EU Resilient Futures
Finance and Energy

Summary of Discussions

Working in Collaboration with the European Commission Representation in the UK

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Over the course of nine briefing events, the Resilient Futures programme sought to address the timely issue of whether European financial institutions are able to cope with global financial uncertainty, and whether our energy sourcing and supply is efficient and sustainable.

Working in collaboration with the European Commission, and supported by Birmingham Business School, British Bankers Association and Energy UK, this Summary of Discussions considers what was explored during the different sessions, exploring finance and energy respectively.

With thanks to the programme’s rapporteur Ian Hall. Special mention to Alex Smith, Communications Officer, Emma Makey, Chief Operations Officer, and Mark Perry, Training Coordinator.

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INTRODUCTION

It gives me great pleasure to introduce the Summary of Discussions booklet, which will provide an overview of the themes and topics explored during the different event strands of the Resilient Futures programme.

Prudent management of Europe’s finance and energy markets are going to be crucial if we are to ensure financial security and sustainable sourcing of energy for future generations. In this regard, the Resilient Futures programme comes at an interesting time as the European Union in the last year has launched a number of legislative measures that will seek to safeguard finances and prevent crises such as those experienced in the 2007-08 global financial crisis. Additionally, Europe has established itself as a world leader of promoting the sustainability of both the environment and our energy supplies; the European Union expected to help orchestrate the framework for any agreement reached at the Paris 2015 Climate Change Conference: Cop21.

The Summary of Discussions provides interesting accounts from both the finance and energy strands of the Resilient Futures programme, with further information available in Resilient Futures: Perspectives on the Future of Finance and Energy, a collection of essays written by attendees of the programme due to be published in September 2015.

Nick Maher, Chief Executive, Industry and Parliament Trust
August 2015
The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme got underway on 11 March with a roundtable in Westminster on the topic of ‘Financial Regulation and Harmonisation in the EU’. The session, chaired by the IPT’s Gareth Owen, saw two guest speakers: Graham Bishop, the EU affairs specialist who runs his consultancy service GrahamBishop.com; and Prof Andrew Mullineux, Prof of Financial Economics and Deputy Dean of Research at Bournemouth University.

Bishop began by citing the importance of the year 2009, specifically that year’s G20 summit in Pittsburgh, USA, and the establishment of international body the Financial Stability Board (FSB). The global financial crisis created a rush towards new rules for financial services, a charge that was led on this side of the Atlantic by France’s European Commissioner, Michel Barnier. Bishop cited 44 new pieces of EU financial services legislation, such as the Alternative Investment Fund Managers Directive (AIFMD) for hedge-funds.

Bishop painted a picture – echoed by others during later discussion – of an overwhelming quantity of EU legislation that has left both European and national lawmakers (not to mention those directly affected by new rules) alike struggling to digest them. He pointed out that all new rules have a ‘review clause’ after two years (such reviews used to be every decade). One challenge, said Bishop, is that “this means [in reality] that they [new rules] have only been operating for six months when we have to judge them.”

“This is a continuous work in progress where everything is being picked up and examined,” said Bishop.

Bishop referred to the De Larosière report, published in 2009, as among the important milestones along the path to mounting European supervisory power. Bishop’s central message was clear: “What we’re seeing is, bit by bit, power being transferred to the European level”, he said, citing MiFID 2 last year as a further example.

One trend to emerge through the roundtable was a view that organisations lack time and resources to scrutinise this tsunami of European documents, although (from a UK perspective) there was acknowledgment of the ‘tremendous’ work of the House of Lords. Bishop lamented: “The idea that Bill Cash [MP, chair of the House of Commons European scrutiny committee] and his committee will [have time to] go through 2,000 pages is implausible.”

On a similar note, Bishop later said: “The European Parliament has the power to veto, but has a short window to look at the detail. They will only spot [problems] if industry gives them a nod on things. It puts a real onus on the industry to alert legislators to things that have crept in and won’t work.”

Returning to his central argument, Bishop said: “The purpose of all this is to create a single European rulebook – and they mean it.” He added: “More and more stuff is done by [European] regulation rather than directive – so the regulation takes direct effect right across the EU.”
Reference was inevitably made to the ongoing economic and banking crisis in Greece, with Bishop saying: “The Greek banking system is under the control of the European Central Bank in a way that is extraordinary. The Greek banks are hemorrhaging deposits and the Greek banking system is on the edge of complete meltdown.”

On a broader theme, he said: “There’s no doubt that [European] banking union is a huge pooling of political sovereignty, and this country [Britain] has not woken up to it. But the Greeks have, or they’re in the process of.”

So, what is there left to do, he asked? “Is it all finished? Of course, the answer is ‘no’. There are a couple of bits of primary legislation left – [the regulation of benchmarks] and to do with CCPs [Central Counterparties]. But there are approximately 400 pieces of secondary legislation, which are the ‘real nuts-and-bolts’ that are going through the system, and which people need, so they know what they are meant to do.”

The Financial Stability Board - under the chairmanship of Bank of England governor Mark Carney - is “busy creating all sorts of laws at a global level that flow down into the EU and then will become law in the UK”, explained Bishop: “The Daily Mail would say ‘it’s ‘Brussels’” – [but] it’s not ‘Brussels’, it’s Carney and his mates at the FSB. Now who controls these people, where is the accountability?".

Bishop re-emphasised the “huge amount” of financial-services work happening at a global level: “The G20 is alive and well. And the Basel Committee [on Banking Supervision] – which is closely associated - has a work programme for the next couple of years”. Specifics include TLAC (Total Loss-Absorbing Capacity) for banks.

Inevitably the roundtable also saw discussion of Capital Markets Union (CMU), one of the flagship projects of the recently formed (late 2014) new European Commissioner. Bishop re-quoted Britain’s EU Commission, Lord Jonathan Hill, by describing the recently released green paper on CMU as “very green” (comments are welcome by mid-May).

Bishop said: “The problem for [Lord] Hill is that predecessor Commissions have picked all the low-hanging fruit. All that’s left for him is the very difficult stuff. It will be insanely boring but incredibly important.”

Prof Mullineux, like Bishop, began his remarks by setting the global context for the financial crisis, referencing the US 2010 Dodd-Frank Act as “pretty weighty” and the FSB’s international co-ordination role. In the UK context, he asked: “Who should be regulating the City of London if the City is serving the world? [and not just Europe]".

Mullineux - who handed out slides
entitled ‘Escaping the Eurozone’s ‘Doom Loop’ and the Greek Debt Problem’ [slides available from the IPT] – said he regarded exchange-rate fluctuations as ‘normalisation’ of the euro as “it’s probably been over-valued”.

He drew attention to the fragmented nature of Europe’s money markets, and the problem of higher interest-rates in countries where SMEs are struggling for funding. Germany’s famed ‘Mittelstand’, for example, can typically borrow more cheaply than SMEs in crisis-hit Spain. Mullineux said “most” banks are “not interested” in lending to micro- and small enterprises.

Prof Mullineux focused much of his remarks on ‘equity finance’. He described CMU as “possibly a ‘red herring’” in respect of its potential importance, saying: “I think it will be very difficult to establish a full union. If it’s more equity finance that you really want, then maybe you need to think about the tax system. This is what the IMF put to the G20, maybe even back in Pittsburgh [in 2009] – Michael Keen was working on it for the IMF.”

He said that ‘tax-deductibility of interest’ creates bias towards debt-finance, and described two ways forward: “The first (as suggested by Andrew Haldane, Bank of England chief economist) is to offer to equivalent—deductibility for dividends to at least level the playing-field; the second, is to get rid of it, on the grounds that one of the problems before the crisis was over-leveraging and over-indebtedness, and ‘why have a subsidy towards taking debt’?. Now, you might come back and say, ‘the small-business lobby is not going to like that’ and so, for political reasons, it’s a non-starter. But you might think, is it wise to allow tax-deductibility on debt for banks given their tendency to over-leverage.”

Mullineux made mention of a book entitled ‘House of Debt’ (by Atif Mian and Amir Sufi), which recommends flexible mortgages, with lenders sharing house-price increases and decreases with borrowers, thereby reducing balance-sheet deflation following house-price falls; and he also namechecked a report by consultancy McKinsey – “which came out in favour of more risk-sharing, equity-type finance” – plus the growing profile of Islamic finance (“there are profit-and-loss products available in Islamic finance”).

Mullineux was also concerned about the Single Supervisory Mechanism (SSM) as a threat to diversity in the banking sector. He described the diminished importance of building societies and credit unions (“not really thriving in this country”), but said the “challenger bank initiative is interesting”.

The second half of the session saw participants discuss topics ranging from risk to interest-rates.

Again, a major theme to emerge was the sheer quantity of EU legislation and how it should and can be amended. One participant referred to the AIFMD as a “fiasco” (“the second draft was so different from the first” / “the directive was so different and I’m fearful we will get regulations in that don’t work”).

Discussion focused on how many institutions – the European Securities and Markets Authority (ESMA) itself was cited - claim to lack the resource for proper analysis. As one participant said: “With the Volcker rule in the US, which is still not operational - I’d read that it is apparently now up to 900 pages – this is madness.”

One participant reflected: “The more pages – or, these days, megabytes – we accumulate, it’s disturbing.”

Related partly to the aspiration of CMU, one
participant asserted: “There is no shortage of money, but it’s not flowing”. It was pointed out that the more capital banks are forced to hold, the less liquidity is available. On a similar theme, one participant observed: “There seems to be an obsession within regulators to try to ‘de-risk’ everything. If there’s no risk there’s no return. And if there’s no return, there’s no growth. There needs to be a better balance between risk and reward.”

On a similar note, one participant said: “Regulators need to think less about regulating institutions, and more about regulating products and services.”

The same participant continued: “The concern is that we’re on this ‘regulatory juggernaut’, driven by the Financial Stability Board, by the European Commission and a number of others, and there is no incentive for them to stop regulating. Can the juggernaut be slowed or turned? For political reasons, the chances are remote. Do we perhaps start with a ‘one in, one out’ process [with new regulations]? We can’t keep regulating with the aim of reducing risk.”

In respect of banks, one participant said: “The SSM [Single Supervisory Mechanism] is at a very early stage and are feeling their way. They have responsibility for supervising all 6,000 banks in the Eurozone. A lot needs to be done. In my view, 6,000 banks is far too many – they all came about in a different set of circumstances. There needs to be greater consolidation – then you can create greater rewards for the banks. I don’t think the UK is a good example. In my view, demutualisation was the bigger problem in the UK.”

Mullineux said: “There is a case for regulating retail banking like a utility both in the UK and across Europe. But then you have to look at the concentration in the telecoms industry, towards two or three suppliers. You would need to look at retail banking as a utility across Europe [not just in the UK], but then there are sensitivities around ‘national champions’.”

One participant also raised – in the context of relatively low voter turnout in European elections – how European citizens could be better engaged, asserting that most voters would be more likely to begin to understand the relevance of major EU topics such as Solvency II if they were to be presented in language related to (for example) consumer-protection.

Again, discussion returned to claims of a lack of financial-services savviness among European Parliamentarians (and often their political assistants), while one participant asserted: “The new [European Parliament] ECON committee is a bit light on serious financial players – and I’m being diplomatic. Even the resources of ECON are very limited, compared with the vastness of what is being produced by the Commission. But there is a democratic problem with how you get more resources.”

But one participant was certain of the direction of travel: “What we [Europe] will finish up with is a single rulebook – that is the explicit intention. Will it take four years? Five years? Maybe 10. On the way we will have ambiguities – all the usual stuff that comes out of Parliaments.”

Discussion also touched upon European states’ different interest rates (as someone remarked: “When the USA starts raising interest rates, the rest of the world usually follows”), Europe’s productivity problem, quantitative easing (QE) and leveraging. Mentions were also made, en passant, to the rise in mobile- and online banking, and ‘shadow banking’ (reportedly an “obsession” in Frankfurt and Brussels).
THE LANDSCAPE OF EU ENERGY LEGISLATION
17 MARCH 2015

The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme held its first roundtable focused on energy policy (and the second session of the ‘Resilient Futures’ programme overall) on 17 March in Westminster. ‘The Landscape of EU Energy Legislation’ session was introduced by Energy UK head of European affairs, Gwyn Dolben, who was followed by two guest speakers - RWE npower Director of Policy & Public Affairs, John McElroy, and Sussex University’s Francis McGowan - and roundtable discussion.

