

with M&A Report

Who is “Any Individual”? Cartel Suppliers’ Standing to Claim Damages in Antitrust Actions

Private enforcement of competition law has been gaining increasing importance worldwide. A key aim of European competition policy is to enable those harmed by cartels to pursue claims for damages. Indeed, applicable legal provisions in the EU and US provide for “any individual” who has suffered cartel damages the right to seek legal redress.



Photo: © IStockphoto

The scope for damage claims by cartel suppliers is broader in the EU compared to the US, as a study by researchers of ZEW and MPI for Comparative and International Private Law shows.

However, past research and public debate have focused almost exclusively on claims by cartel customers who have suffered harm from excessive prices. Whether and to what extent other affected parties – particularly supplier companies – can recover damages from a cartel has been almost wholly neglected, and remains unanswered in the EU competition law regime. This issue is taken up by researchers at the Centre for European Economic Research and the Max Planck Institute for Comparative and International Private Law in a recent comparative law and economics study (ZEW Discussion Paper No. 13-063). From an economic perspective, cartel suppliers may incur

losses based on three effects: First, cartel members require fewer input goods from suppliers as a result of agreements to raise prices or restrict production, leading to lower sales (direct quantity effect). Thus, in contrast to the customers who suffer losses from higher prices, suppliers are typically harmed by lower demand for input goods. This changed demand situation generates two additional effects that can harm a supplier: a cost effect and a price effect. Due to lower demand, suppliers adjust their prices, asking for a different price than that which could be charged in a competitive market environment. In addition, the cost structure of the supplier changes, leading to differ-

ent costs per unit of output. Depending on the supplier’s cost and demand functions, these secondary effects can either mitigate or intensify the losses due to the direct quantity effect. The extent to which legal redress can be sought for these losses is naturally of central importance to an affected supplier. While suppliers are generally denied the right to pursue damage claims in the US, under EU law as well as in important EU Member States the view is being increasingly adopted that suppliers have a right to recover cartel damages. As a result of *Courage v. Crehan*, the scope of damages that the prohibition of cartels is to prevent has a much broader definition in the EU than in the US. Under EU law, the right to claim damages does not require that the damages be suffered in the same market in which the cartel has improperly impaired competition. According to the case law by the European Court of Justice (ECJ), limits to the right to

IN THIS ISSUE

Who is “Any Individual”? Cartel Suppliers’ Standing to Claim Damages in Antitrust Actions	1
Europe’s Stainless Steel Industry Needs Open Global Markets for Key Raw Materials . . .	2
Integrating Immigrants Into the Labour Market – Wage Subsidies Recommended	3
Most Start-up Founders Look Mainly for Team Members with Similar Backgrounds	4
Q&A: Female Start-ups in Germany	5
Sinking CO ₂ Prices Weaken Emissions Trade, but Recovery Is in Sight for the Medium Term . .	6
Conference: The Rebound Effect of Energy Efficiency Improvements is no Threat	8
Inside ZEW	9
Facts and Figures	10
Opinion	12

RESEARCH FINDINGS

claim damages are instead determined by the presence of a causal link between the competition law infringement and a particular head of damage. In order to adhere to this requirement, Germany and the United Kingdom have abandoned important and long-standing limitations on the right to recover cartel damages. The wider scope for damage claims provided for under EU law compared to the US can be traced to differences in the institutional frameworks as well as in the goals that the right to claim damages caused by competition law infringements is supposed to pursue in the EU. According to

the results of the study, it would appear that cartel suppliers in the EU have a right to claim damages, as no general restriction to the right to recovery applies. This position has already been advanced in various quarters with a view to EU law, although remarks in this regard have typically been quite brief. In Germany and the UK, clear comments on the issue have yet to be made. However, legal frameworks as well as case law provide a solid foundation for supplier claims, or at least suggest that such a foundation exists.

In a particular case, however, it is often invariably difficult to demonstrate a

causal link between a competition law infringement and the damages ostensibly suffered by a supplier. Econometric estimation techniques are certain to play an increasingly important role in demonstrating such causal links. As part of the interdisciplinary study detailed here, the authors developed an econometric estimation technique that relies on a modified residual demand model. This method makes it possible to empirically quantify the three aforementioned effects responsible for cartel damages.

Florian Smuda, smuda@zew.de
Eckart Bueren, bueren@mpipriv.de

Europe's Stainless Steel Industry Needs Open Global Markets for Key Raw Materials

In a recent ZEW report researchers assess global export restrictions on the primary raw materials for stainless steel and discuss possible courses of action for the EU. The report was commissioned by the stainless steel scrap trading company Oryx Stainless.

While the EU is the world's second largest producer of stainless steel after China, it relies on foreign imports of nickel, chromium, and molybdenum. Stainless steel scrap is the only component that exists in large quantities domestically. It makes up 50 per cent of the raw materials used for the production of stainless steel globally

and 60 per cent for production in Europe.

ZEW examined the tendencies of different states to introduce export restrictions. Developed countries, whose production and trade currents are globally linked, favour free trade in raw materials. Developing countries as well as nations on the road to industrialization rich in one

raw material or more are more likely to regulate exports. ZEW also prepared a comprehensive dataset of export restrictions on the four primary raw materials for stainless steel production from 2007 to 2012 for more than 30 states.

Proposals for More Sustainable Use

Furthermore ZEW proposed that the EU creates and regularly updates a database containing information about all export restrictions on relevant markets. According to ZEW, this will help increase transparency and sink transaction costs for raw material importers. Another proposal was that the EU verifies whether its public investments in research and development are still suitable and whether the recycling rates of raw materials can be increased. Both courses of action could lead to a more sustainable use of the principal components of stainless steel. For the short term, ZEW believes that the EU should push for bilateral trade agreements with important raw material suppliers. For the long term, multilateral treaties such as the WTO is the best option for eliminating export restrictions and to secure free trade in raw materials.

Professor Andreas Löschel, loeschel@zew.de
Frank Pothén, pothen@zew.de



The EU is the world's second largest producer of stainless steel. Stainless steel scrap is the only component that exists in large quantities domestically.

