

Europe's World

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THE ONLY EUROPE-WIDE POLICY JOURNAL

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NEW EUROPE'S WORLD SECTIONS REFLECT GLOBAL PRIORITIES

This Summer 2008 issue of *Europe's World* marks the completion of the journal's first three-year cycle – in other words its launch phase is over and it has entered its maturity. With more than 100,000 readers across Europe and an array of some 500 contributing authors who are either household names or acknowledged leaders in their field, *Europe's World* has in just a few years established itself as a truly international platform for new policy thinking and debate.

But that does not mean that this journal is content to rest on its laurels. Its function is to highlight the policy challenges that confront us in this fast-changing world, and that means that *Europe's World* must itself adapt and change.

In this issue we introduce two new sub-sections, one to group articles on security and defence policy questions, the other as a convenient way of concentrating articles on the wide range of issues that make up the sustainability debate.

The introduction of these two sections reflects the volume of contributions being proposed to the journal. Threats to the world's peace and our environment are

pressing in with growing urgency, and that is in turn provoking a rising volume of policy proposals. *Europe's World* sees itself as a natural sounding-board where analysts and political players can air their views.

This issue's new sub-sections on Security and Defence and on Sustainability issues focus on several key policy areas that have yet to filter through into the general news media, yet are starting to be hotly debated amongst decision-takers. The articles by NATO Secretary-General Jaap de Hoop Scheffer and General Henri Bentégeat, Chairman of the EU's Military Committee, both examine weaknesses in defence capabilities and commitments that need urgently to be addressed. And the Sustainable Europe section similarly breaks new ground, with authors discussing the case for more optimism on climate change as well as a total re-think of our attitudes to sustainability.



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Section 1

INTERNATIONAL

- **Why EU and US geopolitical interests are no longer the same**
by **David P. Calleo** 8
- **The pressures for a new Euro-Atlantic security strategy** by **Simon Serfaty** 15
- **The financial contagion now spreading worldwide** by **Hannes Androsch** 23
- **It's time Europe got its economic policy act together** by **Jim O'Neill**
Commentary by **Marek Louzek** 28
- **Capitalism's uncertain future** by **Daniel Daianu** 35
- **What to do about sovereign wealth funds** by **Roland Koch**
Commentary by **István Körösi** 40
- **The EU, Russia and the crisis of the post-Cold War European order**
by **Ivan Krastev** 47
- **Blueprint for a new relationship with Russia** by **Roderic Lyne**
Commentary by **Pami Aalto** 52
- **Is Gazprom's strategy political?** by **Alexander Medvedev** 63

Further contributions to this section by Ian Bremmer, Bertel Heurlin (EU-US); Timofei Bordachev, Vytautas Landsbergis (Russia), can be found on www.europesworld.org

SECURITY & DEFENCE

- **Towards fairer burden-sharing in NATO** by **Jaap de Hoop Scheffer** 68
- **The steps needed to move ESDP from theory to fact** by **Henri Bentégeat** 74
- **Cold War lessons for security policy today** by **Alyson Bailes**
Commentary by **Plamen Pantev** 78
- **Homegrown terrorism 1: We must slay the mythical dragons of "Eurabia"**
by **Muhammad Abdul Bari** 85
- **Homegrown terrorism 2: Breaking the vicious circle of marginalisation
and radicalisation** by **Busso von Alvensleben** 91

Section 2

EUROPE

- **How France intends to meet all those EU presidency expectations**
by **Jean-Pierre Jouyet** 96
- **Getting the Franco-German engine back into gear** by **Ulrike Guérot** 99
- **The questions facing Europe's development bank** by **Jean Lemierre** 103
- **Why Sarkozy's Mediterranean plan is arousing suspicions**
by **Eduard Soler i Lecha** 107
- **What a truly democratic EU might look like** by **Sabine Leidig**
Commentary by **Matej Avbelj** 110

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- "Do you like the EU?" – The pollsters' puzzling conclusions by [Helen Szamuely](#) . . . 117
 - Make the western Balkans the EU's next prize by [Doris Pack](#)
 Commentary by [Eric Bonse](#) 124
 - Policing Kosovo: The challenges awaiting EULEX by [Elizabeth Pond](#) 131
 - Sharing a vision of "the new Europe" by [Mark Eyskens](#) 137
 - What Europe's past can tell us of its future by [Élie Barnavi](#) 141
 - The new kids or the R&D block by [Gerry Salole](#) 145
- Further contributions to this section by [Sonja Biserko](#) (Balkans), [András Inotai](#) (Enlargement), can be found on www.europesworld.org*

SUSTAINABLE EUROPE

- The case for climate change optimism by [Angus McCrone](#) 151
 - Global economic "architecture" is no longer fit for purpose by [Herman Mulder](#) . . 157
 - Europe needs to change its whole approach to sustainability by [Tony Juniper](#)
 Commentary by [Duncan Liefferink](#) 164
- Further contributions to this section by [Robert Atkinson](#) (Productivity), [Sophia Tickell](#) (Healthcare), can be found on www.europesworld.org*

Section 3

THE DEVELOPING WORLD

- Why the private sector holds the key to better development aid
 by [Henrietta Fore](#) 174
- The case for cash aid to Africans – not to their governments by [Göran Holmqvist](#)
 Commentary by [Jochen Oppenheimer](#) 180

Section 4

VIEWS FROM THE CAPITALS

- Bulgaria seethes over the ECB's response to its "evro" hopes
 by [Roumen Avramov](#) 189
- Finland's power struggles result in mixed signals on foreign policy
 by [Michael Kull](#) and [Henri Vogt](#) 190
- Cliff-hanger vote will show the Swiss are not so detached over Europe
 by [René Schwok](#) 194
- Eurosceptic Norwegians quietly bow to Brussels' power by [Erik O. Eriksen](#) . . . 197
- Still selling the Lisbon treaty to the sceptical Dutch by [Mendeltje van Keulen](#) 199

LETTERS TO THE EDITOR

From [Joost Lagendijk](#), [Gunther Krichbaum](#), [Phil Woolas](#), [Janusz Onyszkiewicz](#), [Boris Zala](#), [Corina Cretu](#), [Simon Walker](#), [Hannes Swoboda](#), [Hans-Ulrich Klose](#), [Ria Oomen-Ruijten](#) 203

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Index to Partners and Advertisers:

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Brussels Airlines	p.2	Organisation for Economic Co-operation
Dassault	p.84	and Development (OECD)
EPP-ED Group in the EP	p.136, 196, 206	Polish Oil and Gas Company PGNiG
European Heating Oil Association (Eurofuel)	p.168	Robert Schuman Foundation
European Renewable Energies Federation (EREF)	p.156	Socialist Group in the EP
Gallup	p.59-62	The Hotel Wielemans
Generalitat de Catalunya	p.170-173	Umicore
Government of the Republic of Cyprus	p.192-193	Union of European Football Associations (UEFA)
Invest Macedonia	p.46	Volvo
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Why EU and US geopolitical interests are no longer the same



American and European policymakers have taken divergent paths of late because they have interpreted key trends differently, writes **David P. Calleo**. He traces the developments that have divided the formerly close Atlantic partners and assesses the outlook for the relationship

To call interests “geopolitical” underscores the influence of geography in shaping those interests. As Charles de Gaulle and Winston Churchill once famously agreed: “when all is said and done, Great Britain is an island, France the cape of a continent; America, another world.” Both understood all too well that the English Channel has for centuries been a formidable geopolitical barrier to a durable sharing of interests between Britain and France. If the Channel has been such a barrier, durable bonds across the Atlantic seem implausible.

In other words, common geopolitical interests across the Atlantic are from this

perspective unlikely to endure. Moreover, as the world’s two richest and most powerful economic spaces, the EU and the US are bound to be rivals, even when they are allies. As the young de Gaulle observed in the 1920s: “Is it really likely that the present balance of powers will remain unchanged so long as the small want to become great, the strong to dominate the weak, the old to live on?”

Recent history appears to contradict de Gaulle’s geopolitical realism. A strong common interest did in fact ally the US with selected parts of Europe over much of the 20th century. All it took, it seems, was a shared enemy. The enemy, however,

was also European – first Germany, then Russia. In effect, the transatlantic sharing of geopolitical interest was between the United States and one part of Europe against another. The wartime grand alliance was primarily an Anglo-Saxon affair, of limited appeal to America's polyglot population and not likely to endure by itself. The Cold War alliance was more inclusive and continues to the present day. It stretched out to include Germany, Latin and ultimately "eastern" Europe and thus appealed to a wide range of America's ethnic populations.

The Cold War's "Free Europe" thus united rather than divided Americans among themselves. It also fitted comfortably with the idea of a bipolar world divided ideologically between two superpowers. It recalled classic geopolitical theories separating the world into a Eurasian continental bloc and a maritime fringe – between Eurasian autarchy and global free trade, with the rest of the world up for grabs. In this grand geopolitical construction, the states of western and central Europe were gathered into a "West" dominated by the United States, where the overriding geopolitical interests of Europe and the US could be seen as "largely the same."

While the Cold War soothed divisions within America, it also fed tensions among Europeans. In a bipolar Europe, the very idea of a "central" Europe was superfluous. But Mitteleuropa never really disappeared from European consciousness. In West Germany, a persistent undercurrent favoured taking a more neutral stance vis à vis the superpowers. In return, it was hoped, the Soviets might relinquish East Germany. As the imperial Soviet grip loosened, German geopolitical

interest in détente strengthened. Growing trade and cultural exchanges encouraged a new "pan European" identity that could ease Germany's reunification. Meanwhile, General de Gaulle had blessed détente with his own de-Atlanticised geopolitical vision of a "Europe from the Atlantic to the Urals." As the French president saw things in 1967, a reformed Russia, shorn of its Asian conquests, would eventually rejoin Europe. These Franco-German ideas alarmed the Americans, who vaunted their own version of détente, one where the USSR and the US stabilised their relations, thus preventing any precipitate collapse of the European status quo.

Meanwhile, the West-European states were conducting a further revisionist policy – building a regional political-economic bloc of their own. At first a European Economic Community, ultimately to become the European Union. In many respects, however, even while laying the institutional foundations for a collective identity, the bloc seemed to complement rather than contradict the Atlantic system. West-European states had little interest in shedding their Atlantic protectorate so long as the Cold War continued. As they grew more competitive economically, they grew less inclined to protectionism. Europeans and Americans built up huge investments in each other's economies.