Europe’s energy policy, Dolben described, is a ‘shared competence’ between the European Union and its 28 member states. Brussels’ challenges include completing a single market in electricity and gas, harmonising wholesale market rules and increasing cross-border construction, for example interconnectors. Other EU priorities include: energy-supply security; investment in renewables; and energy efficiency. But, importantly, a member state’s ‘energy mix’ remains largely up to its own government.

The EU’s ‘Green Package’ was agreed seven years ago, establishing well-known targets for the year 2020 including cutting greenhouse-gas emissions by 20% relative to 1990 levels. This goal has recently been updated to achieve a 40% reduction relative to 1990 levels by 2030.

Dolben summarised the high-profile plans – prioritised by the current European Commission, led by Jean-Claude Juncker - for European Energy Union, explaining that “over the past 10 years there has been a move to do more at European level.” Important external factors include the ongoing Russia-Ukraine political crisis and the nuclear disaster in Fukushima, Japan, four years ago.

The aspiration is more co-ordination between EU states’ national policies, solidarity between member states during crises and “speaking with one voice to Russia and other energy-producing countries”.

Juncker aside, the priority figure at EU level is Maroš Šefčovič, European Commission Vice-President in charge of Energy Union. There are five policy ‘pillars’: reducing external dependency (particularly on politically volatile Russia); competition of the ‘Single Energy Market’; ‘moderation’ of energy demand; de-carbonisation; and research and innovation.

Most member states support this broad agenda, Dolben concluded, but national energy policies are “very different across Europe and convergence will not be easy”.

This was a theme that developed through this IPT roundtable and indeed RWE npower’s John McElroy immediately reinforced Dolben’s closing assertion, saying: “There are still 28 regulatory frameworks [across the EU], so some way to go on this journey”.

McElroy pointed out, though, that progress has been substantial on original 2020 targets. For example, by the end of 2012 greenhouse-gas emissions had fallen by 17.9% - a figure “well on the way” to the 20% target.

In respect of renewable-generation, the UK is just one-third of the way towards its target (a “significant gap”). Investment, said McElroy, is “something of a challenge” on renewables (investor nervousness in the energy arena was one of McElroy’s key messages, indeed - later on, he recalled that one CEO has described
Europe’s electricity sector as currently ‘un-investable’).

McElroy described the EU’s high-profile Emissions Trading Scheme (ETS) as “a bit of a sorry tale in many respects”, saying that it had “undermined confidence”, and that investors had “lost faith”. More specifically, he referred to the European Commission’s legislative proposal to establish a market stability reserve (MSR) for the ETS, saying: “The Commission didn’t have much luck last time round through ‘back-loading’ [of allowances]. The MSR has made progress in the European Parliament, amazingly, but the [European] Council has still to make its mind up on what it wants. There have been various leaks [of information] - the latest one seemed to be a dilution of previous one. It’s hard to see where it will go – there is still potential for a blocking minority.”

McElroy also spoke of the reduction in energy demand due to the economic recession; and “collapses” in wholesale electricity prices and international coal-prices.

He said the United Nations Climate Change Conference – COP 21 – in Paris this December will be “fairly critical” in respect of agreeing global targets.

McElroy said that “all member states seem to struggle on energy efficiency – and the further south you go in Europe it gets worse”. He referred to a “subsidy culture in certain parts of Europe, which makes it difficult to persuade people to do it without subsidy”.

He concluded by describing innovation funding as “inadequate”, explaining that “industry cannot deliver it all.”

Sussex University’s Francis McGowan concentrated his remarks on the plans for European Energy Union, which he described as the brainchild of European Council President Donald Tusk when Tusk was prime minister of Poland, and thus reflected Polish keenness for an activist energy policy. Tusk’s version of the famous ‘energy trilemma’ put “energy-supply first, competitiveness second, and environmentalism [a distant] third”, reflected McGowan, continuing: “It’s interesting how the Commission’s version of the Energy Union seeks to reconcile the Tusk programme with its own priorities in energy policies. I think it’s broadly done it pretty well, although the shape of the triangle is pretty different.”

The five policy pillars outlined by Gywn Dolben, McGowan said, raised questions including: how far will member states progress towards making serious commitments on collective purchasing; and how far will they subject themselves to greater transparency on inter-governmental agreements. Showing ‘solidarity’ was, McGowan said, likely to be less problematic.

In respect of diversifying sources of energy-supply – “the Tusk proposal was in favour of making the most of conventional and unconventional fossil-fuels” - the big question, McGowan said, will be controversial shale-gas. McGowan said signals were that the European Commission is “perhaps more sympathetic towards shale-gas – that’s certainly the view of NGOs.”

In respect of regulation, McGowan asked: “Given the struggles when the European Agency for the Cooperation of Energy Regulators (ACER) [2010] and its predecessors was established, will member-states be prepared to see a kind of Euro-regulator emerging?” He questioned
whether national regulators, and perhaps even the Commission itself, would be keen on such a development.

On energy efficiency, he described “very strong rhetorical commitment” from the Commission, but that, according to reports, the Commissioner in charge of the European Fund for Strategic Investments is “unenthusiastic about ring-fencing of any money” to support investments in efficiency. But, he said, the Commission “could make a difference with a more robust approach to enforcement”.

In respect of an EU target that 27% of energy consumption comes from renewables by 2030, he said: “I think there is a real issue as to how it’s met, especially if the Commission is serious about making renewables more market-compatible.”

McGowan also mentioned nuclear power, observing that the Commission’s proposal made only passing reference to the option in its proposals, though he thought it likely that member states in favour of nuclear will try and give it more of a profile. He was surprised that the Commission had highlighted the potential contribution of nuclear fusion, in the shape of ITER, to the Energy Union: an essentially short-to-medium term strategy for resolving the EU’s energy security problems.

From a policy-making perspective, McGowan said: “About half the 40 objectives on the roadmap to achieve the Energy Union – measures rolling out over the next two years - are potentially legislative, which is quite interesting from a Commission which has said it would do less in regulatory terms.” However the Commission’s activism may reflect the prominence being given to Energy Union.

Questions raised, McGowan said, are: how much effective co-ordination are we likely to see between member states? How much collective action will there be towards ‘third’ countries? And how much sovereignty are member states willing to cede?

The first challenge, he said, was the ‘least difficult’
to achieve but had not been successful so far (as demonstrated by divergent approaches, particularly on renewables and nuclear). There has been more of an appetite for the second (as illustrated as regards Russia). But the Commission “may have a real battle on its hands” if it wants to establish a robust governance structure.

Gywn Dolben thanked McGowan for his remarks and opened the roundtable discussion, but not before asking McGowan’s view on which areas member-state governments could be more enthusiastic to pool efforts. He responded: “There may be some [progress] on consolidating the development of shale-gas. Also, investment in infrastructure. And perhaps with emergency measures, particularly if things get uglier between Russia and the EU.”

Talk then turned to the single market. One participant observed: “The idea of a European regulator was crossed-through in a final draft. Along with the proposal to radically redesign the design of the market next year. It was only six months ago that we were saying the market should be complete by the end of 2014, and it wasn’t. And then we’re saying ‘it’s going to be complete by the end of 2015’. And now we’re saying, we’re going to redesign it in 2016. Well, it seems a bit premature. There are things that aren’t functioning. The fact the market isn’t functioning means we haven’t seen ACER really functioning yet.”

Do Brussels policymakers really help? One participant remarked: “What gets overlooked is that these projects take a long time to develop – say at least four years in development and at least four years to build. As soon as the Commission starts saying ‘we’ve got a grand projet’, it puts things [the development phase] back.”

On a similar note, one participant said: “95% of the technical problems are solvable in the next couple of years, it’s the regulatory things [that hold things up]. Do you need [a regulator] to facilitate action between member states, as opposed to regulating?”

Investors require certainty to plan and the apparent lack of this across Europe’s energy sector was indeed a theme.

On a very specific economic note (that also illustrated member states’ different energy markets), one observer said: “In the UK, delivered electricity is about £80 to a large industrial user; it’s less than £60 in Germany – that makes a material difference if you’re making something that’s energy-intensive.”

Other themes that emerged were a downbeat assessment of Carbon Capture & Storage (“it will not be a source of advantage for us - all it will do is increase the cost of energy”, said one participant), and widespread positivity about the achievability and desirability of pan-European interconnection (“If we could adequately join [the electricity grids of] Spain to Belgium, that would help”, said one).

As the roundtable began to focus on specific examples, one participant aired a caustic view of last autumn’s approval for French firm EDF to build a new nuclear power station at Hinkley Point in Somerset: “One thing that we would expect the [European] Commission to do, as part of the single market, is to protect us from overt state-aid – and it is clearly not doing that. The EDF energy deal is a fairly stark example, it’s a shocking deal from the consumer’s point of view. The Commission has waved it through with just a few minor changes [it had examined the bid amid concerns that the UK government was giving excess help]."
Focus again was on financing of new energy projects (“the issue is where the money going to come from”), one participant said: “If you want money to flow, it would be through the rapid expansion of shale-gas, using a fiscal regime on that to fund low-carbon research to get the technology [for that] more affordable faster. I do wonder whether, in the long-term, wind (for example) will be a victim of solar as those cost-curves are declining faster. But the [UK] Government seems unwilling to take difficult choices, and is trying to fund everything.”

But, at the European level: “In the [European] Commission’s own words, these are ‘very important projects that are not commercially viable’ – squaring that circle for companies that are not going to get returns will be tricky.”

Energy-efficiency is important. Said one participant: “It will be interesting to see if Commission can translate some of its verbal and legislative commitments to get member states to invest in greater energy efficiency”. Another said: “Energy efficiency if a difficult one – there is quite a divergence across member states. Is it better done at the European level? With [electrical] appliance standards, yes there’s a role. But it is difficult to see balance between member states.”

And so the roundtable concluded. “The key point is the difference between rhetoric and reality [of EU energy policy],” said one, with investors – crucial as they are to Europe’s investment challenge - taking an important and particularly sharp interest.

CAPITAL MARKETS UNION: CREATING RESILIENCE AND PREVENTING CRISIS? - 24 MARCH 2015

The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme’s third roundtable took as its theme Capital Markets Union (CMU), one of the flagship initiatives of the recently installed European Commission’s five-year mandate and upon which a consultation launched in February 2015.

The session was held in Westminster on 24 March, and featured three speakers: Lord Harrison, Chair of the House of Lords’ EU Sub-Committee on Economic and Financial Affairs; Victoria Powell, Policy Director for Capital Markets at the British Bankers’ Association (BBA); and Prof Logan Kelly, who had crossed the Atlantic from the College of Business and Economics, University of Wisconsin-River Falls, USA.

Capital Markets Union is a particularly significant topic for the UK because the country’s top man in Brussels, Lord Hill, is European Commissioner for Financial Stability, Financial Services and CMU; and, of course, because the UK is such a hotbed for financial services.

Lord Harrison, whose committee had published a report entitled ‘Capital Markets Union: a welcome start’ less than one week before the roundtable, described Lord Hill as having “by all accounts made a very good start” as regards CMU.

Summarising his committee’s report, he said its “crowning example” of material was that “just one in five businesses in the USA apply [for funding] to high-street banks, but in the UK and across the EU the figure is four out of five – and,
at a time when [European] banks have been re-capitalising and recovering, that has made life difficult”.

The European Commission, said Harrison, must take care: “We said to the [European] Commission that they must have proper impact assessment for things that they roll-out over the forthcoming five years.”

