



Working group on Financial Services
Minutes of the breakfast debate of Thursday 19 February 2009 on
Competition policy in the financial sector in times of financial crisis

Chaired by Othmar KARAS MEP

Introduction by

- Othmar KARAS MEP, Vice-President of the EPP-ED Group, Member of the European Parliament's Committee on Economic and Monetary Affairs

Speakers:

- Commissioner Neelie KROES, Responsible for Competition, European Commission
- Gerhard HOFMANN, Member of the Board, Federal Association of German Co-operative Banks (BVR)

Conclusion by

- Othmar KARAS MEP

In his introductory note Mr Karas stressed the importance of banking rescue within the framework of economy recovery plans. While he argued for easing the path for banks to get support he also underlined the importance of finding a balance between the improvement of the financial market system and the level playing field of competition. Developing transparent rescue plans for companies as well as for entire sectors would be a challenge the member states should take in a coordinated way. At the same time finding long term solutions and above all an exit strategy from public intervention were vital.

Commissioner Kroes also called upon member states to act in a coordinated way as acting differently and for the short term would lead to long term disaster. She condemned protectionism as old-fashioned, wrong and narrow minded. Protectionism destroys the single market as the basis of the European Union's economy.

Talking about state aid, Ms Kroes underlined that it had to be well targeted as member states won't be able to bail all sectors and that otherwise it would just be a waste of taxpayers' money.

As the financial crisis has reached real economy she insisted that it is most important to recreate confidence in the financial system and to push the restructuring process of banks. She was convinced that there is no sense in keeping banks alive which are not strong enough to lend any more. Rather than providing recapitalisation, governments should urge banks to reveal the impaired and toxic assets they are holding to gain full knowledge of the problem and start again with a clean balance sheet.

Looking ahead, it is her personal view that in the future banks would be smaller, simpler, less leveraged, more risk-averse and more transparent, predominantly relying on retail funding. Most of them would diversify across some countries, whereas there would only be a handful of cross border banks.

Mr Hofmann underlined that compensation and enforcement of compensation for state aid was vital but still unclear in the observable practice of Member States.

Concurring with Commissioner Kroes he stated that the underlying motto should not be "survival of the biggest" but that restructuring or winding down of banks should always be a realistic option.

He was concerned that governments could use tax payers money to create national champions and that this would end up with a stronger focus on national markets rather than on the common market.

Moreover, some banks under public support would distort competition by non sustainable pricing policies.



In the following discussion it was stated that scrapping measure to support the car sector were quite successful in several countries. However Ms Kroes admitted that the correct time for the winding down of an enterprise would be dictated by the market. Once again it was underlined that governments should enforce sustainability and think about long term effects. That should also be considered in the banking sector.

In respect of competition on the financial sector there was a common line that this sector is of highest complexity on the one hand and there is a lot of work to do on the other hand. It is clear that the responsibility as politicians as well as that of economic drivers is particularly in demand in times of these. The crisis has discovered several weaknesses but also brings the opportunity to communicate the chances and benefits of the European Union.

Julia KRIZ
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