The collapse of the Soviet Union in 1991 dealt new geopolitical hands all around. In the new dispensation, the transatlantic alliance became an old idea confronting new realities. The interests of both the EU and the US are both expansively redefined. To

start with Europe's geopolitical redefinition: With no massive Soviet army in the middle of Germany, Europe was no longer firmly divided into Western and Eastern hemispheres. Mitteleuropa revived and Germany was reunited. Western Europe evolved from a "Community" to a "Union." As the Soviet Union itself imploded, West European states were less firmly bound to American protection. Analysts began predicting the end of NATO. These expectations underestimated the influence of "New Europe" – those European states formerly under Soviet control where Cold War fears of Russia still persist. For these states, joining NATO seems the most reliable way to consolidate their independence. Post-Cold War American administrations, eager to preserve NATO and leery of leaving the definition of Europe entirely to the EU, strongly favoured NATO's enlargement. This predictably upset the Russians and prompted them to try and reassert their old regional dominance. This, of course, only reinforced the eagerness for American protection among Russia's neighbours. These reactions and counter-reactions to some extent reconstituted the Cold War's bipolar system, but with the Russian sphere much reduced.

Americans, meanwhile, have grown eager to turn NATO from a defensive regional alliance into a global intervention force. European states have found themselves sending troops to Iraq and Afghanistan. This transformation of NATO has been part of a more fundamental shift in America's own geopolitical perspective. The Soviet demise has encouraged America's political elites to construct a "unipolar" view of their country's global position and interest. This

trend accelerated as the Bush administration attempted, after 9/11, to construct a unilateral global hegemony out of the "War on Terror." This expansive redefinition of America's geopolitical identity provoked growing disquiet in "Old Europe." America's invasion of Afghanistan was widely seen as justified, given the Taliban regime's intimate relations with the terrorists of 9/11. But the Anglo-American invasion of Iraq produced an open break between the US and its two major continental allies – France and Germany. Both refused to support the UN resolution legitimising the invasion. Both were supported in the Security Council by Russia and China. A great Eurasian bloc suddenly appeared in opposition to America's hegemonic global pretensions. These manoeuvres prefigured if not a tectonic shift in geopolitical alignments, at least a new fluidity in geopolitical relationships.

The effectiveness of Franco-German resistance to American hegemony was greatly qualified, though, by the reactions of other European states. The UK's Prime Minister Tony Blair did his best to resurrect Churchill's special relationship, and Britain was joined by Italy and Spain together with nearly all the states of New Europe. The Franco-German couple suddenly could no longer claim to speak for the EU as a whole. European plans for a Common Foreign and Security Policy and for closer defence cooperation seemed brutally discredited. Slowly, however, Europe has seemed to grow more cohesive in its opposition to American unipolar policies and pretensions.

Public opinion in most European countries was from the start firmly opposed to the Iraq

war. In both Italy and Spain, governments that had supported the American invasion soon found themselves out of office. Numerous European polls kept revealing a stunning collapse of American popularity and this was paralleled by a decline in respect for American military power. After

easy initial victories in Afghanistan and Iraq, the ensuing guerrilla wars went badly. American forces were clearly overstretched, and Europeans were reluctant to assist. European diplomacy grew more united, and the prospect of an American attack on Iran induced Britain to join with France and



MATTERS OF OPINION

US hits rock bottom in Europe – but not amongst African countries

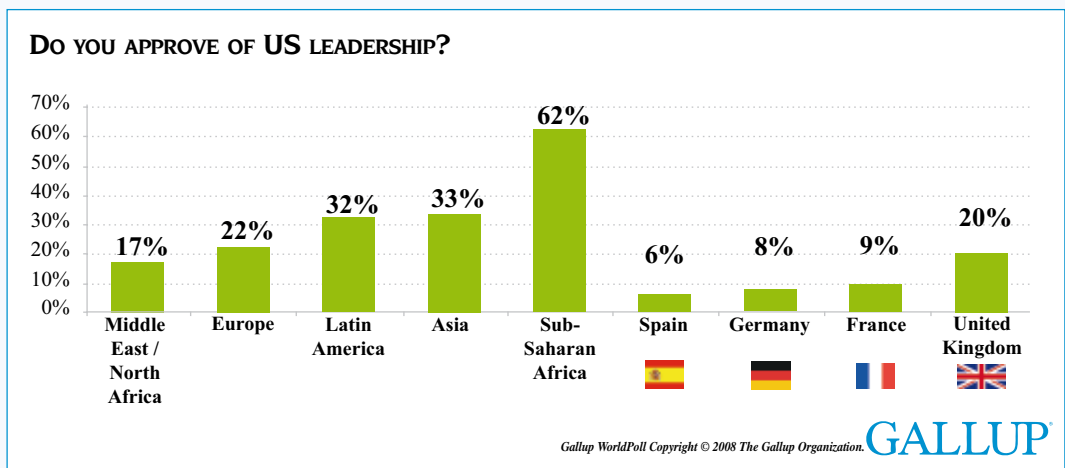
It would not shock many people to see public opinion that was hostile to the US government because of Iraq and the Israeli-Palestinian conflict. Surprisingly though, Gallup's pollsters have revealed that European countries hold even worse views of the US.

A Gallup poll in 139 countries showed that the Bush administration was least popular among its traditional allies. In Spain, only 6% approved of the US leadership – the lowest level of approval in the world – and it was little better in Cyprus (7%), Belgium and Germany (8%), and France (9%). Only

in the United Arab Emirates (7%) and Saudi Arabia (9%) was support as low.

The highest levels of support were to be found in the Central African Republic (92%), followed by Malawi (87%) and Cambodia (85%). The average approval rating in the countries of sub-Saharan Africa was 62%.

Interestingly, Germans expressed the same low level of support for the Russian government as they did for the Bush administration, while in Belgium more people approved of Moscow (10%) than Washington (just 8%).



Germany to pressure the Americans against it. Again, Russia and China supported the Europeans in the UN Security Council.

After his re-election in 2004, Bush grew more conciliatory. The departure of Tony Blair left him increasingly isolated diplomatically, with changes of government in Berlin and Paris bringing only superficial improvements. Both Americans and Europeans seemed progressively disillusioned with NATO. Deteriorating financial structures and economic conditions suggested stricter limits on America's global interventions. Meanwhile, Europeans muted their criticism and hoped that a more traditional and less adventurous government might result from the presidential election in 2008. Europeans and Americans had amply demonstrated their capacity to damage one another. Neither was eager to risk further direct confrontation.

It is difficult to know where this uneasy transatlantic détente of 2008 will lead. By now it should be clear that European and American geopolitical interests are not automatically in harmony. Europeans do not accept the Bush administration's strategic vision and the United States is unable to pursue that vision with success without European support. The reasons for Europe's defection are eminently geopolitical. They have to do with Europe's own neighbourhood. To Europe's east lies Russia, to its south the Muslim world. For their own safety and prosperity, Europeans need good relations with both. Not only do these neighbours offer growing markets and investments, but they are Europe's natural sources for raw materials and energy. Europe also needs good relations with the Muslim world for

the sake of its own domestic stability. It is not surprising that many Europeans feel the US is following policies that alienate these regions. A Europe closely allied with these policies and militarily dependent on America is therefore at risk. If left to their own devices, Europeans believe they would have a better chance of surrounding themselves with collaborative governments promoting prosperous harmony. Instead, American policies generate bitter intractable conflicts that point toward incipient wars of rival civilisations. Europeans fear that they will be the principal victims. In short, in the geopolitics of Europe's neighbourhoods, America seems Europe's problem rather than its solution. Under these circumstances, the transatlantic alliance survives less from genuinely shared interests than from inertia – a dependency path leading to increasingly unhappy outcomes.

At heart, today's transatlantic differences spring from contrary readings of recent historical trends. American political elites have seen the Soviet collapse opening the way to their own global hegemony. Americans project their own continental model on to the world at large. They see the United States fated to be the globalising world's federal centre. Europeans tend to reject this unipolar vision and foresee, instead, a plural world of several important powers. When Europeans think of how such a plural world might be governed, they naturally think of their own post-war model. Since World War II, Europeans have built in their own region a regional confederacy with federal elements – a constitutional superstructure that engages sovereign nation states in a cooperative matrix. Their hybrid Union is,

many Europeans believe, a constitutional invention of great potential – a necessary evolution for a peaceful system of nation states. This European view of international politics is not at all on the same wavelength as the Bush administration’s vision of a unipolar global system. But that geopolitical view is by now deeply implanted in America. Several generations have known no other.

Can anything restore the old transatlantic harmony? A forceful revival of Russian imperialism, or a war of civilisations with the Muslim world, might provide a threat so overbearing that a frightened Europe would seek shelter by resuming its Cold War dependency on America. But Europe will not be eager to embrace such a future. It may be careful not to alienate America, but it will struggle to build a collaborative relationship with its regional neighbours. Insofar as America’s hegemonic world view seems to stand in the way of such collaboration, the Atlantic seems more likely to count as a barrier than as a bond.

Of course, America’s definitions of its role in the world may change. America’s unipolar expectations have not been ratified by events. The unipolar policies of the past decade have been notably unsuccessful, and have weakened rather than strengthened the country. By now there is considerable opposition to the unipolar vision in the United States itself. The US may evolve a more modest definition of its interests, together with a greater appreciation of the need for a strong Europe. Europeans, after all, have no monopoly on constitutionalism.

Americans have a rich constitutionalist tradition of their own, together with a long and successful experience with international cooperation. But following the demise of the Soviets, America seems to have lost its way. Something has gone wrong with its system of checks and balances; the Roman Republic has been turning into the Roman Empire.

America’s recent evolution suggests a broader lesson. Nowadays, too much power is agglomerated in Washington to be contained successfully within a purely national constitutional structure. Checks and balances at home require a correlative balance of power abroad. Constructing such a balanced state system for itself on a regional scale has been post-war Europe’s great achievement. Successfully implementing that balanced system has depended heavily on a supportive America. Perhaps it is time for Europe to return the favour. Balancing, it seems, is always necessary, even among friends. And among friends balancing is also more likely to be successful. That Europe can find the will, the means and the confidence to rise to the occasion – to be America’s balancing partner – can hardly be taken for granted. What does seem clear is that a Europe that wants to be cohesive and strong, and on good terms with its neighbours, will not fit easily in a close transatlantic alliance with an America actively pursuing global hegemony. □

The Atlantic seems more likely to count as a barrier than as a bond

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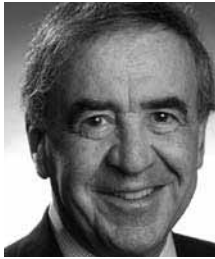
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The pressures for a new Euro-Atlantic security strategy



Divided on a wide range of issues, the 32-members of the Euro-Atlantic community need more than ever to assert their shared security aims, says **Simon Serfaty**. He argues that Europe must not wait for America to take the lead

Since the Cold War, and 9/11 especially, the United States and NATO, along with the states of Europe and their Union, have attempted in a series of separate documents to define a new strategic course. These have included NATO's Strategic Concept in 1999 (informally amended with the Comprehensive Political Guidance of 2006), the US National Security Strategy (NSS) of 2002 (revised in 2006), and the European Security Strategy (ESS) of December 2003.