In respect of detail, Harrison said: “We highlighted certain areas that could be dealt with now, like the Prospectus Directive [a consultation on which was also launched last month] – it came through very strongly at a seminar we had, that this was in need of reform. We also talked about developing a framework of ‘high-quality’ securitisation because of what happened originally in the US with the financial crisis. We gave examples of what might be alternative sources of funding.” (Harrison described “great interest” in crowdfunding and peer-to-peer funding).

Harrison’s committee clerk augmented his comments, by pointing out that CMU was a golden opportunity for the UK to “lead the debate” within the EU. This triggered a brief tangent into discussion about the UK’s influence in EU policymaking more broadly. Said one: “The BBA [British Bankers’ Association] produced a very good report on the lack of British mandarins in Brussels, which showed the figure should be about 12 per cent, but has gone as low as about four or five per cent, so the UK voice [in Brussels] to prompt and encourage isn’t heard [as much as it should be].”

Victoria Powell then took to the floor, describing how CMU marked a “shift from focusing on financial stability to seeing how we can also encourage economic growth, which remains a major concern, with funding bottlenecks and inefficiencies”. Europe’s economies, as a whole, are “stagnating again”, she said, citing zero growth in the second quarter of 2014.

Powell said the USA’s marginally better growth begged the question as to what the EU can learn. For example, she cited ‘pension-funds equity allocation’ being lower in Europe (37%) relative to the US (53%).

She said Lord Hill had “done a good job in setting out what he is addressing”, taking a broad view. She also expressed contentment that the tone of political discourse had morphed from often apparently setting banks and capital markets as being in opposition, to – using an airports metaphor – becoming “more about [banks] as traffic-control, help to keep planes flying [with liquidity] once they are in the air”.

She later said: “Lord Hill has been very wise – he hasn’t shied away from difficult subjects, such as insolvency, tax, etc. But he is really bringing people ‘into the tent’ as to what their vision is. He has shown real pragmatism.”

She reflected: “The Financial Services Action Plan [created in 1999] – in terms of contrast - was very
legislative-driven. Europe’s [the EU’s] instinctive reaction to how to resolve things tends to be via legislation or creating supervisory structures. Now, through CMU, there is a need to look at both legislation (in terms of what’s been done) and asking, ‘what is the breadth of the toolkit that can be used given the challenges we face?’

Hill, though, has a “challenging” task ahead, there is no silver-bullet, and “we can’t say that securitisation will be the end for all ills and we’ll all walk off into the sunset”. Powell added: “The movement of savings across Europe in terms of pensions is huge and could have an enormous impact in terms of creating depth in capital markets, but it won’t happen overnight. For some the Prospectus Directive won’t make a difference; for others it will be critical, and it will help the investor in having a prospectus that is readable.”

Powell also sought to emphasise that CMU is not only relevant to Eurozone countries, nor just all the EU’s 28 member states, but that Europe is part of a global market for capital.

In addition, Hill has a real challenge in delivering “CMU for political reasons partly because aspects touch on other European Commissioners’ remits.

She concluded: “We need to look at which pieces of legislation have gone counter to capital union. Lord Hill recently told an audience in Edinburgh: ‘where we haven’t got it right [before], we need to have the self-confidence to make changes’. This is an important point.”

Prof Logan Kelly described Europe’s ambition for CMU as something that he “felt very positive about”.

He lasered in on sub-section 3 (‘Priorities for early action’) of the European Commission’s green paper on ‘Building a Capital Markets Union’ (published during February), describing it as “very aggressive”.

More broadly, though, he made the pertinent theoretical point that “increasing interdependency increases systematic risk” and that CMU will not eliminate individual investments’ risks, but would “pool the risk so it can be more easily quantified”. He added: “We have to make sure that we diversify risk rather than simply transform it to systematic risk.”

He described securitisation as a “very important innovation that has had a bad rap”, particularly in the USA: “In essence a mortgage-backed security is quite a brilliant instrument. But some of these securitised notes are extraordinarily difficult to price properly. It’s very difficult to evaluate some of these - quite frankly – ‘exotic’ derivatives.”

He concluded: “They have to be sufficiently backed by a securitisor. And, second, we need a very transparent process by which assets are securitised – knowing where it comes from.”

CMU’s proponents have talked up its theoretical benefits to Europe’s SMEs, but Kelly was a little cool on this. He said: “In my experience in the US, most very small pre-capital-market enterprises are going through [high-street] banking. They are not ready to engage ‘direct finance’. So, I think this may be a smaller benefit than is being touted. But even so, it’s a very worthwhile endeavour.”

Kelly concluded by lauding the importance of trying to agree common practices between national jurisdictions: “If we all have common rules and know the rules of the game then it
makes it much easier to interact. Even if nothing else came of it [CMU], that would be a remarkable achievement.”

Rather worryingly, he then added: “But with greater degrees of interconnectedness we do have greater potential for catastrophic financial-system failure.”

Put simply, he added that (in theory): “The only way to eliminate financial crises is to eliminate financial systems.” (a similar point, made later on, was: “You cannot get rid of systemic risk – it’s called systemic risk as it’s not ‘diversifiable away’”).

An open discussion began, and one participant dived in to emphasise that risk is – per se - at the heart of capital markets: “We have to be careful that regulators don’t kill this [capital markets]. The FCA [UK Financial Conduct Authority] seems almost be trying to ‘do away’ with risk.”

Lord Harrison pointed out that Lord Hill had himself been “very clear” on this point, having himself acknowledged ‘nil risk, nil growth’.

Conversation then turned to educating people about risk and the implications of their financial decisions. One said: “The UK has a long history of using capital markets to take risks. But we don’t seem to be seeing a culture coming through – it seems like we’re almost ‘post’ that. Parts of Europe, I perceive, have never got that same acceptance of equity culture – they seem to see it as an Anglo-Saxon threat to the way [they do] business.”

Another participant was keen also to discuss financial literacy and risk-taking among the general population: “People need to understand risk without being scared to death and [putting savings] under their mattress. I remember the 1980s – a lot of ordinary people got into shareholding and did very well out of it. We haven’t had that [culture] for the past 10 years. There hasn’t been the growth there. We need to show people that they can get the rewards.”

Kelly said: “One thing we don’t want to do is stifle financial innovation. When we innovate there will be unknown risks. So, the question is, how do we put up firewalls, so it doesn’t spread throughout the system? In the USA, the big issue for me is the interaction between the ratings agencies, investment banks and the companies issuing stocks. Because we have had a little too much self-regulation. The problem is that we don’t know how the financial system works in its entirety”.

One participant said: “The challenge here [Europe], is how someone gets rewarded for providing information into the market. Who is going to pay for that knowledge?”.

Kelly responded that the participant had “hit on the crux of the problem in the USA”, leading the latter to continue: “Europe is even more complex. How do we create that level of knowledge? There are 28 nations and more than 20 languages. We touched on Latvia earlier – there might have been six IPOs in the past 60 years or whatever it is. Who is going to invest in research in a Latvian company so as an investor in London can understand those securities to buy them, and how are they going to get paid for it?”.

One participant made a different but similar point, pointing out how Europe’s different local stock-exchanges have different priorities. For example, Italy’s stock exchange is encouraging ‘mini-bonds’.
Powell sought to return to education, asserting that “we are not focused on Joe Bloggs – I don’t think that’s going to happen”, adding: “We need to think about sophisticated investors and having corporates not have the incentive to hold cash. I think that’s where more can be done.”

Wrapping up the session, Kelly described himself as “not optimistic” about the likely extent of reforms in the USA. Powell, though, wanted to “paint a bright picture” for Europe.

Specifically, she said: “We need to be identifying what start-ups need (in terms of more actions in respect of supporting them financially, looking at new approaches, for example through their trade representations to get investment internationally) – and doing more at that level.

“Moving up the scale, there’s a great deal of possibility for private placements to be finessed and improved.

“And there’s potential for prospectuses to be improved. However, we will have to be very careful that we don’t ‘gold-plate’ [process whereby an EU directive is given extra powers when being transposed into the national law of member-states], and the exemptions that exist (you can drive a coach-and-horses through those exemptions!), and tie ourselves up so that we can’t benefit.

“While we do need to look at what’s gone wrong, it’s dangerous to build legislation by looking through the rear-view mirror, and we also need to think forwards. But we can’t be so preoccupied with avoiding the risks of the past that we actually create problems in the future by tying [down] segments of those who have been held culpable so that they can’t help free up the economy in the future.”
‘Too big to fail’ – the theory that certain organisations, particularly financial institutions, are so large and interconnected that their failure would be disastrous to the economic system, and that therefore they must be supported by government if they face potential failure – in the context of European banking reform was the topic of the Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme’s fourth roundtable.

The session was held on 14 April in Westminster, and featured two speakers: Prof Richard Anderson, Affiliate Member – Financial Resilience Cluster, University of Birmingham; and Paul Chisnall, Executive Director for Financial Policy & Operations, British Bankers’ Association (BBA).

Prof Anderson – who is also affiliated to Lindenwood University in Missouri - kicked off proceedings with a US-flavoured appraisal of the global banking industry, emphasising the financial world’s ‘interconnectedness’. ‘Too Big To Fail’, he quickly asserted, simply cannot be eliminated: “These interconnected dynamics are simply too complex. Occasionally things are going to go wrong.”

Chunks of this IPT roundtable picked up on themes from previous ‘Resilient Futures’ sessions, as quickly typified by Anderson remarking that it was impossible to create a banking system without risk, and that – per se – the system involves multiple moving parts: “While the music plays, you dance – that’s the nature of the [banking] business.”

Anderson critiqued policymakers’ actions since the global financial crisis, saying: “You don’t close banks suddenly. We saw that was a bad idea with Lehman Brothers [which filed for bankruptcy in 2008]”; he also praised Japan’s recent economic performance, saying that US policymakers dealing with the financial crisis “seem not to have known what went on” during Japan’s banking crisis during the late 1990s. He explained: “The context was a sequence of problems: regulators, at first, allowed one smaller firm to file for conventional bankruptcy (as did Lehman Brothers) and cease operation, which caused perceived counterparty risk to soar and financial markets to freeze. When a second larger bank was in difficulty, they assisted the bank via conservatorship to continue operating and be wound-down with care. That is the correct way to proceed, as the UK did in 2008 with its larger banks.”

Contextualising his point as regards Lehman Brothers, Anderson detailed the historical US example of Continental Illinois, which in 1984 became the largest bank failure in US history (a ‘run’ on the bank led to its seizure by the US Federal Deposit Insurance Corporation): “This [bank] did not fail suddenly, nor was it a badly-managed bank. It was a conservatively-run bank that had new management who decided they could make it more dynamic. It moved from being very stodgy to being very profitable. Partly, they had a large concentration of loans in only few sectors. Bank regulators were heavily criticised for not looking deeply enough into what assets the bank held. Eventually, Continental Illinois did not close – the shareholders and managers were wiped out but the bank [was] nationalised. It was not a case that you could close the bank without significant disruption in financial markets. That’s still pretty much the situation we have today.
In my opinion, it’s the best way to handle large banks that get into difficulty.”

Participants’ minds were perhaps thinking of parallels with the UK example of Northern Rock, which was nationalised in 2008. Anderson concluded his opening remarks by saying: “The trick is not to keep the banks from failing; nor is the trick necessarily to handle the bank in some kind of clever way - the idea is to keep the rest of the interconnected dynamic system from collapsing when one institution runs into difficulty. You need some way to protect the system from that institution. Personally, I think a good way to do that is to take over the institution.”

The BBA’s Paul Chisnall then picked up the baton, beginning by pointing participants to the UK Turner Review (published in 2009 by the-then Financial Services Authority chairman), which he described as a “great read” on both ‘what went wrong’ and potential solutions (as astute and relevant now as at time of publication, said Chisnall, particularly flagging the report’s first chapter).