RESEARCH FINDINGS

Integrating Immigrants Into the Labour Market – Wage Subsidies Recommended

A recent ZEW meta-analysis (ZEW Discussion Paper No. 13-056) examines which active labour market policy measures are the best way of helping immigrants find employment. The researchers collect findings from studies performed in a huge variety of European countries.

In many countries in Europe immigrants represent a disadvantaged group on the labour market. Typically, they are

overrepresented among the unemployed and underrepresented among the employed. Immigrants in Sweden and Finland, in particular, are disproportionately affected by unemployment. In Germany, too, there is a sizeable gap between immigrants and the rest of the population: in 2010 the unemployment rate of native Germans was just under 7 per cent, while the unemployment rate for immigrants living in Germany was over 12 per cent.



The ZEW meta-analysis shows that wage subsidies in the private sector have been quite effective at increasing the employment chances of immigrants in Europe.

are important for assuming employment. Wage subsidies give companies incentives to provide jobs for low-skilled workers. Subsidized employment in the public sector offers temporary work designed to ease the transition to regular employment. Job search assistance, usually offered by a public employment agency, includes counselling, monitoring of search effort and penalties for failure to comply.

Although the effects of individual policy measures on employment have been subject to increased empirical scrutiny, a clear picture has yet to emerge which measures help labour market integration for immigrants and which do not.

To sharpen this picture, the study provided a meta-analysis of 33 studies examining the effect of ALMPs on immigrants in European countries where immigrants' labour market integration is particularly

important: Denmark, Germany, Finland, the Netherlands, Norway, Sweden, and Switzerland.

Positive Effects on Employment

The meta-analysis quantified the extent to which certain aspects of the studies reviewed influence their results. The main objective was to gauge how different types of policy measures affect immigrants' employment chances. The ZEW meta-analysis shows that only wage subsidies can be confidently recommended to policymakers. Most of the studies reviewed found that wage subsidies in the private sector positively impact immigrant employment.

By contrast, studies of training programmes generally show no reliable effects on employment. The same goes for job search assistance and subsidized employment in the public sector. The meta-analysis indicates that there is considerable room for improvement when it comes to selecting labour market policy measures for immigrants. A greater use of wage subsidies in the private sector could increase the share of employed immigrants, though the costs for doing so will be high.

Sebastian Butschek, butschek@zew.de
Dr. Thomas Walter, walter@zew.de

ZEW DISCUSSION PAPERS

No. 13-076 Frauke Schleer: Finding Starting-Values for Maximum Likelihood Estimation of Vector STAR Models.

No. 13-075 Gunter Festel, Martin Würmseher, Christian Rammer, Eckhard Boles, Martin Bellof: Modelling Production Cost Scenarios for Biofuels and Fossil Fuels in Europe. No. 13-074 Wolfgang Franz: Die Arbeitsmarktanalyse in der wirtschaftspolitischen Beratung des Sachverständigenrates. Only available in German.

No. 13-073 Claudia Ghisetti, Klaus Rennings: Environmental Innovations and Profitability: How Does it Pay To Be Green?

Effect of Labour Market Policy on Immigrants Unclear

European countries use a variety of Active Labour Market Programmes (ALMPs) to foster immigrant integration on the labour market. In particular, these include training programmes, wage subsidies in the private sector, subsidized employ-

RESEARCH FINDINGS

Most Start-up Founders Look Mainly for Team Members with Similar Backgrounds

In a recent ZEW study (ZEW Discussion Paper No. 13-058) researchers investigate the composition of start-up teams using a comprehensive dataset of knowledge-based and non-knowledge-based firms. They analyse changes in team composition over the first three years of a company.

According to a widely held view in management research, diverse backgrounds in a start-up team support team dynamics and improve company as well as team performance.

Management scholars predominantly advocate that start-up teams should consist of members with different rather than

the first three years. The development of team composition has received only little attention in the literature due to a lack of data. The ZEW analysis is based on a dataset of all firms with more than one employee founded in Denmark in the year 1998. These on the whole 1,614 firms are followed from their establishment until

these characteristics have already been given a lot of attention in the literature.

By using the prior wages of start-up members, an innovative parameter is applied that also reflects other characteristics of employees in young companies, such as work experience. Furthermore to assess staff composition, the authors simulate team heterogeneity in a situation where teams are assembled randomly. The teams observed in the study are randomly regrouped into new teams and the degree of heterogeneity in these random teams were then used as a reference value for the actual mix of characteristics.

The findings show that teams in the first year are significantly more homogenous than randomly assembled reference teams. Moreover, teams become more heterogeneous over time, with start-ups hiring staff in the second and third years with characteristics that tend to differ from those of the staff in the start-up year. This increase of heterogeneity, however, is lower than if a company hired new employees at random. This holds both for knowledge-based and non-knowledge-based companies, though the teams in knowledge-based companies are somewhat more heterogeneous.



Photo: © A. Pobitzer/digitalstock

Teams in young companies tend to show homogenous characteristics – one reason could be that they want to avoid conflict.

similar backgrounds. Such heterogeneous team members are supposed to bring in a greater variety of perspectives and more creativity which in turn leads to better team performance. There are also downsides connected with workforce heterogeneity like conflict or coordination costs which may make people “homophile”, i. e. inclined to bond with others with similar characteristics.

Observing the Composition of Start-ups

In a recent ZEW study these oppositional views are sought to be tested by examining the composition of start-up teams in the first year and their change in

the year 2001, thereby analysing changes in staff composition. This is one aspect that has received only little attention in the literature due to a lack of data.

The researchers differentiate between knowledge-based start-ups and non-knowledge-based start-ups. “Knowledge based” describes companies that are active in knowledge-intensive sectors like pharmacy and telecommunications, or companies that have at least one founding member with a university degree.

Specifically, the heterogeneity of the start-up personnel with regard to education, age, and salary before starting the new company is investigated. Age and education are taken into account because

The High Costs of Heterogeneity

Start-up teams, therefore, are relatively homogenous and remain relatively homogenous over time, even if their heterogeneity increases somewhat.