Whatever the merits of these documents when first adopted, they are mostly outdated and must be revised – prior to the changes that will be instituted by the Lisbon treaty, signed shortly after the EU's 50th anniversary, and with the arrival of a new US administration on the eve of NATO's 60th anniversary. Predictably, these revision processes will unfold autonomously, but the ultimate aim should be to move gradually toward an "ever closer" Euro-

Atlantic strategy – encompassing the EU, the United States and the EU, and NATO with the EU and the United States – that can accommodate the security needs and preferences of 32 national sponsors, not counting yet the next two NATO members (Croatia and Albania) but including the 21 European states that are members of both the EU and NATO.

The moment to launch such a process is especially propitious. After the sharp clashes that divided the NATO alliance and the European Union over the broader strategic meaning of September 11, 2001 and the invasion of Iraq in March 2003, Europe's new political leaders are often pragmatists who can work well together and with their main partner across the Atlantic. French president Nicolas Sarkozy is to make the European Defence and Security Policy (ESDP) an important objective of his country's EU presidency during the second half of this year and in the context of a sharply improved

bilateral relationship with the United States, including France's final return to NATO. And all the remaining US presidential contenders insist on the need for closer relations with the European allies, including in Senator John McCain's words a willingness to be persuaded no less than an eagerness to persuade. "When we believe international action is needed we will try to persuade our friends that we are right. But we, in return, must be willing to be persuaded by them," he told a meeting in California of the World Affairs Council in March.

Without a doubt, America and the states of Europe faced one of their most difficult and demanding crises ever over the US decision to use force in Iraq. While differences among the allies were real and substantive, the crisis also grew out of a serious collapse of diplomacy across the Atlantic – especially between the United States and France – and within Europe where the problem was especially between Britain, France and Germany, as well as with new NATO members like Poland that were on the brink of becoming EU members too.

In the United States, the lack of allied support for an issue deemed to be existential raised widespread questions about NATO's relevance. The alternative to NATO was therefore said to be a so-called "coalition of the willing" before it was shown that such a limited coalition was insufficiently capable for, and even pertinent to, post-war "missions" of reconstruction and stabilisation.

As conditions in Iraq deteriorated after 2003, the crisis is cause for regret. A more cohesive alliance prior to the war, or an

early post-war enlargement of the initial wartime coalition, could have helped avoid the mistakes and setbacks that followed. But whatever case is made about past events, the threat of a humiliating retreat of the coalition and of the US forces has been receding, and conditions for an orderly withdrawal at some uncertain date in the near future are emerging, irrespective of the outcome of the US presidential election. Beyond Iraq, therefore, there are major points on which the United States and the states of Europe, as well as the institutions to which they belong, either do or can agree – at least from the top down, if not yet from the bottom up.

- All acknowledge that the current strategic environment is radically different not only from the pre-1989 situation, but also from post 9/11 conditions when the primacy of American power prevailed, the will to use it seemed open-ended, and the unipolar moment appeared likely to last for some time. These are all perceptions that have now faded.

- All agree that the threats and the risks that define the new security environment combine military, political, economic, social, environmental, and human issues: The institutions of the Euro-Atlantic community and their members are neither prepared nor equipped to address many of these issues, whether in terms of capabilities and know-how, or on grounds of organisation and policies.

- All states also agree, though with different degrees of intensity and for different reasons, that most of their security concerns could be faced better – meaning more efficiently and

more expeditiously – if addressed together rather than by each of them individually.

- As a result, they all recognise the need for a major overhaul of national and institutional capabilities, including military capabilities for the exercise of hard power, non-military capabilities for the use of soft power, and shared capabilities for combined reliance on both hard and soft power.

As the boundaries of Euro-Atlantic agreement have been extended, relative to post-Cold War and post-9/11 conditions, but also relative to the conditions of transatlantic relations during the Cold War, three paradoxical conclusions have become increasingly self-evident, irrespective of the motivations that may lie behind the decisions of the leading EU and NATO members:

First, there can be a distinctive “European” way only to the extent that it is framed, at least initially, as a cooperative Euro-Atlantic design. Second, and conversely, there can be a cohesive “Atlanticist” way only to the extent that it acknowledges specific European preferences and needs, even if these prove to be distinct from US preferences and needs. And third, there can be an effective “Euro-Atlantic” way only to the extent that there is better coordination between the two institutions that best define it, NATO and the EU – each with the other but neither against or in spite of each other.

Without a doubt, America and the states of Europe faced one of their most difficult and demanding crises over Iraq

In other words, neither side of the Atlantic nor any one NATO or EU power can get too far ahead of the other in putting forward a security vision of its own. Quite the reverse, as the United States, Canada, and the 30 states of Europe that belong currently to the EU or NATO, or both, form a community of overlapping interests and compatible values that belies the narrow emphasis of the ESS on Europe’s immediate neighbourhood and the apparent emphasis of the NSS on America and on regions outside Europe. It even belies NATO’s affinity for Cold War structures and procedures both in Europe and beyond.

In relation to this 32-state community, the notion of exclusive “neighbourhoods” for either side of the Atlantic is too limiting. In a globalised world, everywhere “over there” can intrude anywhere “over here” – thereby forcing upon the Euro-Atlantic countries a presence and an involvement that are both global and multi-dimensional. Compared to the intimacy found within such a community, the idea of a “global” alliance that would be enlarged beyond the geographic limits set by the 1949 Washington Treaty remains at best premature, and is even potentially self-defeating.

In short, the misleading and fundamentally flawed debate over Iraq – me Tarzan, you Jane – is over because it has now been shown decisively that the Euro-Atlantic alliance is not divided over the facts of American

power and European weakness within NATO, but is instead united by the realities of America's and Europe's respective power and weaknesses around the world.

In practice, this means that unlike the conditions that prevailed when the Bush administration drafted its first National Security Strategy in 2002, one year before the European Security Strategy, and even unlike the second NSS in 2006, one year before the military surge in Iraq, a changing European Union and a changed US administration may be able to develop new documents that can depend on a series of major points on which Europe and the United States, and the EU and NATO, have been converging, even if they still fail to agree fully.

- Traditional threats in the form of massive territorial invasion by large military forces have receded; especially in Europe, but traditional state-centred or state-inspired threats that aim at asserting commanding influence through the use of non-military means remain and can demand the sort of collective response mandated by Article 5 of the North Atlantic treaty, but now extended beyond the confined geographic area envisaged in 1949.

- Expectations that the emerging new poles of power might settle quickly as "strategic partners" (Russia) or "stakeholders" (China) have dampened on both sides of the Atlantic. Similarly, the need to respond to the rise of new regional poles like Iran with global influence and to the emergence of new pivots of instability with global significance like Pakistan, has been confirmed. A collective understanding of what such responses

might be, and how they can be enforced, has become more urgent.

- While 9/11 was not as much of a turning point for Europe as it was for the United States, it is increasingly agreed that international terrorism is a non-traditional threat whose global reach and potential access to weapons of mass destruction (WMD) makes it fundamentally different from the sort of local terrorism that Europe has known and endured in the past.

- The challenge of terrorism with a global reach reinforces other threats like WMD diversification and proliferation, failed states, organised crime and access to energy, climate change, pandemics, and more – all threats that originate mostly outside the Euro-Atlantic area but which the area is unlikely to escape, and might even be among the first victims.

- Few if any of these threats can be addressed exclusively with military capabilities, and most of them require a complex mixture of military and civilian capabilities along with a combination of institutional tools, both national and multilateral. Military capabilities will rarely be sufficient, but they will often be necessary, including a rapid reaction potential to assume an expeditionary and sustainable role, and capacities with enough flexibility and adaptability to cover a broad range of missions.

- For the EU to act like a power in the world, a more cohesive and robust approach to security and defence is therefore needed. For NATO to complete the missions

mandated by its members, capacities for a more effective approach to reconstruction and stabilisation issues are necessary.

- The new and irreversible facts of globalisation – meaning the abolition of time and space – deny all states or even regions their past luxuries of indifference and isolation. In a globalised world, economic growth, immigration, and free trade play a significant role for the management of traditional and emerging security issues.

“Qui fait quoi?” asked the then French president Jacques Chirac in 2000 as part of the EU’s so-called “finality” debate. For the 32 states that populate the EU and NATO gain converging and compatible views of their total security environment, meeting all these challenges and building up all the required capabilities cannot be the task of any one state alone, or of any one institution. The logic of unity prevails over that of cleavage: There will be no coherent response to Chirac’s question unless the



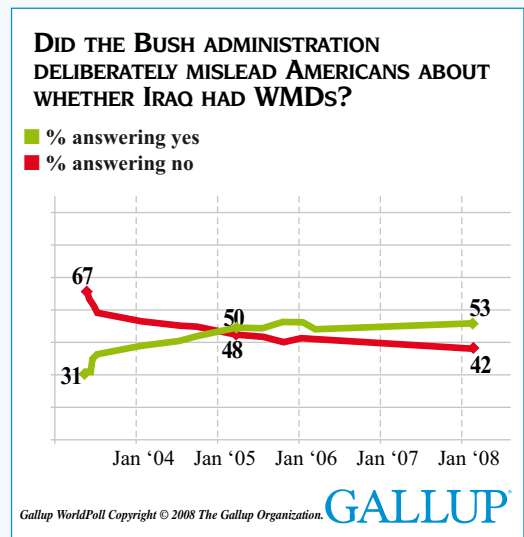
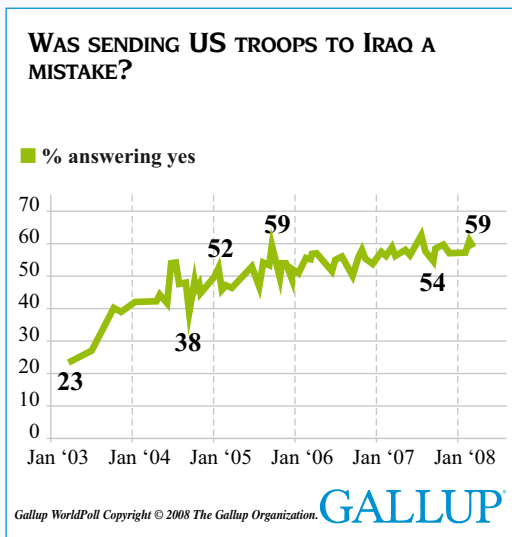
MATTERS OF OPINION

Most Americans regret Iraq involvement

Nearly six out of 10 Americans think that sending US troops to Iraq was “a mistake”; 54% think that history will judge the US invasion and its subsequent involvement in Iraq to be a failure.