Chisnall opened by describing himself as “quite agnostic” on EU banking reform proposals, explaining that “although it’s the case that 80% of financial services regulation comes from ‘Europe’, structural reform is not one of them. Irrespective of whether Europe decides to proceed, the UK is going to go ahead. That comes from the then incoming Coalition government [2010], which set up the Independent Commission on Banking (ICB) chaired by Sir John Vickers and that asked whether it would make sense to separate retail and investment banking. The Commission produced two draft reports and said they thought it a very good idea for deposit-taking (particularly for households and smaller SMEs) to be ‘ring-fenced’. While little moves quickly, within days of the final report all political parties said they accepted the recommendations. From that point, it become a reality that structural reform would take place in the UK.”

In contrast, Chisnall described the EU as partly remaining at “first base - with views differing among banks, regulators and at member state level upon whether structural reform is a good or bad thing. In the UK we have moved on.”

He explained that those still making the case against structural reform had plenty of material to draw upon, including from the IMF that had at one point concluded that its greatest concern was ‘narrow-banking’ (banks that concentrate their activities on narrow income streams). They could also point to rating agencies concluding that with measures passed as part of the banking reform programme, including the Bank Recovery and Resolution Directive and the advent of bail-in capital, the ‘implicit guarantee’ sitting at the heart of concerns about ‘Too Big To Fail’ had reduced to a very significant degree.

Chisnall pointed out that the European
Commission set up a ‘high-level’ group chaired by the Governor of the Bank of Finland, Erkki Liikanen, over a year after the UK had already agreed reforms. The Commission did not publish its formal proposals for structural reform until January last year and by this time the UK primary legislation was already in place. The EU’s lawmaking, Chisnall said, inherently involves ‘division’ of proposals between EU institutions, which inevitably slows the process down. He said the EU seemed to be moving towards “focusing more on banning deposit-takers, say, from undertaking proprietary trading – and I don’t think anyone round this table would say that’s a bad thing to do”. He predicted that regulators would gain a ‘reserve power’ to require separation between retail and investment banking if supervisors had concerns about whether a bank in difficulty could be ‘turned around’. This was a fundamentally different proposition to the approach being adopted in the UK where separation is automatic for banks with core deposits greater than £25bn.

In the UK, ‘ringfencing’ is on the cards, said Chisnall: “We’re working on it – but changes of such a fundamental nature take time. December 2013 saw primary legislation; then 2014 saw secondary legislation on where we should put the fence between the two. There’s still a regulatory discussion on how high the fence should be. The first consultation was in October 2014, everyone responded, and we’re still waiting to hear from the regulator on that. And we’re still waiting for the second consultation from the PRA [Prudential Regulatory Authority], the first consultation from the FCA [Financial Conduct Authority], and they have only committed to actually finalising the regulatory rules in the first half of next year. Banks will then have less than three years from seeing the final rules to implement their ring-fencing plans in order to meet the 1/1/19 deadline recommended by the ICB and reflected in the UK legislation.

“Structural reform at EU-level will look quite different to UK reforms,” Chisnall concluded.

The discussion then broadened into a Q&A, and Prof Anderson dived back in to observe: “What bothers me with a lot of EU documents is that they start off by discussing the 2007 financial panic and then reach conclusions that are unrelated. In some senses it’s quite absurd.”

Anderson was scathing about bankers’ denials of blame during the early days of the financial crisis: “These are people making very large salaries pretending they were hoodwinked by salesmen – it just wasn’t true. They took risks and they knew what they were doing.”

Citing examples from the US, he opined: “The separation of retail and investment banking just does not work.” He expanded: “I don’t believe the proposition that is in the European Commission proposal that you can confine certain activities to certain segments of the banking group. Reputational effects don’t work that way. I don’t think it’s workable.”

One participant said it seemed possible that the banking sector could move towards having many “narrowly-focused banks that are more likely to fail on their own”.

Again flagging how risk is inherent in banking, a participant from the private-sector wryly commented that “trading risk is not an unacceptable thing to do” and pointing out that the roundtable had yet to focus on banks’ need for profitability. He claimed that “banks aren’t making money and then [banking reforms are] putting a huge regulatory burden on top of them.
Many regulators seem to want to drive down risk and even try to eliminate it. But without risk there’s no reward, and without ‘return’ there’s no investment, and without investment the whole thing continues to spiral downwards. People are bemoaning a lack of liquidity and lack of lending to SMEs – that’s rubbish: there’s plenty of money but the reason funds are not flowing is down to a host of different reasons.”

The participant said people should resist seeking to learn too many lessons from the USA because its banking system was so different from Europe’s. Re-stating a point made during the first Resilient Futures session (11 March), the same participant said: “There are 6,000 banks in Europe, which is far too many. I am a great believer in structural reform but the reform must be aimed at reforming the industry to be an appropriate size for the market it tries to serve. The regulators must aim to stimulate growth.”

(The same participant later commented: “The proliferation of highly unprofitable banks all over the place is not good - I think there’s about 50 banks per week closing in the US at the moment. That number has just got to come down. You have got to put profitability and risk back into the system in a way that is properly disclosed.”)

On a similar theme, Prof Anderson said: “Everything is about prevention. There’s very little discussion about how to make the system flexible and lasting.”

In one of the session’s most memorable comments, Anderson also said: “No bank wants to be transparent because there goes your profit-margin! As a bank, you live off the fact that you are not transparent.”

The BBA’s Chisnall said: “European Commissioner Michel Barnier [Commissioner for Internal Market and Services until 2014], when he last visited London brought a glossy brochure of all the measures that had been undertaken in banking at a European level. A colleague of mine worked out how many pages it added up to, and we pretty much worked out that this equated to the last UK Parliament working purely on financial services reform, to the exclusion of all other legislation. So, let’s not think that we’re short of banking reform measures. This spanned 40 substantial legislative measures. And there is a price to this. If an under-estimation and under-pricing of risk sat at the heart of the financial crisis, then by definition the corrective measures must price in risk better than before. Changes to the capital regime, for instance, recognise that SME lending is quite risky and make it a lot more expensive, and you have to square this with the political debate that urges more SME lending at a reasonable rate. Everything has a trade-off. So there comes a point at which you need to ask whether you’re getting those trade-offs right.”

He added that: “In Europe they’re beginning to talk about Capital Markets Union. For some it seems to be a zero-sum discussion. I think we want to try and jump-start a new discussion as to how you get the right finance in support of economic growth, and you get the perfect blend between bank lending and equity investment. It’s not the case that one is inherently better than the other – you need both”

Further participants then piled in to make a separate point: that there are elements of the financial system remain outside regulators’ scrutiny.
The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme convened its second roundtable focused on energy policy (and the fifth session of the ‘Resilient Futures’ programme overall) on 12 May – just days after the general election delivered a majority Conservative government.

The session – entitled ‘Affordability for Households & Businesses’ - was chaired by Energy UK Head of Government Affairs, Mark Cazaly, and featured three speakers: Dan Alchin, Energy UK’s Policy and External Relations Manager; Peter Smith, External Affairs Manager at National Energy Action (NEA); and Dr Monica Giulietti, Associate Professor of Global Energy at the University of Warwick.

Dan Alchin opened proceedings by pinpointing three factors influencing the affordability of energy: the energy’s cost; the amount of energy used; and a household’s income (or business’s profitability).

He said that it was important that consumers are on the “right tariff for their needs and situations”. He pointed out that January heralded ‘17-day switching’, meaning a “dramatically” reduced timeframe for people changing supplier. He also cited a recent “improvement” to the Debt Assignment Protocol (the process used to transfer debts between suppliers to allow indebted pre-payment meter customers to switch) to try to ensure a “simpler and smoother journey through the switching process”.

Alchin emphasised the importance of context to the discussion, specifically that energy production has significant challenges, including de-carbonisation and ensuring security of supply. These (costly) policy priorities, he said, are reflected in customers’ bills.

Energy efficiency is, he said, “crucial” and unfortunately Britain has “some of the worst-performing housing in Europe, which means a lot of energy and money being wasted.” He referenced the Government’s new fuel-poverty target to ensure that as all ‘fuel-poor’ households are rated (at least) Energy Performance Certificate (EPC) band ‘C’ by 2030.

His broader point was that “there needs to be a genuine debate about how these programmes and policies are funded.”

Alchin also pointed out that stimulating ‘able-to-pay’ (richer) households to adopt energy-efficiency measures was also a challenge for the new Government.

Energy firms, he said, must work with third-party organisations, such as National Energy Action (NEA), to encourage behavioural change.

The possibilities created by the national rollout of smart-meters became one of the session’s main points of discussion, and Alchin triggered nods aplenty by observing that the ambition of installing 53 million smart-meters by 2020 was a “big opportunity to change how people engage with the energy they use” and “opened up opportunities for exciting new technologies”.

NEA’s Peter Smith kicked off his remarks by pointing out that energy affordability was
significantly more than a mere policy priority – it is, he urged, a concern of major present-day saliency. Energy affordability is, he explained, “desperately out of reach for many households” who have to “resort to quite crude coping tactics to just maintain an adequate level of existence almost… we have contact with a number of households whose position is quite desperate. We get quite a lot of letters from people who simply can’t cope any more, and haven’t consumed energy in their property for a number of years.”

Smith said: “In England 2.3 million households are ‘fuel poor’. These households can have high energy use and a tendency also to inhabit the least energy-efficient properties (that is, rated in bands ‘E’, ‘F’ or ‘G’).”

Smith described how secondary legislation was put in place during the 2010-2015 Parliament containing a target for ‘fuel-poor’ properties to be improved to EPC band ‘C’ by 2030: 95% of ‘fuel-poor’ households are “not there yet.”

Quite aside from the health- and other important related benefits of such building-stock improvements, Smith pointed out that significant numbers of jobs would also be created should the “energy-efficiency industry ‘take off’, as it did not do during the last government [2010-2015].”

£2.6bn/year funding is needed to get all low-income properties below EPC band ‘C’ up to the standard by 2030, Smith said, adding that – despite the enormity of this sum - he believed this money was possible to find, explaining: “The Treasury will raise £15bn from domestic energy consumers during this [2015-2020] Parliament, from VAT on electricity and gas; from ETS [the EU Emissions Trading Scheme]; and from the Carbon-Price Floor. With this money they could make affordability a real prospect for households.”

HM Treasury aside, Smith suggested that the UK’s sizeable public infrastructure budget could also be tapped.

His conclusion was clear, extolling the possibility of a “have-your-cake-and-eat-it” scenario whereby the energy-efficiency investment he outlined would create jobs (Smith cited more than 100,000 per annum), reduce carbon emissions and generate ongoing prosperity: “There really aren’t any excuses for not adequately investing in this.”

Warwick University’s Dr Monica Giulietti was the roundtable’s third speaker, focusing her remarks on the challenge of encouraging people to change their energy consumption behaviour and/or switch provider.

She said: “Making people aware of their own consumption beyond the amount they spend [on energy bills] is going to be one of the key factors in the coming years. But a lot of media coverage has been unhelpful. Focusing on switching rates and lower prices is only a little part of the discussion.”

Vulnerable consumers have, Dr Giulietti said, failed to ‘switch’ in significant numbers, despite PR campaigns. “Even with the opportunity to save money on bills, there’s an inability to engage,” she lamented, calling for stakeholders to encapsulate the topic more broadly as part of an ‘energy management’ strategy. She said: “We are seeing evidence of what Ofgem calls ‘non-traditional business models’. There are possibilities for new entrants or the repositioning of existing suppliers.

“There are plenty of opportunities to supply services and support associated with efficient
use of energy. But some sort of regulatory support might be needed to [successfully] address those consumers who may find it difficult to engage.”

A discussion then began with one participant immediately endorsing Dr Giulietti’s point that consumers remain very reluctant to switch energy provider and yet, paradoxically, polls show that energy costs are a big public concern. The participant stated simply: “The market is obviously not working as it is.”

NEA’s Smith made the point that the Big Energy Saving Network was set up by the last government (the inaugural programme was 2013-2014) and observed that a substantial amount of “hand-holding” is often needed for vulnerable households to switch supplier.

The point was then made that ‘larger companies are obligated to meet a range of social obligations and smaller ones are not’, specifically the ‘Warm Home Discount Scheme’ (rebate). Smith argued that all energy suppliers – regardless of their size - should be obliged to provide this rebate.