Possible explanations for this phenomenon are that the costs, for example higher conflict potential and higher coordination effort, exceed the benefits of heterogeneity, that people tend to look for team members who are like themselves, or that they simply do not know anyone with significantly different backgrounds than themselves. Whether this is good or bad for the company's performance requires further investigations.

Dr. Bettina Müller, bettina.mueller@zew.de
Professor Ulrich Kaiser, ulrich.kaiser@business.uzh.ch

Q&A: Female Start-ups in Germany

Women Continue to Lag Behind as Entrepreneurs

Start-ups are important for keeping economies innovative and competitive. Yet there is much potential for more start-ups by women, who continue to be underrepresented among the self-employed. ZEW researchers Dr. Sandra Gottschalk and Dr. Michaela Niefert explain the features of female start-up activity in Germany.

Based on the data of Germany's microcensus, the number of female self-employed individuals has increased constantly over the past 20 years. The share of women among the self-employed increased from 26 per cent in 1991 to 32 per cent in 2011. Are women on course to catch up with male company founders?

Niefert: At first glance, this appears true. But a closer look shows that the women who become self-employed usually don't have employees and their self-employment is often only part time, sometimes supplemented by dependent employment. Only into these special forms of self-employment have entered more women in the past ten years. By contrast,

registered in the Mannheim Enterprise Panel (MUP) which is based on a narrower definition of "company". According to these data from firms in Germany, the share of German companies started by women since 2003 has even declined and amounted only to 22 per cent in 2010. Therefore, we can't speak of women "catching up" to men.

How does in comparison the performance of companies that were founded by women measure up to those founded by men?

Gottschalk: By all performance metrics used in our analysis, companies founded by women do worse on average. Employment growth, revenue, and profitability are

more solo start-ups, and in which the number of companies founded by men without employees and without employee growth is large. In other words, start-ups by men and start-ups by women have converged because the situation of companies founded by men has worsened on average.

Why do you think are women performing worse than men?

Gottschalk: There are significant differences between the sexes with many of the observed characteristics of company founders and their companies.

In comparison with male founders, female founders have a lower level of education. This is astonishing because the number of employed women in Germany who have a university degree hardly differs from that of men. Moreover, female founders have less professional experience, especially as managers.

Women mainly tend to start companies in small teams and invest less start capital. They are more likely to start a company out of necessity, which is to say, due to a shortage of employment alternatives, while men tend to pursue a specific business idea.

Are women really more likely to start companies in specific sectors, and if so, which?

Gottschalk: The share of women start-up founders is around 22–24 per cent. It is above average in retail (26–30 per cent) and in consumer oriented service sectors (30–34 per cent), which is to say, in economic branches that are not technology intensive, less innovative, and ultimately less growth oriented.

In the high-tech branches, by contrast, the share of start-ups by women is very low. This is due of course to women's choice of profession.

Women continue to be interested to a lesser degree in technology educations and decide far less than men for courses of study in engineering or computer science. Hence, the number of women who can gain a footing in new technology based industries which offer a large growth potential is small.

Dr. Michaela Niefert works at ZEW's Research Department of Industrial Economics and International Management. She studies start-ups and small- to medium-sized businesses with a focus on the determinants of start-up activity and the performance of young companies. She specializes in start-ups by women, start-ups by the unemployed, and spin-offs from existing companies. Michaela Niefert studied economics at the University of Mainz and Bielefeld. She completed her doctoral thesis in mobility and housing choice in July 2003.



the number of female-founded start-ups with employees and the number of women who became self-employed full time have hardly changed.

Those who are self-employed without employees or self-employed part time are not likely to have companies that make large-scale investments and assume entrepreneurial risks. The majority of the entries into self-employment recorded by the microcensus are not start-ups in the proper sense. This is different for the start-ups

less, and the share of companies that shut down within the first ten years is higher.

What's more, companies started by women undertake less research and development, and are hence less innovative.

In the past ten years, start-ups by men and start-ups by women have converged in certain respects. This mainly concerns the number of employees and employment growth at new companies.

For the most part, this convergence can be attributed to the general movement to

POLITICO-ECONOMIC ANALYSIS

Dr. Sandra Gottschalk works at ZEW's Research Department of Industrial Economics and International Management. She investigates how the human capital of company founders affects performance, the likelihood of closure and the development of young companies. Her research also focuses on anonymization methods for company data. She is head of the ZEW Research Data Centre (ZEW-FDZ) and is therefore responsible for the administration of ZEW research data which are provided for external scientists for research purposes.



What does the development you discuss mean for Germany's economy?

Niefert: The number of start-ups in Germany has been declining since the end of the 1990s. In view of the large importance that start-ups have for economic innovation and competitiveness, this is a problematic development. The hope that women could help reverse the downward trend with more start-ups has yet to be fulfilled, as our studies have shown.

In addition, the rate at which women start companies in technology oriented

industries important for competitiveness continues to be low. A hopeful sign comes from recent developments in the high-tech manufacturing sector. The number of companies started by women since 2006 has increased markedly, with the share of women start-ups going from 11 to 15 per cent. This may be an indication that women are gradually penetrating the high-tech sector and are increasing their contribution to the economy's innovativeness.

What kind of policies should be introduced in your opinion in future to motivate

women to start their own companies – especially in sectors that have been less attractive so far?

Niefert: One goal should be to increase the number of women who are qualified to start companies in technology oriented industries. Measures that encourage women to choose a technological profession or a MINT field of study are on the right track. The extent to which policy measures can activate the potential of female founders and persuade more women to found start-ups is unclear, however. There are a number of measures to promote and assist start-up founders (men and women both), starting already at the university. But in many cases their effectivity is not conclusive. Whether measures directed specially to women have their intended effect is likewise not certain. A comprehensive change in mentality leading to a greater share of women in management positions and to the assumption of greater responsibility by women would surely also have a major effect on start-up activity.

Dr. Sandra Gottschalk, gottschalk@zew.de
Dr. Michaela Niefert, niefert@zew.de

Sinking CO₂ Prices Weaken Emissions Trade, but Recovery Is in Sight for the Medium Term

According to the KfW/ZEW CO₂ Barometer 2013 – Carbon Edition, firms in Germany have made sharp downward corrections to their emission allowance price expectations. But they continue to regard the European Union Emissions Trading System as a viable instrument in climate policy.