The findings – the result of a Gallup poll in February 2008 – show how feelings have evolved since an earlier survey by Gallup in March 2003, which found that 76% of Americans thought the US was right to go to war with Iraq.

The shift in US public opinion, from a minority to a majority believing that intervention was a mistake, occurred in 2005. In that year, most Americans started agreeing with the statement “the Bush administration deliberately misled the American public about whether Iraq had weapons of mass destruction (WMDs)”. More than half of the US population continues to support that view. Nevertheless, two-thirds (67%) of Americans believe that, in the long run, Iraq will be better off than it was before the US and British invasion.



separate strategic dialogues among these states and within the institutions to which they belong are gradually intertwined into an ever closer Euro-Atlantic strategy embraced by all EU and NATO members. Although all states may not feel equally vulnerable to the new security environment, all can at least acknowledge an indivisible exposure to the consequences of failure.

Without a strategy, action remains at the mercy of unpredictable events. As no one is mandated to do anything, everyone can claim the ability to not do as much as it can, if anything. In the end, in the midst of rising anger among allies who question their partners' contributions, and since no one can do everything, nothing gets done. A strategic consensus between the United States and the EU, and between the EU and NATO, would reinforce their members' commitment to providing each institution with the needed capacity for action on behalf of shared goals. And by making it possible for each institution to rely on the capabilities of the other, it would also reinforce the efficacy of action through either or with both of them, maximising effort and resources, reconciling procedures and substance, and pooling all available security, political, and economic strengths. Yet notwithstanding the convergences noted above, several major differences remain.

In the United States, calls for democracy have been moderated. They are now more reminiscent of the declaratory pledge made by the 1947 Truman Doctrine to help countries threatened by communism than to President Bush's pronouncements on liberty found in his second term inaugural

speech in January 2005. Secretary of State Condoleezza Rice calls this "American realism", Senator John McCain labels it as "realistic idealism," and Senators Barack Obama and Hillary Clinton both seem satisfied with the word realism. Whatever it is, the US interest in "help[ing] create a world of democratic states" remains, as it should, but a renewed emphasis on "transformational diplomacy" restores the old-fashioned imperatives of stability and order, and better suits the EU's concern with good governance, civil society, social and political reform, rule of law.

The problem of failing states as a threat to peace is, in this context, now well recognised in the security strategies of both the United States and Europe. Afghanistan is representative of the problem but is hardly an aberration, as shown in Bosnia, which is still far from an effectively functioning state, not to speak of East Timor, Haiti, or Somalia and Iraq. Now an independent Kosovo is taking centre stage for such issues, and tomorrow it might be Palestine or Pakistan. A first great task of a Euro-Atlantic security strategy is to generate a more effective approach to stabilisation and reconstruction with an integrated approach that makes effective use both of NATO and the EU, and of individual national capabilities.

Second, although the need for military power coupled with the use of non-military power is increasingly, it grudgingly acknowledged in Europe, the specific terms of that balance are still strongly debated with the United States but also within Europe. When it comes to the use of force, three questions define the boundaries of

permissible differences between the EU and NATO, and between their members. What degree of autonomy can and should the EU have relative to NATO; what degree of autonomy can and should NATO have relative to the EU; and what degree of autonomy can and should the United States have relative to NATO (and any European power within the EU)?

To some extent, these questions are not new. They were first raised, though in a highly different institutional and geopolitical context, over the failed Anglo-French intervention in Suez more than half a century ago. Ever since, European allies have often questioned what they see as an American tendency to misrepresent the diplomatic procedures for providing information about a decision, and to ignore the institutional processes that ensure genuine consultation beforehand. During the Cuban missile crisis, President Kennedy turned to the allies only after a careful internal review of the options he faced, so they were informed rather than consulted. That the Bush administration returned to the 1962 crisis to justify its approach to Iraq is not surprising: under what they saw as similarly existential conditions, the president and his advisors found the threat to be so high and so unpredictable as to be "imminent". As Secretary of State Colin Powell, hardly the allies' bête noire, put it at the time, the United States "tries to persuade others why this is the correct

position. When it does not work, then we will take the position we believe is correct."

Situations in the future when Americans and Europeans differ over the need for action are likely. To that extent, for the United States to keep "the place of pre-emption in national strategy" unchanged, as NSS-II did relative to the earlier document, is likely if not certain to remain a distinctive feature of the US approach in contrast to that

A strategic consensus between the United States and the EU, and between the EU and NATO, would reinforce their members' commitment to providing each institution with the needed capacity for action

of Europe notwithstanding a new US administration's likely efforts to move away from open discussion of the idea, and even if the rather vague reference in the ESS to "preemptive engagement [that] can void serious problems in the future" finds its way into the next ESS document. In practice, whether the distinction between "prevention" and "pre-emption" proves to be an operational one or a much deeper philosophical difference over the legitimacy

and relevance of military force in the 21st century, is a question that will be tested over whether to deny Iran its acquisition of nuclear weapons, and how to deter their use.

It is still argued in Europe that no international order can be "effective" without full reliance on multilateralism. In contrast, the built-in US allergy to relinquishing, even on paper, sovereign decision-making to the collective will of an institution, especially the United Nations, is unlikely to be cured any time soon. Yet Europe's commitment

to multilateralism for the sake of global legitimacy is also open to question. A 99% multilateralist will become a 100% unilateralist under the right circumstances. What makes circumstances "right" has much more to do with leadership rather than with what any document might say. That was the difference that stood in the way of the misleading analogy between the Cuban missile crisis and the Iraq war. There was not enough of Kennedy in George W. Bush, just as there was not enough of de Gaulle in Chirac.

Critics of broad security blueprints argue that these documents are not easy to write, for no other reason than that the consensus to which they aspire is a prerequisite for the will to write them – hence the fear of a failure that would be especially damaging at a time when no further damage is affordable. Sceptics also point to the fact that such documents are anyway not conducive to action; who, among the emerging new political leaders on either side of the Atlantic remembers the 1999 NATO Strategic Concept, or is familiar with the EU Security Strategy, both of which often preceded their own election to office?

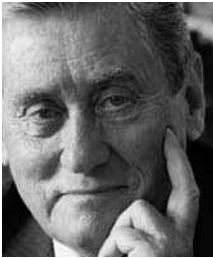
Yet the appeal of these documents, and the need for periodic updates, lies not only in what they say about what their state sponsors want to do about the world and its problems. It also lies in the need for the EU, the US and NATO to assert their shared will to act in common on the basis of compatible values, overlapping interests, and common goals. This shared need may go a long way toward re-casting an alliance that has seemed to be astray in recent years.

In short, a new security consensus is needed at this time not only because of changes in national leadership, though these count, or because of present and future institutional reforms in the EU and NATO respectively, much as these too matter. A new consensus is needed because the strategies under which both NATO and the EU operate have in recent years been losing much of their relevance.

That fortuitous conditions would give the lead to Europe just as the United States gains new presidential leadership for the next four to eight years, and that similarly fortuitous conditions would give Europe's lead to France as its takes over the EU presidency is not without appeal. "Nineteen seventy-three," declared Henry Kissinger in late April of that year, "is the year of Europe" – a time, he insisted, for the allies to join in "a fresh act of creation equal to that undertaken by the post-war generation of leaders." Now, in 2008, we are on the eve of a new era that awaits the decisions that will define Europe and its relations with the United States after George W. Bush. In this, the 35th anniversary of "the year of Europe," the time has come for the states of Europe and their Union to respond to this long-standing call and move the transatlantic partnership toward a shared Euro-Atlantic security strategy for the 21st century. □

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The financial contagion now spreading worldwide



The financial crisis that started in the US with the sale of unsuitable mortgages to unsuitable people has spread to Europe and the rest of the developed world. Former Austrian Finance Minister **Hannes Androsch**, warns that the world may be heading for a decade of severe Japanese-style deflation

Ever since President George W. Bush's administration came to power in 2000, many Europeans have viewed its policy with a degree of scepticism not witnessed since the Vietnam war. It began with the presidential election itself and the impression that commercial and political interests, rather than democratic principles, dictated how technical irregularities in voting procedures were dealt with. It continued with the controversial and divisive wars that followed the attacks on the World Trade Centre.

Not since the presidencies of Johnson and Nixon has the United States attempted to pursue such extensive foreign and domestic policies without reference to domestic taxes and savings. The policy exuberance of the earlier administrations was a major contributor to the global financial instability of the 1970s. There are some who fear that the present financial and economic downturn may be a result of politicians

having failed to learn the lessons of history, or having ignored them. And, with greatly enhanced economic integration, the global economy has fewer defensive mechanisms in its armoury.

Not since the time of the industrial revolution have the geo-political and economic changes of the past quarter century been more rapid and of greater consequence. In the long-term, the benefits will predominate; in the short-term, the pain of transition will be acutely felt.

Already, the stresses of transition are beginning to show. Newly-created wealth is unevenly distributed. In developed countries the newly unemployed cannot comprehend why their highly-profitable former employers have simply upped and departed for greener pastures in low-wage economies. In their wake, they have left behind a predominance of part-time or casual employment which is hailed as labour-market "flexibility".

In the emerging economic superpowers of the future, China and India, the atrocious conditions that workers are forced to tolerate, the disregard for public health, worker safety, education or the environment, all suggest that prosperity has yet to touch the lives of the average worker, or citizen. Globalisation has reasserted the pre-eminence of capital as a factor of production.

American enterprise and innovation have deservedly earned the admiration of the world. For the past century innovation has been primarily scientific and technological in character, increasing productivity and lowering costs. But its success has produced a mentality which ordains that obstacles to innovation should be cleared unceremoniously out of the path of progress. This is a dangerous development, encouraging a disregard of advance warnings of impending catastrophe in the pursuit of short-term gain.