The picture painted during the roundtable was that of a relatively dynamic market in respect of energy provision, with one participant describing a “trajectory towards more suppliers”. One quoted an unnamed minister in the previous government as saying he envisaged “movement towards a ‘big 3,000’, not [just] the ‘Big Six’ [energy firms]”.

One participant asked who should lead on encouraging consumer change. NEA’s Smith responded: “A range of parties need to play a role. It shouldn’t just be left at the feet of industry. I think there was a tendency under the last government to push far too much onto the large energy suppliers.”

Dr Giulietti said that the “climate of public mistrust” (of government and large organisations, as manifested in consumer suspicion of always being “ripped-off” or misled), mean that smaller and/or more local consumer associations and local authorities have a “better opportunity to engage more directly” and more successfully.

There seemed to be consensus among participants. One observed: “I think a local
NEA’s Smith turned the discussion to ‘eligibility criteria’ for energy efficiency schemes, saying: “There’s quite an extensive checklist of personal information that people have to provide, but then, even if these people are eligible they are not guaranteed support through the scheme and may be told things like ‘your property is too small and it’s not worth us doing it’.” This issue was coupled, he argued, with a requirement for households to make capital contributions towards the cost of the work which were variable. These issues combined meant, “we need to look very closely at why this doesn’t deliver for vulnerable consumers.”

Focus returned to the opportunity to change people’s behaviour created by the smart-meter implementation programme.

One participant said: “It has always amazed me that we are putting smart-meters in every home in Britain without providing independent advice [on how the meters work; on energy usage; etc.]. We still have another five years of this programme.” Energy UK’s Alchin pointed out the existence of the Smart Metering Installation Code of Practice (‘SMICOP’).

Dr Giulietti said that empirical evidence suggested it was likely that household interest was likely to wane in smart-meters relatively quickly after their installation and that “people will revert to old habits. Even when people are informed (and part of an experiment to trigger different behaviour), people are not likely to spend much time twiddling with their meters. There are time limitations and lifestyle requirements [that mean people are unlikely to spend time over a sustained period trying to reduce their energy consumption].”

NEA’s Smith seemed to sum up the consensus, describing a “big untapped opportunity surrounding smart-meter installation”, while another participant weighed in with: “It is keeping up the interest [in people’s smart-meters and energy-efficiency] that is the challenge.”

One participant mentioned that energy giant E.On had installed more than 400,000 smart-meters and found that they had reduced by about four per cent people’s electricity use (and about one per cent for gas).

Another opined: “There’s certainly room for [mobile-phone] apps and ‘gamification’ as things to reinforce smart-metering, and trying to ensure that initial reductions are sustained.”

On a similar note, one participant observed: “Kids will [initially] be very interested in switching the TV on and off [to see energy usage fall], but the challenge is sustaining that focus.” Mention was then made by one participant of a project entitled ‘Vulnerable Customers and Energy Efficiency’ (VCEE) in the London borough of Tower Hamlets involving organisations including UK Power Networks, British Gas and the NEA. The participant referred to ‘time-of-use’ tariffs and said: “Smart-meters are a massive opportunity.”

Another participant concurred, saying: “Vulnerable customers can really benefit the most from time-of-use tariffs.”

One participant pointed out that the discussion
had largely ignored micro-businesses. He said: “Even if they want to do it [become more energy-efficient] they usually can’t because the building they are located in will not usually be owned by them. We have not targeted commercial-building owners.”

Another agreed, saying: “The challenge is how you convince a commercial landlord to invest in energy efficiency, when the savings to be made would most likely not be theirs (apart from that they could advertise the benefit to tenants). Unfortunately, the way commercial landlords work, this is probably rather down their priority list.”

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European banking regulation was under the spotlight at the Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme’s fourth roundtable (‘Finance’ strand).

The session, held on 21 May in Westminster, featured two speakers: Adam Cull, Senior Policy Director, British Bankers’ Association (BBA); and Prof Peter Sinclair, Emeritus Professor, Department of Economics, University of Birmingham.


He began by displaying three charts showing financial data including: the recourse to European Central Bank (ECB) ‘liquidity facilities’ by banks in ‘distressed’ countries compared to ‘non-distressed’ countries (2007-2015); and interest-rates on ‘new loans to euro area non-financial corporations’ (1997-2015) – rates show as being about twice as high in distressed countries compared to non-distressed. He emphasised: “This is why it [banking union] matters”.

Cull’s next slides illustrated the three ‘pillars’ of Banking Union: the Single Supervisory Mechanism (SSM); Single Resolution Mechanism (SRM); and the proposed Single Deposit Guarantee System.

In overall terms, he said: “National authorities still have quite a large role – they are responsible for supervising those banks not under direct control of the ECB; and the regulatory conduct of banks.”

He continued: “I think it’s fair to say that the ECB is still ‘winding up’ [increasing] its supervisory practices. There are quite different experiences so far with the Joint Supervisory Teams [JSTs]: there still seems to be quite a reliance on national supervision at this point in time.

“The process of moving from having 18 different supervisors to having a single supervisory framework is really quite complicated. The
move in the UK from having the FSA [Financial Services Authority] to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) [in 2013] was quite complicated in itself - and trying to replicate that across 18 countries is taking time.

“One of the concerns that led to the establishment of the SSM was that different [EU] countries were applying EU rules in slightly different ways: so, you’d have a different supervisory outcome in Spain compared with in Germany, for example - there was inconsistency in practice. Danièle Nouy [President of the ECB’s Supervisory Council] has indicated that she really wants to deal with these national discretions and try and sweep them away across the euro area. She was recently talking about ‘what can count as capital’: for example, in a few of the southern European member states there’s quite a reliance on [deferred] tax assets counting towards the capital-base of institutions. But those will be phased out over time.”

Cull then detailed the SRM and SDGS. In respect of the former, he referred to his fourth slide on the SRM’s ‘trigger and process’, which he described as “extremely complicated”, explaining: “When a bank is failing you have to act extremely quickly or otherwise you get a Northern Rock-style ‘run’. So, one of the challenges for the SRM is going to be demonstrating that this process is credible and that there aren’t going to be political hurdles in the way to getting to a resolution in practice. In the UK, it’s quite simple. This [European] process looks a bit more complicated, and a big question is how realistic it this in the event of a failure of a large cross-border bank within Europe.”

In respect of the SDGS, he said: “It has proved very hard to find political agreement - there is still great resistance in some of the creditor countries.”

He then detailed the Bank Recovery and Resolution Directive (BRRD) and ‘bail-in power’ – “a really big change to the armoury that a central bank or resolution authority has” – before finishing his introductory remarks with a comment about the risk to the UK of ‘caucusing’ (when a portion of the membership of a voting body – in this case, Eurozone countries within the EU - agrees to vote as a political bloc).

Referring to the prospect of Eurozone countries using their Qualified Majority Voting (QMV) majority to “caucus before big votes and push through their preferred model of financial-services regulation”, Cull explained: “The SSN regulation recognised this and included safeguards, including the idea that when the European Banking Authority is making rules (or opining on the way in which supervisors are acting), it must have a majority of those who are within the euro area and those who are outside the euro area for a decision to pass – so, that double-majority lock is a very important safeguard.”

He continued: “The BBA has been quite keen, though, to press the UK government that relying on those sort of institutional safeguards are not enough. Influence is as much about how you engage with the European process and how many people you have in the European institutions who share your cultural backgrounds and have ‘soft influence’.”

Cull highlighted BBA research on different nationalities’ representation within the European institutions that showed Britons being outnumbered by nationalities including Belgians in respect of potential proximity to financial-services policymaking; in contrast, he said, French nationals have a relatively high
representation in the European Commission’s agricultural department (DG AGRI) – a policy area of great importance to France.

The long-term decline in British presence within the European institutions was becoming a tangible theme of the IPT’s Resilient Futures programme.

More positively from the UK’s perspective more recently, Cull pointed out that Lord Jonathan Hill has been appointed as European Commissioner for Financial Services. He concluded: “So, perhaps things are changing. But it’s important to think of this ‘soft influence’.”

It was then Prof Sinclair’s turn to make his opening remarks and he was keen to set the global context. He described the Dodd-Frank Act (which heralded significant changes in the US’s financial regulatory environment from 2010) as a “perfect example of how generals fought the last war and did not think about the next one”. He said it was seen in the US as being “in some parts sensible” but “at risk of strangling a lot of innovation”.

He was also keen to stress the political context, pointing out that heavy regulation of the financial sector was popular among some audiences, “but we have to be very careful what kind of regulation we have.”

Prof Sinclair pointed out how financial corporations are typically “very savvy” and have the resources to hire “smart lawyers and smart accountants, mathematicians and others” to help them exploit regulatory differences between jurisdictions, which itself makes a “strong argument for at least co-ordination and probably a high degree of uniformity” across geographies in respect of rules. “What’s so ‘special’ about the EU, why not beyond as well?”, asked Prof Sinclair.

He then cited the historical importance of the Bank for International Settlements, based in the Swiss city of Basel, which is developing ‘Basel III’: “something to which the EU countries are committed”. He explained: “They are pushing up the minimum capital ratios. The whole idea is that banks should be more ‘resilient’ - the name of this Industry & Parliament Trust dialogue! – and have buffers to absorb inevitable adverse shocks. Holding much more capital appears to be a very commonly-held principle. But it has a cost: you are going to squeeze lending, and that means that companies and households are going to have to pay a little more in due course for loans. And so there will be less output and less wealth. So, where is the optimum, how far do we go? The EU – like everybody else - has been urging that now is a terrible time to implement an increase in the minimal capital ratios of large magnitude. Why? Because many (though not all) banks are still very sick and very close to trouble. So, you have to decide when to do it. It has been constantly revised: it was due to be 2013, then 2014 - it’s now been shunted back to 2019, when Basel III will replace Basel
II. This is not a matter specifically for the EU, but it does play a role in ‘Basel’. The Americans didn’t actually sign up to all of Basel I and Basel II, so will ‘Basel’ be obligatory?”

Prof Sinclair then referenced Cull’s opening slide, specifically what he called an “explosion of ‘sovereign spreads’ within the EU, starting in 2009”, saying: “Every government is strapped for cash, not just the Greeks.”

Referring to the UK bank levy (annual tax on the value of all the debts in UK banks), he remarked more generally: “If governments squeeze banks, it makes banks less ‘resilient’.”

Prof Sinclair described the finance sector as ‘under-taxed’ (“banks are exempt from VAT / GST, which the US is alone among large countries in failing to levy on most services”), and referenced ‘Tax By Design: The Mirrlees Review’ by the Institute for Fiscal Studies (2011) as a “majestic analysis of the weaknesses and strengths of different tax systems”.

He described the choice between a ‘Financial Activities Tax’ and a ‘Financial Transaction Tax’, which he referred to respectively as ‘FAT’ and ‘FTT’ (the latter being a high-profile bone of contention between the UK and EU). He said: “An FTT in Sweden didn’t yield much [tax revenue] and transactions simply ‘hopped across borders’ [to avoid it], and so they had to scrap it. The City of London is fearful that institutions [major banks, etc] are essentially footloose, and that Singapore and other such destinations could beckon: we have already had threats on behalf of HSBC, and worries about Standard Chartered and Deutsche Bank leaving the UK. Britain has been arguing in favour of FAT rather than FTT, but doing so if applied with international co-ordination, not imposed centrally by Brussels.”

As well as FTT, Sinclair cited the high-profile and equally controversial topic of bankers’ bonuses as the UK’s “other big battle with Europe” in the financial arena. Banks would, he said, find a way round any cap by boosting base salaries. One positive aspect of bonuses, Sinclair said, is that they are “shock-absorbers”. “It’s much better to control bonuses in other ways,” he said.

Prof Sinclair concluded that - FTT and bonuses aside – there was, to a large extent, harmony between UK and EU thinking on banking reform.