The KfW/ZEW CO₂ Barometer – a cooperative project of KfW Bankengruppe and ZEW – has been analysing the European Union Emission Trading System (EU ETS) on an annual basis since 2009.

The study's objective is to monitor firm behaviour in carbon markets in order to regularly provide detailed information to policymakers, businesses and the research community. For that purpose, all German firms regulated under the EU ETS are invited to participate in the survey. On average, about 140 companies have

responded. This article explains the most important results of the 2013 survey.

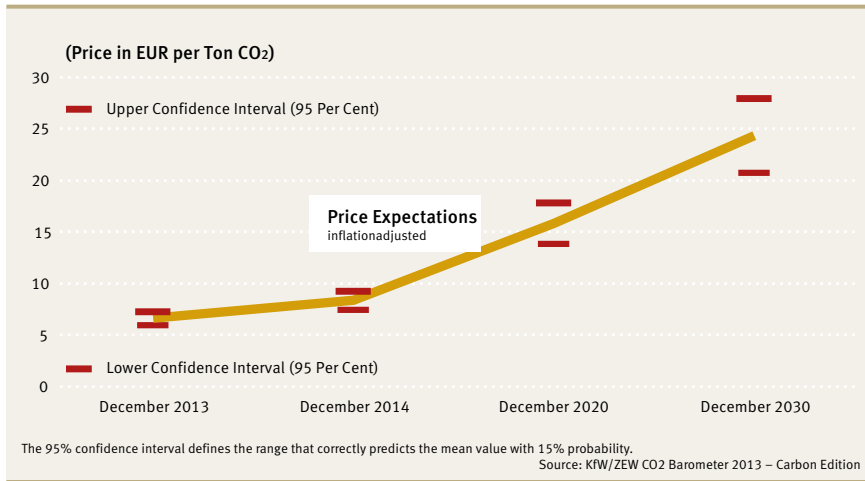
In 2012 a surplus of emission allowance exerted considerable pressure on the price of European Emission Allowances (EUAs). In 2011 the average price was €13.07 per ton of CO₂ (tCO₂); by 2012 the price had fallen to under €10 per tCO₂. The companies that responded to this year's survey indicate having made strong downward corrections to EUA price expectations on account of the current market. But they expect a weak recovery of emis-

sions trading in the medium term and its continuation in the long term (see Figure 1). By the end of the year, the surveyed companies expect an average EUA price of €6.62 per tCO₂ (adjusted for inflation). This amounts to a decline of price expectations by around 50 per cent compared with the previous survey, which recorded an average expected price for the end of 2012 of €14.14 per tCO₂.

What is more, the surveyed companies do not believe that the EUA price will recover much in the short term, with prices expected to stay under €10 per tCO₂. In the medium term, by contrast, companies see a weak recovery of EU ETS and a rise in emission allowance prices. They predict an average allowance price of €15.82 per tCO₂ by the end of 2020. Notably, the

POLITICO-ECONOMIC ANALYSIS

1| Price expectations for EUAs on the spot market (adjusted for inflation)



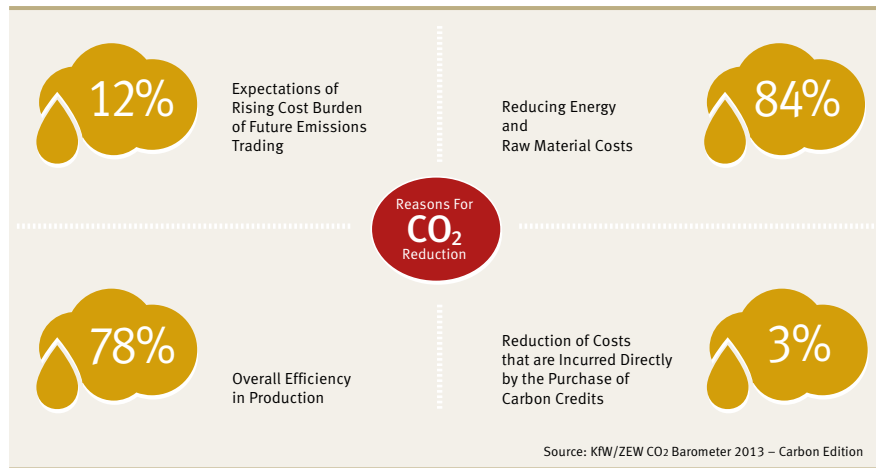
surveyed companies also believe that EU ETS stabilization and rising EUA prices will continue in the long term, with an average price of €24.31 per tCO₂ forecast for the end of 2030. Based on these results, it can be inferred that companies continue to see EU ETS as an important and effective instrument in European climate protection policy for the long term.

Increased Trading Activity

In comparison to the results of the KfW/ZEW CO₂ Barometer 2012, both the proportion of companies that participate in the carbon market and the trading frequency have increased. Two thirds of all surveyed companies stated they had been trading emission allowances or credits since February 2012. This corresponds to an increase of almost 10 percentage points compared to the results of the 2012 survey. Moreover, 33 per cent of the respondents traded emission allowances at least biannually, which is an increase of approximately 7 percentage points on the previous year. Concerning their trading strategy, the majority of all surveyed enterprises reported accumulating emission allowances for future use. Nevertheless, one third of all surveyed firms have not traded emission allowances since February 2012. The results of the survey show, that there are two main reasons not to participate actively in the carbon market: a sufficient free allocation of emission allowances and in-house regulation to prevent speculation.

The results of the survey also show, however, that EU ETS provides little incentive for CO₂ abatement, and there is still much room for reducing CO₂ emissions among the surveyed companies. The expected medium- to long-range recovery

2| Reasons for measures to reduce CO₂



in CO₂ prices could increase CO₂ prevention. Around 77 per cent of surveyed companies said that they had already taken measures to abate CO₂ emissions.