The most notable innovations of the past two decades have been largely financial in character. Financial innovation is neither new nor undesirable. It represents the perpetual search for greater efficiency. Like technological innovation, financial innovation is concerned with cost reduction; in this case, the cost of transferring funds from savers to investors. Cost reductions that represent a net benefit to society can be regarded favourably. But where financial innovation is designed to circumvent regulation, either prudential or taxation, we need to be much more circumspect.

The finance revolution of the past 15 years or so has been rent-seeking rather than

welfare-enhancing in character. It has been based on eliminating, or at least reducing, two important cost elements in banking operations. One is the need for a bank or other financial institution that acquires short-term creditor funds to hold liquid reserves. The less liquid the bank's assets, the greater the need for such reserves. But their yield is small, and economising on them is profitable. The UK's Northern Rock debacle last year will long remain an example of how not to manage such risk. The other precautionary element is to hold adequate capital as a cushion against risky investments.

Increasing leverage can be very profitable when the return on investments exceeds the cost of funding. But statutory capital requirements, the subject of Basel I and Basel II, ordain a capital-asset ratio of about 8%. If adhered to, reckless expansion of the balance sheet in pursuit of profit is kept in check. Many financial companies ignored this restriction, to their cost: The Carlyle Capital Corporation, a subsidiary of the US-based Carlyle Group, had leveraged up to 32 times, i.e. held one dollar of capital for 32 dollars of assets, before market developments wiped out the company.

Avoiding prudential requirements is at the core of the present financial crisis, exacerbating the collapse of confidence in a system based on trust. The end of the boom is now exposing the fragility of the banking system, including quasi-banking institutions, as revealed by Bears Sterns and other US investment banks, and in Europe by Northern Rock, UBS, WestLB and many more.

Perhaps the most tragic aspect of this story is the human exploitation involved in the so-called sub-prime mortgage crisis. What we are talking about is a variable-rate mortgage offered to customers with a low credit rating. (In the United States, unlike Europe, mortgages to prime borrowers tend to be at a fixed rate, and include an option to refinance should market rates decline). In this case, "variable rate" is a misnomer – they were mortgages with artificially low interest rates initially, pre-programmed to

include a significant interest-rate hike after a couple of years. Thereafter, these rates would rise with market rates, but never fall when market rates declined. This structure could only have been devised to suck in as many customers as possible with scant regard for the longer-term consequences.

These mortgages were affordable to low-income households, at least in the initial low-interest phase. A mortgagee did not have to save for a deposit as they were

MATTERS OF OPINION

Europeans don't know and don't trust statistics

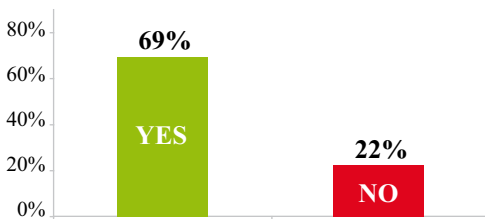
Europeans think it is important to know statistical information relating to their country's economy, such as GDP growth, although only a minority are familiar with this data. At the same time, fewer than one in two people say they actually trust official statistics.

Over half the people questioned in a recent Eurobarometer survey answered "don't know" when asked to give their country's growth or inflation rates. In a separate question, some 69% agreed that they ought to know the economic figures. Of the EU27 plus candidate countries Croatia and Turkey, Cypriots

were the most likely to believe that it was important to know the data. In contrast, the Dutch were broadly knowledgeable about economic figures compared to other Europeans, but placed least importance on the need to know them.

The Dutch also had the most confidence in official statistics (77% said they "tend to trust" them), followed by Danes and Finns. The people with the least confidence in government-supplied figures were the French (60% said they did not trust statistics), the Britons and the Hungarians.

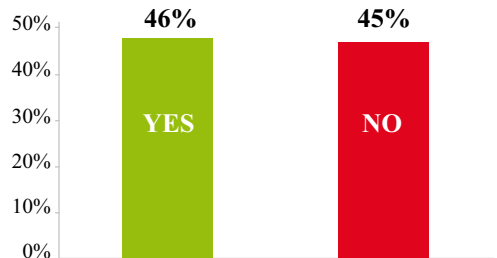
IS IT NECESSARY TO KNOW ECONOMIC FIGURES?



Source: Eurobarometer 2008

(EU27 + CANDIDATE COUNTRIES)

DO YOU TRUST OFFICIAL STATISTICS?



Source: Eurobarometer 2008

(EU27 + CANDIDATE COUNTRIES)

usually for 100% of the purchase price. With the property market booming, prospective capital gains promised undreamt of wealth. And most mortgage holders probably expected to refinance their mortgages before the rising interest-rate trebled or quadrupled their monthly repayments. Another hoped-for benefit was that capital gains could be converted into home equity loans, thus boosting the living standard of homeowners.

The rude awakening came when property values began to decline. For those without an equity cushion, refinancing was no longer a possibility. Rising interest rates led to inevitable default, foreclosure, homelessness. The spiral of human misery changed up a gear. Now we hear that the sub-prime

mortgage holders have only themselves to blame, that they entered into contractual obligations of their own free will. No one talks of the bank manager, under pressure to sell "financial products", eager to sign up customers and acquire signatures, even if the products were not in a customer's best interest. And no one questions a financial culture, or bonus system which favours one year of super profits followed by bankruptcy, in preference to two years of moderate results.

It is astonishing that variable-rate, or sub-prime, mortgages should be repackaged and resold in securitised form. That these securities, CMOs (collateralised mortgage obligations, bonds backed by a pool of mortgages), should find a ready market, both in the United States and abroad, reflects a failure on several fronts. The Federal Reserve Board and its then chairman Alan Greenspan ignored early warnings that unsuitable financial products were being sold to unsuitable customers. The warnings date back to the second half of the 1990s. At the time, as now, most countries were preoccupied with avoiding recession and were reluctant to fix something that was not obviously broken.

The rating agencies offered triple as to the upper tranches of portfolios of sub-prime mortgages, thus making them acceptable investment outlets for even the most sensitive of financial institutions. This failure must surely rank alongside that of the auditing industry in the wake of the Enron disaster.

Finally, I would argue that the nature of CMOs should have been apparent to

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risk managers. Any financially literate fund manager knows that risk and return are positively correlated. Any fund manager who claims to have been deluded by the apparently favourable risk-yield characteristics of those CMOs, or related credit instruments, can at the very least be accused of having fallen for Milton Friedman's "free lunch". Risk models do not justify abandoning one's natural sense of incredulity.

In a world where capital is free to flow across international boundaries, the crisis in the United States is one of truly international dimension. Some European banks, including the Swiss-based UBS, Northern Rock in the UK and the Landesbank Sachsen in Germany, to name but three of many, have felt the icy exposure that comes from international linkages. This is a new form of contagion, which transcends national boundaries and is amplified by an international crisis of confidence. This is why the potential global problem today is many times greater than the Savings & Loans crisis of the 1980s and 90s, which cost the American taxpayer an estimated \$150bn.

The tight network of financial markets means that problems can pop up anywhere and at any time. Many countries have been affected by the US sub-prime crisis. Some countries have created sub-prime problems of their own – 120% mortgages or interest-only mortgages. The full story has still to be told.

At present central banks are attempting to plug one leak before the next appears. If the dykes of the financial system collapse, we may be heading for a decade of severe deflation, as was experienced in Japan. During that time, the Japanese economy simply refused to respond to any expansionary stimulus.

If the dykes of the financial system collapse, we may be heading for a decade of severe deflation, as in Japan when the economy simply refused to respond to any expansionary stimulus

When the Federal Reserve was created in 1913, its most important function was as a lender of last resort to troubled banks, providing emergency liquidity via the discount facility. The present crisis suggests that this is no longer enough and that central banks worldwide may soon be forced to act as market makers of last resort in securities markets. The signs are already there.

The European Central Bank has also failed to tackle local bubbles in Europe. The justification was that the ECB is concerned with inflation, but not relative price adjustments. This means that monetary policy is geared towards the needs of Germany, because of its weight, but not to those of, say, Belgium. This apology for inactivity has outlived its usefulness. □

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It's time Europe got its economic policy act together



Goldman Sach's research chief **Jim O'Neill** says that while the euro's financial performance has been good, monetary union hasn't fulfilled its economic promise. It is time for Europe to act more boldly, both inside the eurozone and on the world stage

It's nearly ten years since the euro first flashed across the world's trading screens. Today, the European currency is a financial market heavyweight, performing well against the US dollar, the Japanese yen and even (until recently) the almighty Chinese yuan. Euro-dominated bond trading now rivals the US market in size. Economically, however, the eurozone is a disappointment. Given its size and population, Europe's economy could and should be doing better – and so should Europe's leaders. It is high time that they acted with greater imagination to unleash more genuine economic freedom and competition. They should stop championing national enterprises and start giving the European Central Bank more support. Eurozone policymakers should also seize the initiative in the world's key economic clubs.

In particular, members of Europe's economic and monetary union should give up their separate seats at the G-7 and the

International Monetary Fund. There may be some justification for each EMU state to be represented at the G-8, but not in the main economic organisations. If they volunteered to act collectively at these forums, Europe would free up much-needed space for other important nations to have a place at the top table of world economic discussions and, thereby, foster greater respect for global policymakers.

On the internal front, eurozone "success" can best be measure by the yardstick of economic growth. Many commentators cite the wide disparities between the growth rates of eurozone members as a sign of failure, but this view lacks any strong theoretical foundation. Many other regions display similar divergence, including the US. It should also be obvious that, in the absence of currency markets to act as a "valve" for economic and financial pressures, economic volatility may increase.

In fact, eurozone leaders should be less worried about variations in internal growth than clear evidence that overall economic performance has underperformed rates in comparable areas since 1999. While growth has been reasonably stable since EMU started, Gross Domestic Product per capita – probably the best measure of economic success available – shows that Europe has lagged other regions, (although with the latest data available, against the US, from 1999 through 2007, GDP per capita has increased slightly more than the US) even when the figures are adjusted for working population deficiencies. It is also well known that European productivity is falling behind too, probably due to the same factors that make Europe seem dull, cautious and lacking in ambition when compared with many of its competitors.