The roundtable then opened into a general discussion, although the BBA’s Cull immediately stepped back in to comment on Basel III, saying: “Although we have had an extended timeframe (up to 2019) to phase-in Basel III, the large UK banks (and many of their competitors) are ‘there’ already - there’s been a huge forerunning of the regulatory timetable by industry as they must be seen as being at least as strong as their competitors. In many respects we’re ‘there’ right now.”

He also defended the size of banks’ tax payments, saying they “suffer from irrecoverable VAT, which most of them do not show in their financial statements. So, many banks carry a higher tax burden than is visible from the outside.”

Cull seemed to sum up a consensus round the table by saying that harmonisation of rules was largely positive, but lawmakers should be alert to differences between countries’ financial cultures. As an example on the retail/consumer side of financial services, credit-cards are far more prevalent in the UK than Germany.

One participant made a different but related point, emphasising: “Where you choose to harmonise is incredibly important. You do need
global consistency.”

Reference was then made to a perceived refocusing recently in EU rhetoric away from ‘financial stability’ towards ‘jobs and growth’.

Capital Markets Union (CMU) (the theme of the IPT’s second ‘Finance’-themed ‘Resilient Futures’ session) was duly raised, although Cull saw this high-profile European Union priority as a “buzz-phrase” with as-yet-unclear trajectory. One participant referred to CMU’s potential to help SMEs but pointed out that capital markets in much of Europe remain underdeveloped.

One participant referred to CMU’s potential to help SMEs but pointed out that capital markets in much of Europe remain underdeveloped. Cull referenced the European Commission’s consultation on “revitalising” securitisation, saying: “This can free up part of the market so banks have more capacity to lend to SMEs.”

Prof Sinclair said: “We have known in Britain for ages that it’s small firms that generate jobs growth. The big companies have no problem raising funds: they have equity quotations, debenture markets, banks lend to them on easy terms. The little guys have terrible problems raising funds. This is a very serious structural problem in most Western countries.”

Prof Sinclair also voiced concern over the “huge disparity” between house-prices and household incomes. “Britain,” he said, is “vulnerable to a house-price crash. Germany does not have this problem: house-prices have hardly moved in Germany relative to incomes for 20 years across the country as a whole (although there is regional variation).”

He went on to say: “Banks have transformed themselves in five decades from funders of industry to lenders for housing. What good has it done us? It has impoverished youth.”.

Prof Sinclair also referenced a separate matter: “There is a big concern surrounding whether the European Central Bank should become a ‘lender of last resort’ or should national central banks do so, and under what circumstances. These are big questions that lurk below the surface.”

Discussion also took in the possibility of ‘Grexit’: “While Greece can be rescued, the funds are not there to rescue Spain,” observed Prof Sinclair.

A question was raised as to how the UK and EU differ as regards helping failing banks and the Single Resolution Mechanism (SRM). Cull said: “I’d say that we are broadly in the same place. The Bank Recovery and Resolution Directive (BRRD) really mirrors the Banking Act 2009 Special Resolution Regime, and is real success of the UK going to Brussels and saying ‘this is what you need to do’ and then Brussels actually doing it. If you look at the tools and powers in the BRRD and compare it to the SRR, they are pretty much in the same place, although there are differences in the margins. I think the question will come in respect of the implementation in practice.”

As the roundtable drew to a close, one participant referred to the multiple new rules and requirements “hitting banks and financial institutions at the same time – and it is a lot”.

He said: “It’s hard to see now what the end-state looks like. But in four or five years’ time you will have more credible, more resolvable, safer banks. The question now is implementation and execution – that’s what you’re likely to see over the coming years.”
The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme held its third roundtable focused on energy policy (and the seventh session of the ‘Resilient Futures’ programme overall) on 11 June.

The session – entitled ‘Security of Supply’ - was chaired by Birmingham Business School Professor of Strategy, Prof Stephen Brammer, and featured two speakers: Daniel Monzani, Head of Security of Electricity Supply at the Department of Energy & Climate Change (DECC); and Prof Michael Bradshaw, Professor of Global Energy at Warwick Business School, University of Warwick.

Monzani opened by pin-pointing ‘pre- and post-2018’ as the most relevant timeframes in which to assess the topic; and saying that the level of energy-market inter-connection between the UK and mainland Europe is growing.

“The electricity market is going through a pretty fundamental shift at the moment,” explained Monzani, citing the push towards decarbonisation as a primary driver.

Monzani particularly focused his remarks on describing the new UK Capacity Market (CM), which seeks to ensure that the country has sufficient capacity to meet peak electricity demand and to encourage investment (the first CM auction results were revealed in January; this auction targets the delivery of capacity in the winter of 2018).

“This [the CM] allows people to bid in, to offer capacity: that might be new capacity (for example, new CCGT [Combined Cycle Gas Turbines [CCGT] or Demand-Side Responses [DSR]) or it could be existing capacity,” explained Monzani, adding that this year sees the introduction into CM of interconnectors, which will be able to bid alongside electricity generators: “This is important as it gives incentive for new interconnection.”

In respect of aiming for greater regulatory stability, Monzani said: “Half the battle is achieving security of supply, the other half of the challenge is convincing people that they don’t have to worry about it. You do an awful lot of damage to business if there’s a seed of doubt.”

In summary, he said: “In the short-run we have a plan that ‘keeps the lights on’; and, from 2018, we have a market [the CM] that will start to bring on new investments.”

Warwick’s Prof Bradshaw’s opening remarks tackled three themes: actually defining ‘energy security’; gas and generation capacity; and what the ‘low-carbon transition’ means for energy security.

One recent “review”, said Prof Bradshaw, had identified 80 different definitions of ‘energy security’. He described DECC’s ‘Energy Security Strategy’ as a “very useful document in many ways”; DECC, he said, made a distinction between ‘physical’ security of supply and ‘price’ security of supply: “This is an important distinction to make”. But he added: “We do need to understand what is affordable.”

Prof Bradshaw described two main challenges: the globalisation of UK energy security as a consequence of the depletion of UK natural resources (“import dependency will have to
increase”, he later pointed out); and the need to de-carbonise to address climate change. “So, we’re globalising and de-carbonising at the same time - it’s a difficult act to manage. There are tensions and contradictions - the most recent example would be the return of coal at the expense of gas, brought about, really, by a failure of carbon-pricing.”

Prof Bradshaw then spoke of the globalisation of gas supply, saying: “UK production peaked in 2000. We became a net importer in 2004. A decade later we found ourselves importing 50 per cent of our gas. There are projections that this could be 70 per cent by the end of the next decade. The [English] Channel, as far as the gas-market is concerned, does not exist. We are part of a wider network with all sorts of interesting things happening as far as price formation.”

He continued: “I think there is an over-emphasis on the ‘physical’ security of supply. We have a resilient system – we have a diversity of sources of gas. There is no problem with getting the gas. The [key] question is: where is it coming from, and how much is it costing at a particular point in time?”

Interconnectors are “critically important” to maintain security of supply, he said, continuing: “So is the status and health of the ‘National Balancing Point’ [a virtual trading location for the sale and purchase and exchange of UK natural gas], particularly vis-à-vis what is happening in European markets. So, we have a broader set of influences. If domestic gas prices are shaped by North-West European market conditions rather than UK, does that matter?”

He continued: “Most of the uncertainty lies upstream, around security of demand. How much gas, for how long, do we want? “We should not over-emphasise the significance of gas in power (which is 25 per cent to 30 per cent of gas demand in the UK). The key sector is actually households – and what happens to the future of domestic heat. I don’t think many of us have plans to rip out our gas-cookers. How we decarbonise domestic heat is critical to the future of gas-demand.”

“I think there’s a particular problem of managing the incumbency and redundancy. We are telling industries: ‘we need you for a while, but we don’t need you in the long-term – but please do invest.’ This is essentially what the Capacity Market is trying to pull off.”

The roundtable then opened up to a Q&A, with the discussion often surging beyond EU borders. Prof Bradshaw described China’s impact on the global energy sector as a “global game-changer” (and later in the discussion, too, a “big question-mark”). He expanded: “China has a very low share of gas in its mix – it has a target of 10% by 2020. China’s gas-balance depends on what happens with domestic production. We know that China has shale-gas potential but they are struggling to realise it. But they are also signing very large deals with Russia.”

The potential for Carbon Capture & Storage (CCS) was also touched upon, with Prof Bradshaw describing it as “obviously critical”. He said: “Gas is here for a long time and more of it if we get CCS. But progress is slow.”

DECC’s Monzani made a broader point that futurology is difficult, saying: “We wouldn’t have predicted how shale-gas was going to revolutionise the basis of the US power-sector.”

The roundtable’s chairman then mined for further
views on shale-gas. Prof Bradshaw urged caution, pointed out that “social acceptance has yet to be gained”, and said a more “evidence-based” debate was needed. He expanded: “We need to assume that we aren’t getting any [shale-gas]. Then, if it happens, it’s a pleasant surprise. But it will only happen if it gains public acceptability, and it’s a way away from that at the moment.” Referring to the drawn-out nature of planning processes (and similar) in shale localities, he said: “If it takes 12 months if you want to drill it’s going to be a very slow revolution.”

In a pan-European context, as regards shale-gas, he added: “The Polish players will continue to operate. Obviously there are prospects in the Ukraine, but the investment environment is not conducive.”

But his most emphatic point was: “Shale has become a ‘fracking distraction’. Making sure we slow the rate of decline in the UK Continental Shelf is far more important than worrying about shale-gas, which has not happened [generated power] yet.”

Spurred by the discussion’s foray into shale, one participant from a business lobby then remarked that business confidence as regards investment is at a “record low”.

Discussion returned to UK-specific examples as regards shale exploration (for example, in Lancashire), with Prof Bradshaw saying, more broadly: “Those investing want surety that if they find a resource they can develop it – well, I’m afraid that that’s not the way it is. The first thing that the operators say is ‘we need a social licence and we haven’t got one’.”

The conversation then moved on from gas to (briefly) renewables and interconnection, before Prof Bradshaw thrust ‘new nuclear’ into the discussion, saying: “We can’t say ‘no’ to everything [new energy investment] and new nuclear may be one of the things we have to say ‘yes’ to.”

With his global perspective to the fore, he pointed out: “Chinese investment will be critical. We [the UK] have said a polite ‘no’ to Rosatom [Russian state-run nuclear firm].”

One participant then criticised aspects of UK energy policy, saying: “I don’t see policies driving the actions that the Government wants.”

DECC’s Monzani responded: “I disagree. I don’t think we’d be introducing much low-carbon [generation] without CFDs [Contracts for Difference]; I don’t think we’d be building much new gas without the Capacity Market. But I do agree that policy uncertainty is not helpful for anyone.”

Monzani was a reassuring presence, saying: “We aren’t going to see ‘blackouts’.”

One participant then remarked on how
media reports can misrepresent Britain’s energy situation.

The discussion entered its final strait with reference to the Government’s commitment to hold an in-out referendum on the UK’s EU membership before the end of 2017. One participant said: “I’m surprised that this has not [yet] come up in our discussion.”

Monzani pointed out that PM David Cameron had cited the advantages to the UK of pan-European moves on climate-change and European Energy Union.

One participant then said: “We import most of our oil and gas from Norway, which is not in the EU.”

Prof Bradshaw said: “We are complacent about our relationship with Norway. The North Sea is depleting – it’s a mature basin. If Norwegian production shifts north (away from the UK), we will be accessing Norwegian production through a continental market. Norway may not always be there. It’s a market relationship. If there are other places for Norway to sell, they will seek those out.”

‘Diversification and Innovation of Sources’ was the topic of discussion at the Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme’s fourth energy policy roundtable.

The session, held on 24 June in Westminster, featured two speakers, drawn from industry and academia: Mary Teuton, Head of Policy & Regulatory Strategy at VPI Immingham (a Combined Heat and Power plant in Lincolnshire); and Prof Karen Wilson, Professor of Catalysis and Research Director at The European Bioenergy Research Institute, Aston University.