But the results also show that the reduction of CO₂ emissions was rarely the primary aim of abatement measures. With 90 per cent of surveyed companies that had already undertaken CO₂ prevention measures, CO₂ reduction was a secondary effect. The main reasons for CO₂ prevention that the companies gave were more efficient production and reduced

energy costs (see Figure 2). Only 3 per cent of surveyed companies said that they initiated CO₂ abatement measures on account of costs through EU ETS. In agreement with the medium- and long-term price expectations for emission allowances, 12 per cent of surveyed companies had already invested in abatement measures to prepare themselves for future costs from the emissions trade.

Looking back, it is possible to see a positive trend in the number of abatement measures implemented. Only 33 per cent of companies surveyed in 2013 actively sought to prevent CO₂ before the introduction of EU ETS in 2005. 41 per cent of them said that they undertook CO₂ prevention measures in the first trading period of EU ETS, between 2005 and 2007. In the second trading period, between 2008 and 2012, this applied to 64 per cent of all surveyed companies.

The results of this year's survey show that there is still significant potential for

reducing CO₂ emissions at the responding companies. Only 38 per cent of companies said that they had informed themselves about the possibilities of CO₂ reduction and the associated costs and advantages. 66 per cent indicated that they plan to implement CO₂ abatement measures within the next five years.

See the results of the KfW/ZEW CO₂-Barometer 2013 at:

<http://ftp.zew.de/pub/zew-docs/co2panel/aktuell.pdf>

Carlo Gallier, gallier@zew.de

CONFERENCES

Conference: The Rebound Effect of Energy Efficiency Improvements is no Threat

Is the increase of energy efficiency an effective means to achieve energy and climate policy goals? Do energy efficiency improvements result in increasing energy consumption and thus fail to bring about the expected energy savings? What are the causes of “rebound effects”, and how can we counteract such effects?

These and several more questions focusing on households in Germany were answered in detail at the REBOUND conference at ZEW in October 2013.

REBOUND is a three-year project coordinated by ZEW which was funded by the German Federal Ministry of Education and Research (BMBF). The objective of the project is to explore the causes of rebound effects in households and to contribute to a more efficient energy and climate policy in this area. Moreover, rebound effects are analysed by taking into account sociological and socio-psychological factors.

During the conference at ZEW in Mannheim in autumn the results of a representative household survey on rebound effects in residential heating and lighting as well as in mobility were presented.

The results of the study show that the actual energy savings resulting from measures to increase energy efficiency

through changes in behaviour can be surprisingly lower than expected by engineers. One reason for this is that consumers have a tendency to use new, fuel-efficient cars more often because they produce lower fuel costs per kilometre than less efficient cars.

So when it comes to mobility, the researchers in the REBOUND project assume rebound effects between 40 and 70 per cent, which is at the top end of the spectrum of results found in the literature. Another possible source of rebound effects is a more intensive use of residential heating following the improvement of the heating system's energy efficiency. According to the results of the REBOUND project, however, rebound effects concerning residential heating are about five per cent, that is, at the lower end of the results presented in the literature.

For residential lighting, the project study assumes rebound effects between

five and 8.5 per cent. In-depth research on the causes of rebound effects has not been conducted yet. Are rebound effects merely price and income effects, or are they attributable to sociological and socio-psychological factors like norms or individual beliefs? In particular sociological and socio-psychological factors could be good approaches to develop measures to minimise rebound effects.

Previous projects on sustainable consumption have indicated that lifestyle concepts are particularly prolific approaches for analysing sociological and socio-psychological causes of specific sustainable or unsustainable consumption patterns. The research conducted within the REBOUND project, however, has unearthed no socio-psychological factors of significant explanatory power apart from familiar socio-demographic variables like income and education.

Market-Based Mechanisms Are Not Accepted by Society

Another presentation informed about the results of a work package which used the Delphi method to acquire and evaluate effective, efficient and socially acceptable measures to reduce rebound effects. Additionally, two one-day panels on the topics of mobility and energy use in households were held, featuring about ten experts for each area.

The experts were, for example, suppliers, producers and traders of energy, representatives of energy agencies, politicians, and researchers. The panels discussed a combination of economic, social and educational instruments.

The main result of the conference, however, was rather pessimistic: Effective instruments like market-based mechanisms are not accepted by society, while the accepted ones, for example information measures, are not effective.

Find more information at:
www.zew.de/rebound

Dr. Klaus Rennings, rennings@zew.de

UPCOMING EVENTS

Fourth SEEK Conference at ZEW in Mannheim on “Public Finance and Income Distribution in Europe” in Mid-May 2014

ZEW is pleased to announce the fourth conference of its international research programme “Strengthening Efficiency and Competitiveness in the European Knowledge Economies” (SEEK). The conference takes place in Mannheim on May 15-16, 2014. Entitled “Public Finance and Income Distribution in Europe”, it will bring together economists and political decision makers for debate on fiscal policy and public debt, income and wealth inequality in Europe, and the prospects for a European fiscal union. Policy keynote speakers at the conference will be former German Federal Minister of Finance Hans Eichel and Vítor Gaspar, Portuguese Finance Minister until 2013. The deadline for submission is February 16, 2014.

For more information see:

<http://seek.zew.eu/en/seek/events/conferences>

INSIDE ZEW

ZEW President Clemens Fuest Appointed to Advisory Board of Germany's Stability Council

ZEW President Prof. Dr. Clemens Fuest has been appointed to the advisory board of the German Stability Council. The German Stability Council monitors the budgetary management of German federal and state governments in order to identify impending

budgetary emergencies and to initiate measures responding to emerging threats. The experts on the advisory board support the Stability Council's work. For the next five years, Clemens Fuest will be one of the six members of the advisory board.

The board is responsible for an expert assessment concerning compliance with the maximum structural deficit on the federal level. His further tasks include recommendations for measures to eliminate excessive budgetary deficits.

Fudan University and ZEW Sign Cooperation Agreement

ZEW and Fudan University in Shanghai have been long-standing co-operation partners. Fudan University's President Prof. Yang Yuliang, PhD, and ZEW President Prof. Dr. Clemens Fuest signed an official co-operation agreement at the visit of a Chinese delegation to ZEW.

