as a world class international business centre.

Since the election of the One Bermuda Alliance in December, 2012, a raft of pro-business legislation and policy changes have been instituted with the aim of supporting economic growth and turning around recessionary job losses. In an effort to create a longstanding sustainable business environment, the new Government is focused on developing new business lines and exploring new regions.

To this end, the Government established the Bermuda Business Development Agency (BDA), a public-private partnership tasked with attracting new business to the island, while sustaining existing businesses that continue to make a meaningful contribution to the economy and community overall. In an effort to make doing business easier and more efficient, BDA launched a Concierge Service which helps international businesses establish a presence in Bermuda, assisting with Government policies and procedures and engaging with the Bermuda Monetary Authority (BMA) and other key contacts within the business community.

Bermuda is also focused on maintaining its lead position as a world class domicile through modernizing its legislative framework. Recently, Bermuda implemented changes to the Investment Funds Act (IFA) which allowed for two new classes of exempted funds thereby making incorporating new funds easier, more efficient and cost effective.

These changes were made possible through the collaboration of the Government of Bermuda, (BMA) and industry stakeholders. After candid discussions with key decision makers and advisors in the asset management industry, the proposed changes were drafted and put before the House for approval in October 2013. It is through ongoing dialogue with key influencers of business that Bermuda continues to enhance its product and service offerings.

The new Government also moved decisively to reform the island's immigration regime. Term limits, which were designed to discourage long term residence by non-Bermudians and had become a major area of contention, were quickly scrapped. Furthermore, to encourage new

"Bermuda has emerged as the convergence market jurisdiction of choice over competitors in Europe and the Caribbean"

businesses to set up on the island, companies are now entitled to five work permits for key personnel without having to go through the process of advertising the jobs and screening local applicants.

For companies already established here, incentives for job makers have been broadened to allow for non-Bermudians who are responsible for generating and keeping jobs in Bermuda the opportunity to apply for long term residence, rights to own property and other benefits.

Companies with worldwide operations can also get global work permits for executives who may not be based in Bermuda but spend significant time here, thus reducing the need to apply for permits for individual visits.

Overall, the Government of Bermuda, with the support of the BDA is committed to creating a more business friendly environment that encourages foreign direct investment and welcomes new business to the island. Legislative reform, a balanced approach to landing rights, work permits and job creation, complimented by a well educated workforce, comprehensive support services and a world class ICT infrastructure and industry, is why Bermuda continues to be a premier domicile for international business.

Bermuda, a natural jurisdiction of choice for convergence

Bermuda is one of only a handful, and certainly the leading jurisdiction, that caters to the convergence market of Insurance Linked Securities (ILS). Bermuda has emerged as the convergence market jurisdiction of choice over competitors in Europe and the Caribbean primarily due to the island hosting one of the largest (re)insurance markets in the world and also as a leading centre in the international investment fund industry.

The local industry has the support of the Bermuda Monetary Authority ('BMA') and thus has strong, yet flexible, regulations that have been put in place to demonstrate the country's commitment to, and also to gain the trust of investors, who invest in this asset class. Bermuda has a significant concentration of highly qualified professionals that have the expertise necessary to navigate through this ever evolving asset class. Bermuda has also been an innovator in creating legal structures that are tax efficient and able to capitalize on the traditional strong returns of the ILS asset class.

In 2009, the BMA passed legislation making it easier to invest in ILS by creating Special Purpose Insurers ('SPIs'). SPIs were created to provide a capital efficient and appropriately regulated and streamlined corporate vehicle for fully collateralized insurance transactions, mainly catastrophe bonds and sidecars. SPIs have been proven to be very useful for these and other fully funded and sophisticated products.

Service providers based in the ILS jurisdictions have been quick to adapt their service offerings to the particular ILS structural and accounting nuances that have emerged since this asset class gained popularity in the alternative fund community. Tax considerations and valuation of the underlying ILS assets are clearly the two areas that are most widely focused on with this particular asset class. With the surge in popularity of ILS, it is hugely important for all services providers (accounting firms, law firms, independent valuation agents, fund administrators, etc.) to be well versed in this business so that they can adapt to the evolving fund and security structures, tax changes, accounting nuances, and changes in the (re)insurance industry.

Service providers based in Bermuda have an advantage of being well-versed in ILS simply because the country has been heavily involved in the (re)insurance and alternative fund markets for more than 30 years. For the reasons mentioned above, Bermuda based service providers have been able to adapt and alter their service offerings to cater to ILS funds and at times, have created new companies that cater specifically to ILS funds or insurance management. This ingenuity is another reason why Bermuda has emerged as a leader in this space.

With Fitch rating Bermuda the top choice for this convergence market, Bermuda has seen company registrations jump to their highest levels since 2008. The Bermuda Stock Exchange has also benefitted, with over $7 billion of ILS products, inclusive of catastrophe bonds and reinsurance-linked investment funds, listed in 2013. As a result of ILS products, Bermuda is now leading the way for the convergence between the insurance and investment industries, and this sector is expected to expand rapidly. Emblematic of this change was the initial public offering completed on the New York Stock Exchange earlier this year by Third Point Re, a Bermuda-based reinsurer backed by hedge fund specialist Dan Loeb, which raised more than $276 million.

These new approaches and the more assertive business development push from the BDA and its industry partners are paying early dividends. Economic Development Minister Dr Grant Gibbons recently reported that there had been a 16 percent increase in international company incorporations in the first three quarters of 2013, and the number of companies on the register was the highest ever. In addition, 45 new mutual funds registered in Bermuda through October while just 36 registered in the whole of 2012. ■

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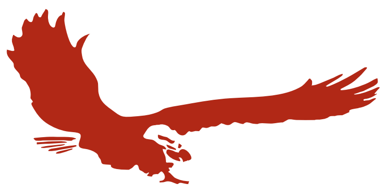

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