Teuton kicked off proceedings by reinforcing the sentiment often expressed during previous IPT sessions that ‘energy’ is best discussed in a global, not national nor European context. She opined that energy policy “seems to be becoming increasingly politicised”.

Tackling the news earlier in the month that the building of a £1bn tidal lagoon in Swansea Bay has been given a green light, she said: “You have to question the value-for-money of this project. I do appreciate the argument that it’s a pilot project, and that if it is successful, then we [Britain] could be global leaders. But it could be that the money could be better spent elsewhere: R&D, other technologies.”

“It is the same with [new] nuclear: it needs to be at the right cost. There seems to be a very expensive contract that is giving huge returns to a private company. The Hinkley discussion [proposed new nuclear plant at Hinkley Point in Somerset] will rage on for many years - I’m sceptical about whether it will be built. And yet on-shore wind and solar projects are no longer being subsidised. You have to question the politics behind stopping subsidies to two of the cheapest renewable technologies when we need to decarbonise.”

Carbon Capture & Storage (CCS) almost inevitably raised its head, with Teuton saying: “A
lot of money has been spent, whether it gets off the ground remains to be seen. I hope so – it will solve a lot of problems. But it’s not looking likely in the short-term.

“There are new technologies coming through: ‘storage’ is the big one at the moment. If I was back at university, I’d probably get into some research around storage systems.”

Teuton then referred the time it takes for investments to bear fruit. She said: “A gas power-station probably takes seven or eight years to get commissioned. But we don’t know if they’ll be needed in eight years’ time.”

On a different slant, Teuton also mentioned batteries, for example for mobile-phones: “We could use this technology in other parts of the economy”.

One of her themes was government subsidy, and she said: “Coming from a company looking to invest in gas, I would like to see a market-based system. Everything is being subsidised in some way, but if you could somehow let the market decide, while in some way supporting R&D…”.

Teuton concluded her opening remarks by lamenting the “constant change” in energy policy over the past five years. She said that the post-general-election Department of Energy & Climate Change (DECC) want ‘business as usual’ but this may be difficult to achieve. “I just want a level playing-field for all the technologies, while appreciating there are wider issues at stake.”

Aston University’s Prof Wilson began by discussing wind- and solar-power, tidal, and, in greater detail, biomass, which she described as “like Marmite”:

One of Prof Wilson’s themes was that energy needs to be better explained to the general public, particularly (given her own specialism) in relation to biomass. She said: “The public need to get that first-generation biofuels picture out of their mind, and see the positives that can come out of what we call second-generation biofuels.”

She sought to explain: “I could turn a croissant (past its use-by-date) into a plastic bottle or into a blouse, rather than feeding it to pigs. The use of waste will become a key resource in the bioenergy arena. The co-production of chemicals and materials alongside energy and fuels (via so called biorefining) will increase the economic competitiveness of biomass based processes. This is akin to the way the petrochemical industry became established.”

But to illustrate the size of the challenge ahead, Prof Wilson referenced the statement made recently by the UK’s climate change envoy Sir David King that to combat global warming the scale of R&D investment needs to emulate the Apollo space-race programme in the US that put men on the moon.

She also referenced a report published a few months ago by a UK Transport Energy Task Force that concluded that the UK is on course “to miss a 2020 target for renewable-energy-use in transport by quite some way: we’re currently at about four per cent, and the target is 10 per cent.”

She continued: “Biomass (forestry and agricultural waste, and so on) is one of the only feedstocks that can actually viably make liquid transportation fuels. If we’re going to meet these targets there’s going to have to be more R&D.”

Prof Wilson then mentioned a Manchester University report, published in May 2014, that
estimated the UK could generate just under half its energy needs from (non-food derived) biomass sources by 2050. She continued: “As long as you are sustainable, you can grow specific ‘energy’ crops. But it’s important that that is monitored so land is not used ‘overly’ for this purpose, rather than growing food.”

Echoing a theme from past IPT sessions, she said: “There is a lot of uncertainty for companies in which areas to invest. There needs to be some security that these technologies are going to be in demand.”

Focusing on the economics, she said: “The biggest challenge to the bio-industry sector is the price of crude-oil. About three or four years ago, the price was approaching about $50/barrel. At that level bio-based technologies can become competitive. Now that oil prices have dropped there’s a risk that investment in renewable technologies pulls away, and we lose the momentum. In the US, shale-gas has crippled some of the renewable industries.”

Prof Wilson’s specific expertise is in catalysis, which, she said, would be “essential” in biomass conversion: “The key thing about catalysts is that they improve the use of raw-materials and they also reduce CO2 emissions, because inherently they reduce the energy required to perform a particular transformation. So, investment in catalysis is important in the bio-energy area.”

She concluded her remarks by asserting that renewables continue to present a major opportunity for the UK, and “it is important that the country does not fall behind.”

The roundtable then opened up to a ‘Q&A’ and a Parliamentarian asked whether biomass was sufficiently scalable nationwide.

One participant’s response was “yes, in theory” before detailing potential development trajectories for ‘first’- through to ‘fourth’-generation biofuels. Prof Wilson referenced an EU-commissioned report published last year, entitled ‘Wasted: Europe’s Untapped Resource’.

One Parliamentarian said: “Second-generation biofuels still require liquid fuel in transport to be blended with refined oil. So, you’re keeping up the demand for oil. Whereas some of the other options for the future of transport would – at the point of use, at least – be less carbon-producing: electric cars, etc. So, I see that as a bit of a false-start, at the moment. I’m not sure the same is quite true for biomass for energy-generation. Inevitable the government has intervened. I have heard [at this roundtable] that government should ‘leave it to the market’. But the fact is, the market is rigged – and it’s rigged more as a result of Electricity Market Reform (which we all sort of supported, but mainly because it was the only show in town).”

Teuton said: “I completely agree. We have introduced regulation over regulation over regulation over intervention over subsidy. And
all of these contracts are ‘grandfathered’ and I absolutely support the principal of ‘grandfathered contracts’. But I do think there’s an opportunity to think how you get back to more of a market and take away some of the layers of regulation that exist.”

Conversation then returned to the Swansea tidal project, with one participant saying that the proposed cost of electricity-production was £164/MWh. Said one: “If the rationale [for the Swansea go-ahead] is in respect of regeneration, ‘community jobs’ and so on, it may have merits. But as an energy project it does not make any sense. All it does is incrementally ratchet up the underlying cost-base of the UK grid.”

In an unscheduled foray back to the topic of the previous IPT session (‘Security of Supply’), one participant said: “The ‘security of supply’ question has been knocked on the head: we can put in gas-stations quickly if there were to be a security-of-supply crisis. No government would get elected if they put carbon-reduction targets above security of supply.”

“The UK government’s approach has been to not so much ‘pick winners’ as it has been ‘refusing to pick losers’, so absolutely everything is ‘important’: solar is important, wind is important… although that [wind] is starting to change now.”

Reinforcing Teuton’s opening comment about the global nature of the energy sector, one participant said: “The solar industry has largely migrated to China on the basis of competitive advantage.”

The event’s chairman sought to focus discussion on the role of the European Union. Teuton was first to respond, saying: “I think the EU ETS [Emissions Trading Scheme] is a good example of how difficult this is. The principle of carbon markets and a carbon tax is actually sensible and a good way to decarbonise – it hasn’t been successful, for many different reasons. Member states have got together with the Market Stability Reserve and that goes up to 2021. OK, the date has now moved forward to 2019: but that’s still four years away until there’s any change coming in. And you have huge opposition in eastern Europe because they are so reliant on coal; we have Germany which is very pro-renewables; you have Spain taking subsidies away. Trying to get European agreement on such a contentious issue is difficult.”

One participant pointed out: “At a European level you can get into the whole ‘state-aid’ debate”. (One participant immediately reacted: “I think ‘Europe’ let us down on Hinkley Point – it is state-aid”).

One Parliamentarian responded: “You aren’t going to get nuclear without some form of state intervention, and you’re probably not going to get some of the other technologies either.

“As far as Europe is concerned, we have 28 different mixes of energy sources. The European Commission keep claiming that we’re about to complete the ‘single market’ in respect of energy - it’s bullshit. You need to have greater regulatory approximation and more interconnection – that should be where Europe is focusing. While I support ETS, it’s actually worse than useless at the moment.”

Prof Wilson raised the topic of ‘energy storage’ and one participant said: “It’s interesting that just last week National Grid said it would focus much more on demand-side measures, instead of focusing on generation.”
One participant then referred to CFDs (Contracts for Difference) “distorting the market” (“whoever has got CFD, they get their price regardless of the wholesale price”). Mention was also made of the UK’s Capacity Market auctions (discussed at length during the previous IPT session).

More positively, Teuton referred to what she saw as the largely untapped potential of house-building programmes to do more to save energy: “Why are we not doing more to drive energy-efficiency via routes other than the power-generation sector?”

Prof Wilson was eager to namecheck the multi-million pound ‘Energy Research Accelerator’ project launched this spring involving six Midlands universities (Birmingham, Nottingham, Aston, Leicester, Loughborough and Warwick) to examine “different energy solutions associated with heat energy and ‘cold energy’ such as refrigeration technologies”, and for which “industrial collaboration will be key”.

She further cited an example of “thermal conversion units being shipped to rural India to convert straw to oil for farmers to use in tractors”.

Investors’ lack of confidence in energy-sector policy was again reflected with one participant commenting: “More people are likely to invest globally in the water industry than the energy industry – that’s partly because of the disparity of approaches by different countries.”

The roundtable wrapped up with the chairman asking participants to predict the UK’s energy sources 20 years hence. One participant dived in with: “There will be more interconnectors; there will be a higher proportion of gas in the energy-mix; it’s hard to say whether coal gets faded out or not; there will be forms of solar we don’t yet know about; a lot more CHP [Combined Heat & Power]; nuclear is inherently uncertain; wind has a difficult ‘crunch’ coming; storage is exciting; biogas and biomass are still a long way away.”

Teuton added: “The technological advances in solar are huge - five years ago you wouldn’t have envisaged solar film that you could apply to windows. Everybody is looking at it, I think it’s got a huge future.”

Two participants then mentioned the importance of public opinion and increasing the public’s understanding of the energy sector’s challenges, although one participant pointed out the difficulty of communicating with people directly affected by major new-build installations (for example), saying: “Scientific arguments can’t overcome ‘what about my house price?’”.

Both speakers concluded by reinforcing this point, with Immingham’s Teuton stressing: “There’s a huge opportunity here.”
The Industry & Parliament Trust (IPT)’s ‘Resilient Futures’ programme’s fifth and final energy policy roundtable was held on 15.

The lunchtime session - on the topic of ‘Carbon Reduction’ - featured two speakers, respectively drawn from Parliament and academia: Matthew Bell, Chief Executive of the Committee on Climate Change (an independent public body); and Dr Jonathan Radcliffe, Senior Research Fellow in Energy Storage, University of Birmingham.

Bell opened by saying that he would centre his remarks on the CCC’s latest ‘Progress Report’ (fully titled as ‘Reducing emissions and preparing for climate change: 2015 Progress Report to Parliament’), which had been published just a couple of weeks previously (30 June).

He said the UK’s new Government (elected in May) had been “quite clear - in some respects, surprisingly clear” about its backing of ‘Carbon Budgets’ (defined as the quantity of greenhouse-gas emissions that can be emitted over a specified time that can keep global warming and thus climate-change ‘tolerable’) and the framework set up by the UK’s Climate Change Act (2008).

The UK’s first four Carbon Budgets - up to 2027 - are set in law, and the UK is presently in the second Carbon Budget period (2013-17). Bell explained that 2027 and 2050 were the two key dates: “The current set of Carbon Budgets legislate for emissions reductions up to 2027 [of 50% across 2023-2027 against 1990 levels]; and we have the ‘80% reduction by 2050’ target in the Act. So, we have visibility [of targets] up to 2027, and 2050 – those are the things that the Committee tries to report against in terms of emissions reduction.”