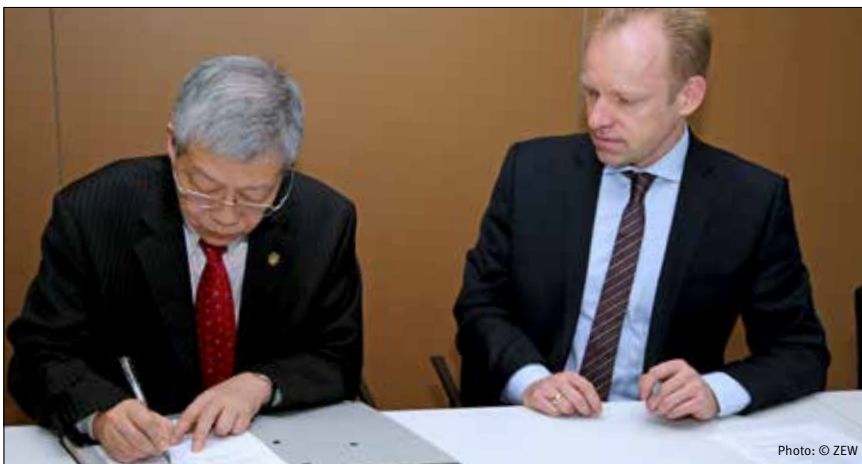
The objective of the agreement is to intensify the existing collaboration in common research areas, to co-operate in qualifying young researchers, and to strengthen knowledge transfer.

At the signing ceremony, Prof. Dr. Clemens Fuest said: "The co-operation agree-

ment we have signed is a good foundation to build bridges between ZEW and Fudan University."

Co-operation in Many Research Fields

The goal is to intensify co-operation in particular in the research fields of international finance, environmental and resource economics, industrial economics, as well as competition and regulation. Prof. Yang Yuliang, PhD, emphasised the international tradition of his university, which has the highest number of foreign students of all Chinese universities. "True to this tradition, I'm convinced that the co-operation with ZEW will result in an exchange of ideas across disciplines. Both partners will benefit," Yang added. One of the outcomes of the already existing collaboration is the China Economic Panel (CEP), a periodical survey of economic and financial data on China by ZEW and Fudan University, which was established in mid-2013.



President Prof. Yang Yuliang, PhD, and ZEW President Prof. Dr. Clemens Fuest Have Common Plans.

New Research Group on International Distribution and Redistribution Takes up Work

The new Research Group "International Distribution and Redistribution" took up work at the beginning of October 2013 at ZEW. The Research Group offers fiscal and social policy advice on the basis of empirical studies. The research focuses on three main areas.

In the research area "Tax and Transfer Policy", the researchers examine the efficiency, distribution, and welfare effects of tax and benefits systems. Another focus is on the macroeconomic effects of reforms and reform proposals.

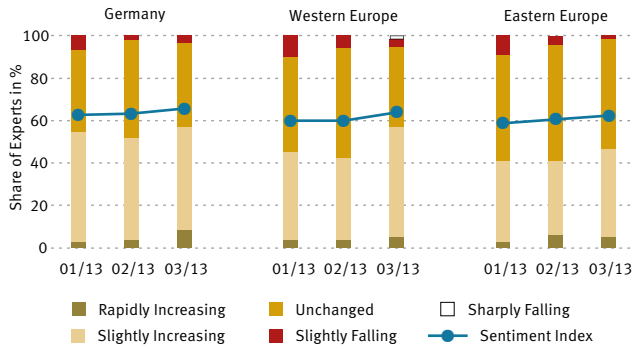
Furthermore, the Research Group studies the incentive effects resulting from tax and benefits systems over the life cycle. Researchers in the area "Prospects for the European Monetary Union" examine questions related to European fiscal integration. Researchers working in the area "Distribution of Income and Wealth" focus on the empirical analysis of socioeconomic inequality as well as on the distribution of poverty and wealth.

The new Research Group is headed by Professor Andreas Peichl. Alongside his

new position at ZEW, Peichl has been appointed professor for quantitative economics at the University of Mannheim. Andreas Peichl came to ZEW from the Institute for the Study of Labor (IZA) in Bonn. His research focuses on empirical public finance as well as labour and welfare economics. His current research topics include the effects of taxation on budgetary decisions and on the distribution of income, the incidence of different tax types, as well as the optimal design of tax and benefits systems.

FACTS AND FIGURES

Freight Volumes Continue to Rise in CEP Services Sector

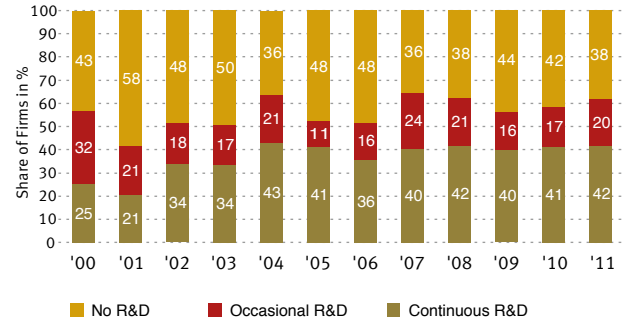


Source: ZEW

The sector of courier, express and parcel (CEP) services is continuously growing for some time, according to the experts surveyed by ProgTrans and ZEW for the TransportmarktBarometer. The Sentiment Index has not fallen below the 50 percent threshold in the last four years and currently stands at the highest level since mid-2011. The majority of experts expect freight volumes to remain stable only for Eastern Europe traffic; for national and Western European traffic 57 per cent of experts expect growing or even significantly growing transport volumes.

