

EU Backs New Economy Team Amid Greek Deficit Woes

By Jonathan Stearns



Feb. 9 (Bloomberg) -- The European Union approved new economic leadership, putting a Finn in charge of policing Greece's deficit, a Frenchman at the helm of bank regulation and a Spaniard in the top antitrust job.

European Commission President Jose Barroso won approval for a team that features Olli Rehn as economy commissioner, Michel Barnier as financial-services chief and Joaquin Almunia as head of competition. The European Parliament gave its backing today in

Strasbourg, France, amid investor concerns about ballooning government deficits and bank resistance to planned rules that would curb risk-taking.

The new lineup at the commission, the 27-nation EU's executive arm, takes office as Europe is grappling with a Greek budget gap that's more than four times the EU limit and officials today held out the prospect of aiding Greece in return for progress by the country in reducing its budget deficit. The commission also is pushing for sharper scrutiny of banks, hedge funds and credit-rating companies after European governments committed \$5.3 trillion to support lenders.

"The economy is the new commission's biggest challenge, and Rehn, Barnier and Almunia will play important roles," said Michael Tscherny, who advises companies on EU policy at GPlus Europe in Brussels. "After the rescue of banks, it now looks like entire countries may need to be bailed out."

Widening Deficits

The euro has dropped to an eight-month low against the dollar amid concern that widening deficits will stifle Europe's economic recovery. With companies across the 16-nation euro region cutting jobs and costs to shore up earnings, the jobless rate will average 10.7 percent this year and 10.9 percent in 2011, according to commission forecasts. That would be the highest since the euro-area data began in 1996.

The new commission also faces trade tensions with China and the U.S., the risk of an internal climate-policy split between rich and poor EU nations and national resistance to a stronger European energy role with foreign suppliers. Karel De Gucht of Belgium is the top EU trade negotiator, Denmark's Connie Hedegaard is climate commissioner and Germany's Guenther Oettinger is energy chief in the new Barroso team.

Industrial Emissions

"The challenge in these three jobs is to make sure the EU speaks with one voice," said Karel Lannoo, chief executive officer of the Centre for European Policy Studies in Brussels. "On this point, the EU is most advanced when it comes to trade, has made some steps on climate

policy and is nowhere when it comes to energy, where there is a growing potential for the commission to regulate foreign supplies traditionally handled by national governments.”

The 53-year-old Barroso, a former Portuguese prime minister who became commission president in 2004, has presided over a crackdown on cartels, a push to cut industrial emissions blamed for global warming and a campaign to break down national barriers in the EU electricity and natural-gas markets before turning his attention to tougher financial regulation and Greece’s fiscal woes.

Second Term

His reappointment last September made Barroso the first commission president to gain a second term since France’s Jacques Delors, who crafted the EU’s plans for a single market and common currency while in the job between 1985 and 1995. Each national government in the EU appoints one member of the commission and Barroso is responsible for allocating the posts.

“This is an important moment for Europe,” Barroso said after the Parliament voted 488 to 137 in favor of his new team, which takes office tomorrow for a five-year term. “There will be no return to business as usual.”

Rehn takes over the economy commissioner’s job from Almunia as Greece’s deficit of 12.7 percent of gross domestic product prompts some economists to question the unity of the euro region. Concerns about budget sustainability are spreading to other nations such as Spain and Portugal.

As EU government heads prepare for a Feb. 11 meeting in Brussels to discuss the economy, Almunia said: “I’d like the leaders of Europe to say to the Greek authorities that, in exchange for the effort that you’re making, you’re going to get support from us.”

‘Necessary Measures’

Rehn echoed the position. “You have to do the necessary measures in order for us to support you,” Rehn said. “This will be further discussed in the coming days. We are talking about support in the broad sense of the word.”

Almunia last week endorsed a Greek plan to reduce the deficit to within the EU’s 3 percent limit in 2012, pledged stepped-up surveillance of Greece’s austerity measures and dismissed the notion of an international bailout for the country.

Rehn, who for the past five years has been enlargement commissioner dealing with aspiring EU members including Turkey and Croatia, is being succeeded in that job by Stefan Fule of the Czech Republic.

Financial-Market Rules

The fallout from the 2008 collapse of Lehman Brothers Holdings Inc. prompted the commission to turn its sights to stricter financial-market rules -- the focus of Barnier’s new job. Barnier is a former EU Parliament member and previous French foreign and agriculture minister.

Barnier faces U.K. resistance to what would be the first EU law on hedge funds and buyout firms, seeking to force money managers to report regularly on their main investments, performance and risks. Britain is also concerned about plans for the most sweeping overhaul of financial regulation through the creation of an economic- risk watchdog led by central bankers and agencies to unify oversight of banks, insurers, investment firms and credit- rating companies.

National finance ministers and EU Parliament members are preparing to vote on these draft laws this year. Barnier's role will be to help find consensus on these measures and to prepare new European rules on the over-the- counter derivatives market.

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