When it comes to internal competition policies, most European countries still think within the national "box". For the euro to help to lift European growth and productivity in any significant way, governments must allow – indeed encourage – stronger competitive forces across the EMU area. For example, it would be a real sign of change in Italy if the national airline, Alitalia, were allowed to fold or be sold. And why should France think that only another French bank would be a suitable buyer for Societe Generale following the recent trading scandal? This could be an opportunity to encourage the development of a truly pan-European bank. It is almost idiotic that there has been no notable French-German banking merger. How can EMU be taken seriously until there is? These examples come from just two business sectors; I am sure that a similar situation arises in numerous others.

COMMENTARY

By **Marek Louzek**

It's the euro that has slowed Europe's economic growth

Jim O'Neill argues that as the euro is now stronger than when first introduced, that is proof of its success. It is a short-sighted claim, and Europe's exporters certainly see matters differently. And as we approach the currency's tenth anniversary, a more important question needs to be put: Has the euro accelerated or slowed the economic growth of EU member states?

The figures are relentless. In the continuously integrating EU, economic growth has slowed decade by decade. In the 1950s, the average economic growth of western European economies reached 5.8%, then fell to 4.3% in the 1960s, 3.2% in the 1970s, 2.3% in the 1980s and 2% in the 1990s. In the first five-year period of the 21st century, the eurozone's growth rate dropped to 1.7%.

Far from benefiting the economic development of its members, the European single currency is doing it harm. The eurozone is growing more slowly than the European Union as a whole, and notably slower than the United Kingdom which of course has not adopted the euro. Experience during the past decade clearly shows that the introduction of the euro was a mistake. It was motivated politically, not economically.

The European monetary union is part of a plan to establish a single state in the EU.

A study by the European think tank, Bruegel, recently found that in a knowledge economy corporate development requires a wider financial environment than one based purely on bank lending. Bruegel argued that methods to support corporate growth should have a higher priority within the EU, where internal policy is largely pre-occupied with financial integration and stability. It found that action was needed in the areas of competition among financial intermediaries, securities regulation, insolvency legislation, taxation and prudential rules. Such reports

should be taken more seriously by Europe's policymakers.

In terms of external economic policy, Europe also has a great deal more to accomplish. European countries and multinational companies benefit from growth in Brazil, Russia, India and China, largely through the export opportunities opened up by these giant markets. Yet European policymakers do very little in response to the wholesale changes which are underway in the world economy – beyond complaining

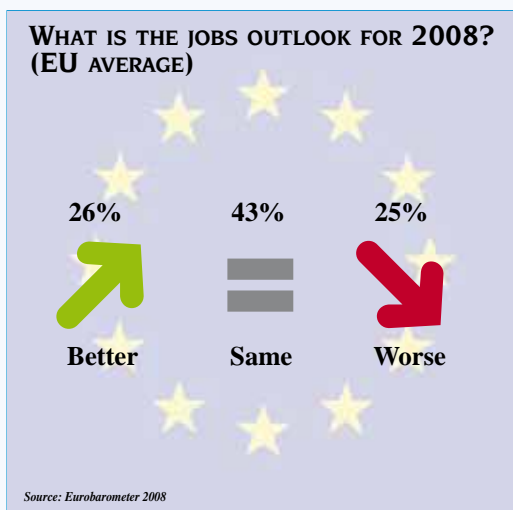


MATTERS OF OPINION

How optimistic are Europeans about jobs?

Europeans are almost evenly split between those who believe the jobs outlook in their country will improve during 2008 and those who expect it to worsen. A Eurobarometer poll towards the end of last year showed 26% of respondents optimistic, and 25% pessimistic. The largest section of opinion was the 43% of people polled who believed the situation would stay much the same.

Optimism also varied wildly between EU member states; it was the highest in Lithuania, Poland, Sweden and the Netherlands, and the lowest in Hungary, Cyprus, Portugal and Ireland. The autumn 2007 poll did, though, show a considerable fall in optimism in many countries since the spring of last year, most notably in Germany, which witnessed a 21 point fall in optimism between spring and autumn.



about Chinese imports and Russia's aggressive use of its commodities and, most recently, becoming embarrassingly obsessed with so-called Sovereign Wealth Funds.

It's a very poor show for a group of countries that have dealt with the incredibly complex challenges of creating the EU and monetary union. After all the diplomacy and effort that these epoch-making events required, you would think that European policymakers would be in an excellent position to tackle the necessary reforms of the IMF, the World Bank, the G-7 and the G-8. Yet all of these "institutions" still effectively reflect the post-World War II status quo, which serves little purpose in today's changed and globalised world.

For example, why is there an international economic organisation such as the G-7 without China being a member? China is poised to overtake Germany as the world's 3rd largest economy and its contribution to global economic activity since 2000 is close to that of the entire eurozone. Most of the global economic issues of our time cannot be solved without policy steps in China. The list includes high oil prices, depleted energy resources, environmental challenges, global warming and global imbalances. How can the G-7 have the audacity to make repeated public comments about the currency of a country that is outside their "network" and hope for a positive response? It is almost farcical.

Meanwhile, France, Germany and Italy are all in the G-7 even though they share the same monetary policy and currency. It would be far better if the ECB and the EU finance

COMMENTARY

Marek Louzek

Its economic lack of success can be seen in countries like France and Germany, that are exporters of capital. The euro is slowing these countries' economies and causing deflation. In countries at the edge of the eurozone into which capital is flowing – Spain, Portugal and Greece – inflation is, conversely, higher.

The EU's monetary union is not an optimal currency area. The uniform armour of a single monetary policy has varying effects on individual members of the eurozone. The European Central Bank is implementing a monetary policy, that is too restrictive for Germany and France and too expansive for Spain, Portugal, Ireland and Greece. Unemployment, meanwhile, remains high in the eurozone.

The eurozone's success does not depend on who represents it but on the workings of its monetary policy. Even if just a single entity were to represent the eurozone at such global forums as G-7, G-8 or the IMF, as Jim O'Neill suggests, this would not be of any help to economic development. Besides that, Germany, France, Italy and the United Kingdom are sovereign states so there is no reason why they should be represented by the EU.

As opposed to the dynamic and open United States, with its average long-term growth of 3-4%, the EU suffers from a lack of growth stimuli. This is the result of over-regulation of the European economies, inflexible labour markets and Brussels' efforts to harmonise and unify all kinds of things, whether possible or impossible.

The Maastricht criteria were created as a scourge for sinners who were unable to control

ministers adopted a common position ahead of G-7 meetings, then allowed their joint view to be represented by a single Council representative and the president of the ECB. The ministers meet before each G-7 meeting anyway, so it would be an easy procedure to introduce. Such a voluntary step by EMU members could lead to a G-6 of the US, Japan, Canada, Britain, the eurozone and China. It could also pave the way for a break-through in the interminable discussions about IMF representation and voting shares.

The IMF certainly needs to turn itself into a more modern and relevant global institution. It should, for example, undertake regular and well-publicised surveillance of

appropriate exchange rate levels, provide independent and credible data on cross border capital flows and be responsible for maintaining an international policy framework that is adaptable to the changing needs of the world economy. This would help to avoid future ossification within key economic institutions. For instance, a "financial G-6" may at the moment make more sense than the current G-7, but that may no longer hold true tomorrow. In another 10 years, India may be in the top echelon of economic powers. Or Britain might have joined the euro, making its independent role redundant. Can Canada keep its place while Russia and Brazil are excluded? And what other economic giants are waiting in the wings?

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Clearly, therefore, we need to devise a system of membership for key international organisations which both ensures their structures are relevant today but which is also flexible enough to allow members to come and go in future. One way forwards would be to establish numerical guidelines – along the lines of the Maastricht Treaty – which would confer G-7 membership. Perhaps it could be a rolling average of the level of GDP over five years, plus the level of GDP per capita plus some kind of productivity scorecard. The IMF could devise, implement and maintain such a system as part of its new functions.

As for Europe, it should lead by example – offering the world the benefit of its deep experience of financial diplomacy and volunteering to take the first steps forward. Given that Europe managed to construct EMU, the Maastricht Treaty and the stability and growth pact that underlines monetary union, it should be relatively easy for eurozone experts to help devise a system for judging G-7 type membership. Indeed, unless leading European countries take the initiative on global financial institutional reform, it would seem to be a lost cause. If Europe's policymakers want EMU to be a genuine economic success, now is the time to act boldly, both internally and externally. □

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their public finances or inflation. Enforcement of these criteria is, however, hypocritical. They are applied to the new members in a manner that is incredibly stringent. When two years ago Lithuania failed to meet the inflation criterion by 0.1%, the European Commission refused to let Lithuania join the eurozone. When Germany and France couldn't meet the Maastricht criteria for several years, the Commission imposed no penalties at all.

With double standards being used inside Europe's monetary union, it's small wonder that some of the new members are not so keen to join the eurozone. The Czech Republic has postponed its eurozone accession to some time after 2018, and seems not troubled at all by this decision. Europe's hopes for the future lie not with the euro but with removing barriers, limiting regulation and strengthening individual freedoms and responsibility. □

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Capitalism's uncertain future



What will the world economy look like 25 years from now? **Daniel Daianu** says that sovereign wealth funds have major implications for global politics, and for the future of capitalism

Investment by sovereign wealth funds (SWFs) last year reached a record \$50bn or so, and in the first quarter of this year accelerated further. In the deepening financial crisis, and after their severe losses in the sub-prime debacle, Citigroup, Morgan Stanley, Merrill Lynch and UBS all sought liquidity injections from SWFs by selling them equity. These transactions took place against the background of the SWFs' growing visibility in the world economy. Last October, the G-7 finance ministers invited international organisations, notably the IMF and OECD, to consider the role of SWFs – and the IMF, in co-operation with fund owners, is now developing an SWFs code of conduct, and the OECD is identifying best practices for recipient countries. The EU, too, has taken up the whole issue seriously.

SWFs are not new. Decades ago, several countries (Kuwait in 1953, Singapore, Norway, the United Arab Emirates) established SWFs to manage their substantial foreign exchange reserves – essentially oil and gas revenues that couldn't be fully invested in their own economies without endangering

stability. Investing abroad was therefore the logical way forward. The rapid and durable rise in energy prices of recent years, together with the exceptional performance of the Asian economies, led to significant growth in the number of SWFs. Currently, SWFs are estimated to control assets worth somewhere between \$1.5 trillion to \$2.5 trillion, and with rising commodity prices it is thought that this figure will by 2015 have risen to \$12 trillion.