Dr. Martin Achtnicht, achtnicht@zew.de

Many ICT Service Providers Engaged in Research and Development (R&D)

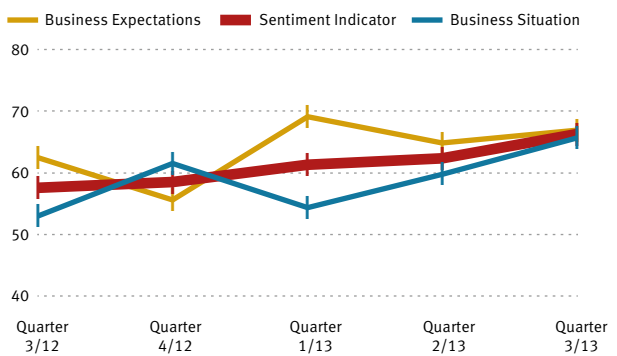


Source: ZEW, Mannheim Innovation Panel

The majority of firms in the ICT services sector (software, data processing, hosting/web portals, telecommunication services) are engaged in research and development (R&D). In 2011, 42 per cent of firms conducted R&D on a continual basis, i.e. they had R&D staff or even an R&D department. In 20 per cent of the surveyed firms, R&D activities took place in response to specific situations. Developing new software solutions and integrating new technical equipment into service processes is an essential R&D task in this sector.

Dr. Christian Rammer, rammer@zew.de

Media Service Providers Restore Positive Sentiment After a Long Dry Spell

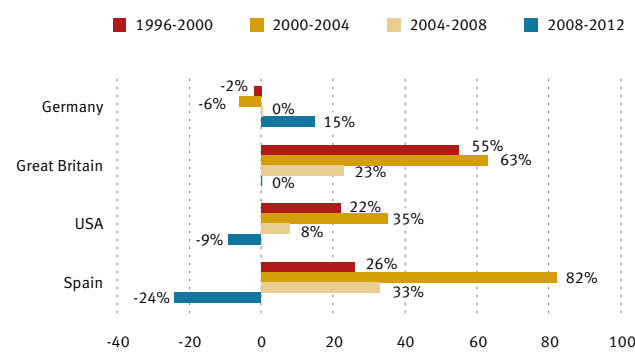


Source: ZEW

The ZEW Economic Sentiment Indicator for the Information Economy has continued to improve in the third quarter of 2013. It reaches a total of 66.3 points. The companies' assessment of their business situation in the third quarter as well as their business expectations for the fourth quarter are extremely positive. Reaching values of 65.7 points and 66.9 points, both sub-indicators gain stability on a high level. The sentiment in the media industry also brightened up. The Sentiment Indicator in the media industry reaches 53.8 points in the third quarter of 2013.

Daniel Erdsiek, erdsiek@zew.de

Very Different Price Development in the Real Estate Sector of OECD Countries



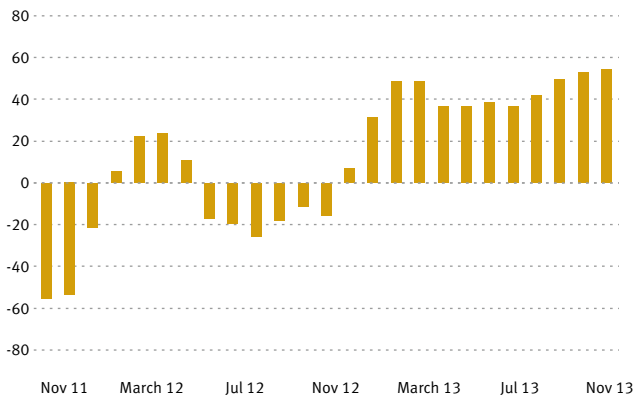
Price development in the real estate sector in selected OECD countries in the period between 1996 and 2012. Source: ZEW

The "boom-and-bust" countries, including the United States and Spain, followed a strong price increase until 2006, while their real estate suffered a considerable loss in value between 2008 and 2012. Countries like Great Britain also reported a rise in housing prices in the period until 2008; however, real estate prices did not collapse. Germany and Japan experienced no boom in the reviewed period. In these countries, annual price increases are comparably low, mostly in the single-digit percentage range, over large parts of the period.

Lena Jaroszek, jaroszek@zew.de

FACTS AND FIGURES

ZEW Financial Market Test November 2013

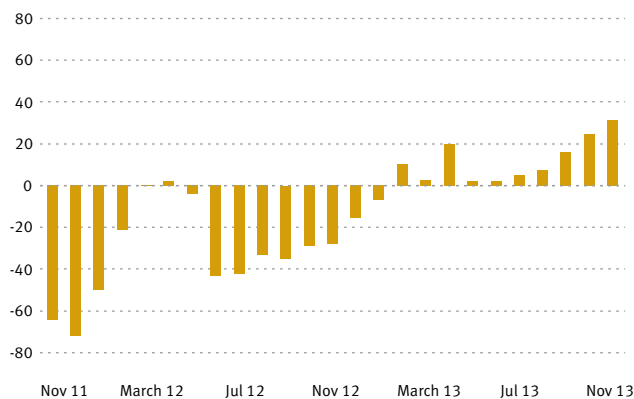


Balance of positive and negative assessments concerning economic development in Germany. Source: ZEW

Germany: Confidence Continues to Grow

The ZEW Indicator of Economic Sentiment for Germany has increased by 1.8 points in November 2013. The indicator now stands at a level of 54.6 points (historical average: 24.1 points), its highest mark since October 2009. "Economic expectations for Germany have been hovering at a high level for months. The slightly improved economic outlook for the Eurozone might have contributed to this development", says ZEW President Prof. Dr. Clemens Fuest. The assessment of the current economic situation for Germany has slightly worsened in November. The respective indicator has fallen by 1.0 points and now stands at the 28.7 points-mark. Economic expectations for the Eurozone have slightly increased in November. The respective indicator has improved by 1.1 points to 60.2 points.