He continued: “At the end of this year the Committee will provide the Government with its advice on the fifth Carbon Budget period (from 2028 to 2032) and what level of emissions should be for that period. But the Progress Report focused up to 2027.”

“The Progress Report was the first time that the statutory timetable for the work that we do on emissions-reduction as well as the work we do on adaptation coincide. The central observation that the Committee wanted to make is that most of the policies around climate-change, with the exception of the Carbon Budgets themselves, come to an end during this Parliament [2015-2020]. So it makes it very important that this Parliament sets the tone and framework, and provides visibility to investors in the broadest sense (this might be households, it might be companies making R&D decisions), with actions relatively quickly in this Parliament.

“The Progress Report goes through sector-by-sector what that means in practice. In the power sector, the question is: ‘what is the level ambition through to 2030?’ In previous Parliaments part of that has been about the ‘carbon intensity’ target for 2030. This Government may be less inclined towards targets in general. The outcome the Committee is seeking is visibility through the 2020s, for investors to plan.

“On the transport side, there’s a pretty much analogous target that exists for 2020 that’s been
driving emissions-efficiency of vehicles (in respect of grams [of carbon-dioxide] / mile). Now – at European level – there are negotiations for what the target for 2030 should be. The Committee has flagged that setting an appropriate target for 2030 is very important. And also to get to a point where subsidies are no longer required.

Bell continued: “One of the points the Progress Report makes is on this point of ‘what is a subsidy?’ It comes to the fore in the context of onshore wind, but it also comes out in a lot of other contexts. From the Committee’s point of view, we would always distinguish between what some people would call a ‘subsidy’, but is – in effect – just funding that replaces the fact that we don’t have an explicit carbon price, and payments that are over and above the level plus the carbon price, which is what maybe economists would traditionally call a subsidy.

“The other area that the report goes into a lot of detail about is buildings, which is linked to discussion about energy-efficiency. We tend to wrap all buildings together but, to date, domestic buildings have outperformed where we thought they needed to be whereas commercial buildings are well behind where we would expect them to be. Carbon-emissions from commercial buildings have been largely flat since 2007. For commercial buildings, certainly there’s a feeling that the landscape is just too complicated and not effective at delivering.”

“Finally, we have infrastructure, which for the first time in a Progress Report we have looked at as a standalone item.”

Bell began to bring his introductory remarks about the CCC’s Progress Report to a close by emphasising his key message - that it is “very important for this Parliament to provide (across all these measures) action and visibility about what Government is going to be doing through the 2020s”.

So, a mixed picture and urgent priorities for policymakers. Nonetheless Bell then mentioned further significant performance data in recent years: what he described as a “reasonably positive” backdrop. In 2014, greenhouse-gas emissions fell by eight per cent, which he was positive about (particularly given that it was alongside GDP growth of 2.8% and manufacturing growth of 3%). He continued: “This is consistent with some of the evidence reported by the IEA [International Energy Agency] and others at a global level – that 2014 was the first year (outside the years of the financial crisis) when global emissions did not rise while global GDP was growing. That’s clearly the type of outcome that we’re aiming for.”

But he warned against complacency and that it was unlikely that the downward trend would continue if targets are not quickly set for beyond the next few years.

Bell concluded his opening remarks by saying that Government has a statutory duty to respond to the CCC’s report by 15
October, and was working on a response on the ‘mitigation’ and ‘adaptation’ side. He acknowledged that the response timetable was “awkward” because the UK Government’s spending review would have a “significant impact” and international negotiations are entering an important period (in the build-up to the UN Climate Change Conference, COP21 in Paris, in December). He said: “So, I wouldn’t be surprised if the response by 15 October is not a detailed point-by-point plan. But the response could say ‘by February or March [2016] these things will be resolved’.”

Bell then handed the floor to Dr Jonathan Radcliffe, who began by referring to the IPT roundtables’ ‘Resilient Futures’ theme saying: “How you balance security of supply with low-carbon is one of those big tensions that the Government has to deal with. There’s no perfect balance, and cost comes into it, and sometimes the balance tips from one side to the other.”

He said: “One of the critical aspects of the next five to ten years is how we provide more flexibility on the energy system. We’ll have more intermittency [penetration of intermittent renewables]: within five to ten years more than 50% of instantaneous generation could be from variable renewables. And, at the same time, the sort of technologies that could help balance that intermittency, such as electric cars with on-board batteries, or heat-pumps with some kind of thermal storage next to them, are probably not going to appear at any sort of scale until the late 2020s.

“So, in the early 2020s there’s a very dynamic period. The risk is that we see conventional fossil-fuel technologies [used] when there could be other technologies that provide a longer-term solution although that might be higher cost, but more sustainable if we’re looking up to 2050. My area [of specialism] is energy storage, and that’s one of the ways we could do that. Plus we have greater inter-connection, more demand-side response could all be possible.

“I think there are great opportunities at the local level, especially when we think about what the best way is to provide decarbonised heat, and ‘heat networks’ are often touted as being a good way of working around that.

“Local authorities could be playing a very important role. The challenge is empowering local authorities while having a coherent national picture. I don’t think the tension between national and local has been worked out, even though there’s a massive opportunity. We [University of Birmingham] work quite closely with Birmingham City Council and the council’s headcount is being reduced dramatically. So, even if you can show an economic or carbon case, you need the people there with the time to implement measures.”

Dr Radcliffe then mentioned the UK’s upcoming smart-meter rollout as offering possibilities. He continued: “At the University of Birmingham we are developing new energy-storage technologies – we are looking at cryogenic energy storage (using off-peak electricity to liquefy air, store it, and then, when you need the electricity back, you expand the gas to turn a turbine). We have deployed the technology and are using that to understand what the economics are. We are also working with the city [of Birmingham] as to how you can deploy. So, I think that’s the critical thing for us to be doing over the next five to 10 years – demonstrating new technologies at scale, so that when we get to the mid-2020s we have got a better understanding of what the options are.”

He concluded: “So, I think we need innovation in technology, and innovation in policy and
business-models to allow those technologies to be deployed successfully."

The roundtable then opened up to a Q&A, and the first participant question was about carbon-pricing towards 2030. This was one of the first times that this roundtable referred explicitly to EU-level initiatives.

The CCC’s Bell said: “It’s right to view the European Emissions Trading Scheme (ETS) as something that was always intended to be a work-in-progress. Clearly a lot of lessons have been learned. Changes are proposed and those changes are partly intended to make the carbon-price represent a more realistic value. Hopefully that will phase in through the 2020s. This [UK] Government and the previous Government have been very much at the forefront of pushing for reform of the ETS to make it meaningful.”

He added: “From an economist’s point of view, a danger is that we end up with very different implicit carbon prices in different sectors of the economy, which leads to a whole bunch of inefficiency. I think ETS will improve, and I think other measures will improve. But I don’t think it will happen in 2021.”

Another participant took a different tack, questioning whether it was sensible for UK public money to be spent developing on such a broad range of new technologies. He said: “Should our [the UK’s] approach not be far more multilateral, instead of trying to do absolutely everything?”

The CCC’s Bell responded: “The Committee takes quite a differentiated approach. The UK has a huge proportion of the market in offshore wind and the UK has huge potential to benefit. And so the Committee has recommended support for it. Versus, say, the recommendations made in the vehicles sector, with things like batteries – this is not something the UK is going to drive.”

Questioned on this by one participant, Bell acknowledged that “ancillary industry benefits” are “not central to the statutory remit of the Committee.”

The participant said: “You won’t find a single renewables trade association that hasn’t produced a report showing the fountain of jobs that would come from investment in their technology. But no organisation seems to have done a comparison of those jobs potentially ‘to be created’ against the claims of the energy-intensive industries.”

Bell pointed participants to a Cambridge Econometrics study on the ‘value-added’ of investment in different sectors in which, he said, the green economy performed better than the energy-intensive sector.

Another participant then asked from where energy technology investment would come, pointing out that the UK is “plummeting” downwards on an ‘index of attractiveness for renewables investment’ that is regularly produced by the global accounting and consultancy firm EY (formerly Ernst & Young).

Prof Radcliffe said: “It’s often said that policy stability is essential - although this is never said by politicians, amusingly enough. But you can’t have a completely stable policy when we’re going through a massive transition to low-carbon.”

Another participant then asked about Carbon Capture & Storage (CCS). The CCC’s Bell said: “CCS can be a very important part of de-carbonising in the UK and worldwide. The UK has two initial projects that have been identified, one
in England and one in Scotland, and they have been delayed. The go-ahead should happen in the course of the next year. Our view is what you don’t do is dot projects around the country. What you should do is create hubs so industry plugs in to networks there. And then maybe in due course set up hubs elsewhere in the country.

“CCS is also very important in the global context. The British Government is supporting the development of CCS in China. The delivery of CCS is really difficult.”

One industry participant quickly remarked: “We’re struggling to see how CCS can be a serious proposition unless there’s a global carbon price.”

Bell then moved the conversation on to ‘adaptation’, saying: “There’s a three-step process that has been set up in the UK. The first is what’s called the Climate Change Risk Assessment, which sets out the risk to the UK from climate change. Then, we have the National Adaptation Programme, which is the Government’s official response to the Risk Assessment. The final stage is when my Committee gets involved, which is an independent verification of whether the Programme is sufficient. Each one of those steps is set out in law and has to take place within a regular five-year cycle. We have gone through that cycle once, and the Committee (as part of the Progress Report it submitted at the end of June) did its evaluation of the current National Adaptation Programme. Some of the proposed changes will feed into the next National Adaptation Programme, and some might call for more immediate action.”

Two questions were then asked by a participant about changing fuel-use in transport and sought Dr Radcliffe’s view on hydrogen-storage technologies.

Dr Radcliffe replied: “The liquid-air technology that we’re developing helps reduce emissions of diesel particulates. One of the big contributors to these emissions is refrigerated trucks, most of which have a diesel engine to keep groceries cold. You can use liquid nitrogen as a clean alternative – a concept we are developing at Birmingham with industrial partners Dearman Engine Company. So, there are opportunities for new technologies there.”

“Hydrogen goes up and down [in people’s apparent interest]. People are looking at it much more – it can be used in lots of different applications. It has been difficult to establish the pathways through which you can see the value in hydrogen. It’s still ‘in the mix’, though, and needs to go through the demonstration phase, alongside electric vehicles, too, over the next five to 10 years.”

A participant from industry said: “We’re rolling out hydrogen fuel stations on a small scale in Germany and in the UK.”

Dr Radcliffe responded: “We have a hydrogen filling-station at Birmingham and a few little cars – that’s the phase that we’re at. It’s the same with a number of other technologies - you need to start scaling up and bringing in private money. But that’s very expensive to do.

“As a country we can’t do everything. So we have to understand as a country where our capability and expertise is, where we have a comparative advantage in the context of global innovation - and then ‘go for it!’.”

It is interesting to note that this fifth session was focused on UK policymakers’ priorities, with occasional mention of global trends and targets, with the EU being raised almost solely in the context of the ETS.
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Matthew Bell, Chief Executive, Committee on Climate Change;
Graham Bishop, Consultant, EU Integration: Political, Financial, Economic and Budgetary;
Professor Michael Bradshaw, Professor of Global Energy at Warwick Business School, University of Warwick;
Professor Stephen Brammer, Professor of Strategy, Birmingham Business School;
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Paul Chisnall, Executive Director, Financial Policy & Operations, British Bankers’ Association;
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Francis McGowan, Senior Lecturer in Politics, University of Sussex;
Daniel Monzani, Senior Policy Adviser, Department of Energy & Climate Change;
Professor Andrew Mullineux, Professor of Financial Economics and Deputy Dean of Research, Bournemouth University;
Gareth Owen, Industry and Parliament Trust;
Victoria Powell, Policy Director, Capital Markets, British Bankers’ Association;
Dr Jonathan Radcliffe, Senior Research Fellow, Energy Storage, University of Birmingham;
Professor Peter Sinclair, Emeritus Professor, Department of Economics, University of Birmingham;
Peter Smith, External Affairs Manager, National Energy Action (NEA);
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