The rise of the SWFs looks likely to have an increasingly significant impact on international politics. The reason for this is simple – some of the SWFs belong to countries that had since World War II been ideologically opposed to the western world. China's foreign exchange reserves, for example, had reached more than \$1,400bn by late 2007, while those of Russia exceed \$400bn – and both are nations with large SWFs. It's therefore possible to place the SWF phenomenon in a broader context of global competition and of diverging national interests – indeed, it is possible to consider this issue in terms of a clash of capitalisms.

In the wake of the fall of communism some analysts focused on a form of competition amongst capitalist systems within the wealthy western world. The influential French economist Michel Albert in the early 1990s wrote a book called "Capitalism versus capitalism" in which he viewed global economic competition as essentially a struggle between the Anglo-Saxon economic model and the continental model in France, Germany and elsewhere. Over the past decade, the concept of "fortress Europe" has also gained currency, and the European economies appeared to be successfully reducing their productivity gap with the US. MIT's Lester Thurow saw a tri-polar world economy emerging, with Japan as the third pole. This vision of economic power in the world shared between America, Europe and Japan was glaringly illustrated by the composition of the Trilateral Commission, whose meetings group leaders from all three.

Nowadays, though, a new global competition between different models of capitalism can also be seen. This reflects momentous changes in the world economy, and underlines their geopolitical implications. China's formidable economic ascent in the last two decades, and India's more recent rise along with that of Asia in general, all signal tectonic shifts in the global economy. These economies are characterised by dynamism, and that in turn is reflected in their economic growth, their soaring

Nowadays a new global competition between different models of capitalism can be seen. This reflects momentous changes in the world economy, and underlines their geopolitical implications

exports, the size of their foreign exchange reserves and not just their absorption of modern technologies (ICTs) but increasingly their own generation of new technology. China and India each graduate over half a million engineers a year, and the presence of their scientists in top professional journals is more than eye-catching. Both countries are also making big inroads into reshaping the world institutional order that has regulated international affairs since the end of World War II. The debate on reforming International Financial Institutions (IFIs), as well as the causes behind the stalling of the Doha trade round, are examples of this. It is no longer realistic to pursue any real issues of global governance without involving China and India.

Chinese and Indian companies can boast global outreach and are now acquiring significant stakes in companies around the world, including in the west. India's Tata group is to begin production of an extraordinarily cheap car that could be a global phenomenon, and it has bought the two famous brands of Land Rover and Jaguar from Ford, the American giant which, like GM, is going through hard times.

China, along with India and Brazil, is increasingly present in regions of the world where it's strategically important to control scarce, exhaustible resources ranging from industrial minerals to oil and gas. China uses international economic aid as a means of bolstering its credentials in poorer countries,

notably in Africa, that have major natural resources. This poses a challenge to both the US and the EU. At the same time, Russia is staging a comeback on the international scene precisely because of the enormous scale of its natural resources. Lukoil and Gazprom have been expanding their operations in Europe by capitalising on EU's high dependence on

external supplies of energy, and its lack of a common energy policy.

Asia's remarkable economic progress is re-landscaping competitive hierarchies around the world, and is reducing the west's ability to set the rules of the game. This redistribution of world economic power is



MATTERS OF OPINION

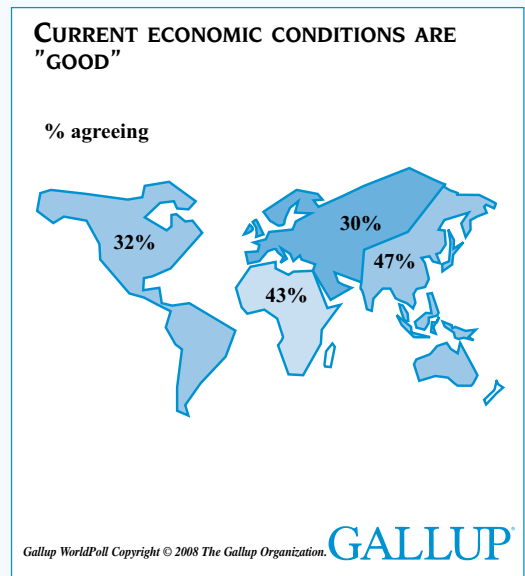
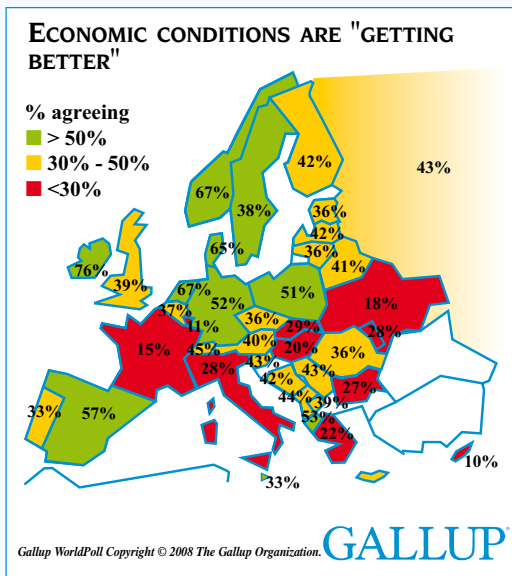
How economic outlooks vary worldwide

Europeans are more pessimistic about their economic situation than people in any other part of the world. On average, only three out of 10 people questioned for a recent Gallup poll in 36 European countries reported that their national economy was in good shape. Slightly more – four out of 10 – said that it was getting better.

European opinion varies. The wealthier countries of western Europe were more likely to say the economy was good today, but held out less hope for the future. The converse was true for many of the former communist countries that are now part of the EU.

But compared to the Americas, Asia and Africa, Europe has the least confidence in its economic outlook. In the World Poll, more Africans than Europeans thought their current economic situation was good: 43% compared to 30%.

When it came to predicting the future, people in the Americas were the most pessimistic of all: just one in three people thought that their economy was getting better. Puerto Rico and Paraguay (8% and 7%, respectively) were the most downbeat of 25 countries, while Venezuela and Canada (62% and 67%, respectively) were the most positive.



also having geo-political effects – these concern regional political and economic dynamics, security alliances, the reform of IFIs, global governance structures, and competition for strategic resources.

This geo-political perspective suggests that the title of Michael Albert's 1991 book could perhaps be paraphrased. In Asia, with the exceptions of India and to some extent Japan, the prevailing form of capitalism has an authoritarian shade and relies on state structures. This type of capitalism hinges on corporatist structures, on industrial policies and selective protectionism. It operates in Russia too, where the state controls the major energy groups. Clearly, economic rationality has to be reconciled with other factors when the state's wider interests have to be taken into account. That's especially true in a world increasingly worried about the scarcity of non-renewable energy resources and in which global warming is creating very complicated trade-offs for policy-making, and where food looks like becoming less plentiful because of climate change pressures.

Not even India, the world's largest democracy, sees eye to eye at a geo-political level with either the US or the EU. That India and the US have come to an agreement on energy and on the major issue of nuclear weapons does not radically change the scope for competition between these different types of capitalism, even if it is possible to argue that a growing rivalry

is developing between China and India on which the US could capitalise. In any case, when it comes to reforming IFIs and international trade, India would clearly side with the other emerging economies.

The western world is and will remain the most powerful bloc, economically and militarily, for the foreseeable future. But the US has been weakened by its external deficits and by military overstretch in Iraq and Afghanistan. Its deepening financial crisis also raises major concerns over business governance, with under-regulation and inadequate supervision and America's blind belief in the self-regulating virtues of markets – market fundamentalism – becoming increasingly problematic.

How ironic all this must seem to Asians, given the western world's preaching at the time of the Asian financial crisis a decade ago.

The EU too is struggling to manage its growing organisational complexity while tackling various forms of institutional and policy incoherence. China and the other Asian countries, meanwhile, are progressing economically and technologically at a very fast pace – a trend that's likely to continue in the next two decades or so, even if some of their economic momentum is temporarily eroded by the economic woes of the US and Europe. And Moscow is using the Russian Federation's energy-based financial muscle to play once more at global power politics. All these dynamics look more salient still

The deepening of the financial crisis is bolstering pragmatism and policies that do not confuse free markets with completely deregulated ones

when placed against the backdrop of the worldwide contest for scarce natural resources, the intricate situation in the Middle East and the rivalries in the Caspian Sea region and in Africa.

Authoritarian techniques like direct state involvement in the economy and society are even finding a degree of favour in liberal democracies. This reflects fears of terrorism, along with the need to cope with global warming while securing energy supplies. The debate in the US on the implications of the Patriot Act, and its echoes in the EU's member states is quite telling, and the rise in economic nationalism should also be seen in this light.

Throughout the world we are witnessing the resurrection of a policy paradigm that sees state intervention as an optimal means of achieving results. Policymaking of a type normally associated with a war economy is therefore likely to proliferate, especially when quick responses and the immediate mobilisation of major resources are needed. The deepening of the current financial crisis is also vindicating those who have long cautioned against market fundamentalism. This is a crisis that is bolstering pragmatism and policies that do not confuse free markets with completely deregulated ones.

Capitalism won the Cold War and defeated the communist system. But it is by no means certain that this guarantees the victory of liberal democracy – to use Fareed Zakaria's term for describing the western world. Competition between different types of capitalism has a major geo-political dimension, and, just how the transatlantic relationship in particular, will be managed in the future is a key concern.

Reforms that could bring greater vitality to the western economies are also very important. The EU's Lisbon agenda is a vitally important policy response, yet seems already to have been overtaken by the new focus on global warming and energy security. Now the need is to update the Lisbon agenda, and improve industrial and economic performance.

To sum up, the relative decline of the economic power of the US and EU seems inevitable, in terms of their share of global GDP, industrial production and world trade. But this relative decline, described by the political scientist Nicole Gnesotto in the Summer 2007 issue of *Europe's World* as "the growing powerlessness of the West", may be accompanied by a rise in its so-called soft power – especially if new countries join the family of liberal democracies. This would be very much in tune with American political scientist Samuel Huntington's idea of the "third wave of democratisation". The expansion of the west's soft power would involve more concern for global issues, such as global warming and international trade, the greater involvement of emerging global powers like China and India in tackling the world's "hot spots" and, not least, a reappraisal of the moral values which have brought economic prosperity and political empowerment to ordinary citizens during modern history. This reappraisal would include paying genuine attention to the concerns of the rest of the world. □

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What to do about sovereign wealth funds



Foreign investment is usually very welcome, but what if the investor hopes for more than a financial return? **Roland Koch**, Minister-President of Hesse, speculates on the ambitions of sovereign wealth funds, and discusses how they should be supervised

State-controlled investments from overseas – the so-called sovereign wealth funds – are now the subject of intensive discussions in countries worried about threats to their domestic industries. The United States and France in particular have made their fears known. In Germany, where the matter has been a hot topic among business people and politicians, the debate can be summarised in one question: What politico-economic significance do sovereign wealth funds have for the future of Germany?