Frieder Mokinski, mokinski@zew.de

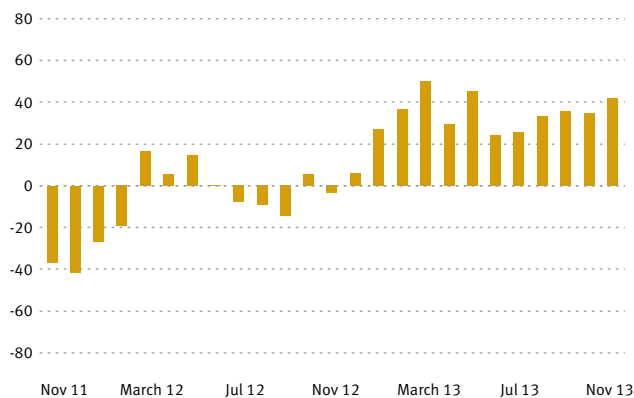


Balance of positive and negative assessments concerning economic development in Switzerland. Source: ZEW, Credit Suisse

Switzerland: Optimism Among Financial Experts

In November 2013 the index of economic expectations for Switzerland has increased by 6.7 points. The ZEW-CS-Indicator has reached the 31.6 points-mark, continuing its upwards trend observed in the past half year. About 41.4 per cent of surveyed analysts expect an improvement of Switzerland's economic development over a six-month time horizon. The share of analysts assessing the current economic situation in Switzerland to be "good" has declined by 12.0 percentage points in the current survey. Thus, the respective indicator has dropped to the 37.7 points-mark. The experts seem to believe that the improved economic situation in the country has stabilised. The ZEW-CS Indicator is calculated monthly by the Centre for European Economic Research (ZEW) in cooperation with Credit Suisse (CS).

Lena Jaroszek, jaroszek@zew.de



Balance of positive and negative assessments concerning economic development in the CEE region. Source: ZEW

CEE Region: Economic Expectations Improve

In November 2013 economic expectations for Central and Eastern Europe including Turkey (CEE) have improved by 7.0 points. The ZEW-Erste Group Bank Economic Sentiment Indicator now stands at a level of 41.6 points. Economic expectations for Poland and Slovakia have displayed the highest increases by 14.1 points and 16.7 points respectively. In contrast, economic sentiment for Croatia decreases by 14.7 points – this is the strongest decline of the indicator among all CEE-countries.

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe has been compiled on a monthly basis together with further financial market data by the Centre for European Economic Research (ZEW) in Mannheim with the support of Erste Group Bank, Vienna, since 2007.

Zwetelina Iliewa, iliewa@zew.de



Germany's Trade Surplus: A Cause for Concern?

Germany has been repeatedly criticized for running large trade surpluses. The European Commission is currently examining whether these surpluses endanger the proper function of the European economic and monetary union. But how could these trade surpluses represent a threat? Critics argue that Germany is impeding the economic recovery of the eurozone by repeatedly calling for reforms in other nations while failing to make its own contribution to resolving the crisis. Highly indebted EU nations have massively reduced their imports, thus shrinking their trade deficits, it is said, yet Germany continues to run high trade surpluses. Accordingly, there have been numerous calls for Germany to stimulate its domestic demand through greater public-sector investment and higher wages. It is argued that would lead Germany to import more and export less, thus helping to stabilize the economies of Europe's crisis-racked nations.

But is this criticism of Germany justified? Closer examination reveals that it is not very convincing. First, it is by no means correct that Germany has sat on the sidelines during the crisis, idly letting others undertake efforts to adjust. Balance of trade data confirm this fact: While Germany's trade surplus has remained large in recent years – in 2007 it measured 195 billion euros, and in 2012 some 188 billion euros – the German export economy has undergone considerable restructuring since 2007. Germany's trade surplus vis-à-vis other EU states declined sharply between 2007 and 2012, from 173 billion euros to 114 billion euros. In 2007, nearly 65 per cent of German exports went to other EU countries – this figure has fallen to 57 per cent over the last five years. At the same time, the percentage of goods imported by Germany from EU nations has hardly fallen. Thus, Germany has clearly reduced its export surpluses in inner-European trade, thereby helping to stabilize demand in the EU countries particularly impacted by crisis. One could argue that this adjustment has been insufficient. But who should determine the level of domestic demand that is appropriate for Germany? Europe is not a centrally planned economy.

Second, German trade surpluses are not the result of a deliberate economic-policy strategy. Wage restraint in Germany over the past decade has often been criticized as a form of export subsidy. But this policy was necessary to reduce the extremely high unemployment rates that prevailed at the turn of the century. Wage growth is now faster. Furthermore, wages in Germany are predominantly determined by collective bargaining between unions and employer's associations, not by legislators.

Third, a policy of greater domestic investment to counter trade surpluses would be foolish. Investments should be made when the expected returns advise it, and not on the basis of balance of trade data.

Fourth, it is often neglected that for a country strongly impacted by demographic aging, it is an extremely sensible course of action to reduce public debt and invest capital abroad. German export surpluses are a reflection of this foreign investment. This touches upon an important point. The investment of retirement savings abroad is only a good idea if the investments are sound. In the decade following the introduction of the euro, however, a great deal of money exported by Germany was poorly invested. The ballooning of public and private debts in the eurozone's periphery – financed in part by German investors – was often used to finance consumption or build houses that nobody needed. Now, the money can't be repaid, necessitating multi-billion euro bailouts to prevent the insolvency of governments and banks. Ultimately, German taxpayers have been footing the bill for monies owed to German investors by crisis-racked countries. From an economic perspective, this export strategy is highly irrational. But this does not mean that Germany's export orientation needs to be reduced. What is needed instead is regulatory reform to banks and financial markets in order to prevent excessive indebtedness and encourage sound capital investment. If the EU's examination of German export surpluses leads to this insight, then it will have been worthwhile.

ZEW

Zentrum für Europäische
Wirtschaftsforschung GmbH
Centre for European
Economic Research

ZEWnews English edition – published quarterly

Publisher: Centre for European Economic Research (ZEW) Mannheim,
L 7, 1 · 68161 Mannheim · P.O. Box 10 34 43 · 68034 Mannheim · Germany · Internet: www.zew.de · www.zew.eu
President: Prof. Dr. Clemens Fuest · Business and Administration Director: Thomas Kohl

Editors: Elisa Jendrusch, Phone +49/621/1235-133, Telefax +49/621/1235-255, E-mail jendrusch@zew.de
Gunter Grittmann, Phone +49/621/1235-132, Telefax +49/621/1235-255, E-Mail grittmann@zew.de

Reprint and further distribution: only with mention of reference and sending of a voucher copy
© Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW), Mannheim, 2013