Everyone who takes a view in this debate accepts that the problem, once no more than an academic one, has been exacerbated by the growing wealth of a number of countries, some of them formerly run by socialist or communist regimes. China, Russia, India and the Gulf States have integrated their wealth into the global economy, to the immense benefit of world trade. My own country, an export leader, has been a beneficiary through growth,

high employment and investment both by Germans abroad and investments by foreign companies in Germany.

The openness of Germany's markets makes them especially attractive to global trade, contributing to the country's development as economically successful and politically influential. This openness will not change, yet in the current debate about sovereign wealth funds there are those who speak of the need for new safety fences, in other words of protectionism. For example, Russian investors are interested in taking a massive share in the German-French aerospace company EADS that would exceed the 5% share already acquired by a Russian bank. For many people, this proposal has made it clear, perhaps for the first, time that, along with the dynamically developing international capital markets, the behaviour of investors has begun to undergo a change. We need to look at what exactly this change is.

Sovereign wealth funds are not new. They have been around for years. Among the first countries to invest their considerable state-owned funds were Kuwait, the United Arab Emirates (UEA), Norway and Singapore. They invested, and still invest, their budgetary surpluses worldwide in government bonds and state-owned enterprises. Industrialised countries like the United States and Japan also have so-called "reserve funds". Some of these funds are huge. In the UEA, the Abu Dhabi Investment Authority has estimated capital assets of \$875bn, making it probably the world's largest state-owned investment company. In July 2007, another rich fund, the UEA's Dubai International Capital, bought 3% of EADS, and before that in January 2006 it took a stake of almost 2% in the automotive manufacturer Daimler. And Kuwait Investment Authority, also a state-owned fund, has a shareholding in Daimler of some 7%. Singapore possesses two sovereign wealth funds – Temasek-Holdings, founded in 1974, with capital assets of about \$100bn, and the Government of Singapore Investment Corporation with approximately \$330bn. Both funds are invested worldwide, including with the port operator PSA. Some funds are subject to considerable restrictions. Investments by the Government Pension Fund of Norway (formerly the Government Petroleum Fund of Norway) follow ethical and ecological guidelines and are limited to a 3% maximum in foreign enterprises. Japan limits its state investments overseas to bonds, mostly those issued by the United States.

Until recently, this was the policy of China, which holds foreign currency reserves of more than \$1.2 trillion, the world's

COMMENTARY

By István Körösi

We have to fine-tune the rules on SWFs, as they're here to stay

Roland Koch's article looks at the problem of sovereign wealth funds from a largely national point of view, that of Germany. But these days our marketplace for goods and capital is global. I believe it is worth seeing if a balance might be struck between global and national interests, ending or at least easing the fears raised by Koch.

It won't be easy. International investment funds, including state-owned or state-influenced ones, play a growing role in Europe. Host countries are not unreasonably concerned that they represent a security risk, for the very size of the funds can be alarming.

There was a time, only a decade or so ago, when sovereign wealth funds and long-term investment funds aroused few national security worries, if any. These funds invested in the economies of many European countries, including major ones like Germany and France. The profits from their investments were mostly reinvested in the host country, and export-oriented ones with open external economic relations benefited greatly from these investments.

Then along came the oil-rich countries like Russia, and the Gulf states, and emerging countries such as China and India, with even larger funds at their disposal. They are much bigger than the pension (or other) funds of a European state, and are invested

largest. But now that policy has changed. A \$3bn investment by the Chinese sovereign wealth fund in the US investment firm Blackstone marked the beginning of a more active investment policy. Like a number of countries with money to spend, China's investment policy appears to have become worryingly strategic, advancing its own industrial interests in certain markets. Russia, where the line between state controlled and privately controlled companies can often be blurred, has demonstrated this strategy in European countries. In Germany, we have become concerned by Russian investments in aerospace, telecommunications and, most of all, in the energy sector.

Are state-controlled investors now many of them aiming primarily for a strategic

rather than purely financial return? Because the means of sovereign wealth funds are so substantial, it is advisable to take precautions to avoid being the target of politically motivated manipulations of the market, or of becoming economically and psychologically dependent on the decisions of foreign governments.

A common European approach, ideally in common with the United States, would be desirable. But I am concerned that the need for coordination between countries with different interests, as is generally the case in Europe, makes quick solutions impossible. Realistically, I believe that each country's interest, after carrying out an intensive assessment of the situation, is to act independently, at least for the time being.

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Most western industrial nations already have a number of instruments at their disposal to deter foreigners from making potentially unwanted investments, not only in the defence industry but in many other sectors too. Germany's Foreign Trade and Payments Act protects against takeovers in the defence industry, even though it in fact needs to be strengthened. Elsewhere, though, Germany has no system for examining investments by sovereign wealth funds that may be strategically motivated.

The International Monetary Fund is now aiming to encourage more transparency by foreign investors, and has plans for a code of conduct. Voluntary agreements for more transparency are also favoured by the EU Commission, and at the same time there is clearly a willingness of some sovereign wealth funds to engage in constructive dialogue.

But assessing potential threats is not easy. Most investments are seen to benefit a country's economy, if not its security. We in Germany need the means to distinguish one from the other. Bills have been drafted that amount to amendments to the Foreign Trade and Payments Act and the foreign trade and payments regulations. While strengthening the act, they seek to avoid affecting the openness of the German economy because that has contributed significantly to the country's wealth. Now, under proposed new legislation, if a foreign investment in a German company amounts to more than 25%, an assessment can be made of whether public order or safety might be threatened. In my view, this would deal with worries about sovereign wealth funds, while not generally impeding investment because it will only apply in very few cases.

or withdrawn according to the sovereign decisions of their owners, and to their political and economic goals. The functioning of these long-term investment funds affects the whole world, and has created new challenges for European countries, just as Roland Koch has demonstrated.

Differences in the business philosophies of these foreign investors and the states they target can obviously cause conflict. The targeted states clearly want guarantees of fair business practices, and are against the creation of monopolies or even oligopolies that run contrary to the European model of a market economy. Reciprocity is probably rarely mentioned by these investors. Koch makes a good point that a country that allows foreign investment should have the same market access in the investor's country. As things stand, most foreign state investors do not welcome European investors as equals. Their currency may not be convertible, or if it is they fix the non-negotiable exchange rate, contrary to the basic principles of international cooperation. Making reciprocity a condition for accepting foreign investment would be an important step towards a more balanced relationship between sovereign funds and host countries.

It is not only the older and larger EU states that feel insecure. We in the EU's new member states are also aware of the growing penetration of foreign state-owned companies. In many cases they have gained majority stakes in strategically important sectors like electricity, water and gas, and also in transport and telecommunications.

So what should be done? Yes, there's reciprocity, but what about protectionism too?



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Germany has also drawn up a plan to protect its industries that is modelled on US regulation. Since 1988, the President of the United States can prohibit foreign direct investment if it is seen as a threat to national security. An additional control was introduced last year, so now all direct investments in which a foreign government is involved are scrutinised by the Committee on Foreign Direct Investment.

The principle of reciprocity should clearly apply to transnational investments. Germany is open to foreign investors, but in return we Germans demand the same market access abroad. Much remains to be done on this scope even in Europe, as Germany's own experiences with France and Spain have shown. And in China and almost all Middle Eastern countries, foreigners are restricted to taking minority shareholdings, and also have to contend with high customs duties on imports and numerous non-tariff barriers.

It seems worth emphasising that protective measures must remain the exception, and not become the rule. Even well-meant protective measures too often result in deterrence. We must accept the challenges of global competition, and transnational investments are the basis of thriving economic development both at home and abroad. Nevertheless, we in Europe are not the passive economic playthings of other nations, or of big state-owned enterprises. We want to play an active part in the shaping of globalisation, and that means we have to shape appropriate rules. □

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It is a word that makes Europeans feel uneasy. Let us in Europe at least ensure we are pursuing economic policies that give priority to the proper functioning of key sectors, with its associated benefits of health care, education, good infrastructure and environmental management. But let us also look more closely at our own resources for investment. We need to encourage home savings. Sovereign wealth funds will not go away, but they may yet prove receptive to reasonable reforms that would allay host countries' fears. □

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The EU, Russia and the crisis of the post-Cold War European order



The post-Cold War European order has come to an end and the EU now finds itself confronting a new Russia – one determined to turn itself in a powerful international player. Faced with this, **Ivan Krastev** argues that the EU needs to adopt strategies that stop Russia from sending it into a benevolent global irrelevance

The immediate post-Cold War period was an exceptional and admirable decade in European history. It expanded the frontiers of freedom and democracy and made the reunification of Europe possible. But this admirable decade is over. Today, we face a completely different reality. While the capitalist revolution has triumphed in the world, the democratic revolution is in retreat. The US-dominated unipolar world is falling apart and the EU has lost some of its ability to shape realities in its own periphery. Many societies have had second thoughts about the export of democracy. EU expansion is on hold. The US and NATO have lost prestige and legitimacy in the context of the Iraq war and the operation in Afghanistan. Backed by the soaring price of oil, Vladimir Putin has turned Russia into a powerful international player. "Russia, previously a Pluto in the western solar system, has spun out of its orbit, powered by the determination to find its own system".

Russia's withdrawal from the Treaty of Conventional Forces, its deliberate efforts to block the work of the Organization for Security and Co-operation in Europe (OSCE) in the field of election monitoring, and Moscow's refusal to ratify the reform of the European Court on Human Rights (Protocol No 14 to the European Convention on Human Rights), marked the end of the post-Cold War European order. It is clear that Russia and the EU have opposing views on the nature of the post-Cold War European order and on the sources of instability in Eurasia. The latest crisis, concerning the recognition of Kosovo's independence, is the best illustration of this new reality.

In short, continuing the policies of the 1990s in this new context creates grounds for reintroducing sphere-of-influence politics in Europe, rather than expanding the borders of democracy. Breaking with the policies of the 1990s also presents a risk. The EU is not, and cannot be, a traditional 19th

century style great power. The EU, by its very design, is an ideological power that tries to expand principles and institutions which it perceives to have a universal worth.

So, any re-thinking of EU policy towards Russia should start with the recognition that Russia will remain a global player during the next decade, but that it's unlikely Russia will become a mature liberal democracy during that period. The EU should also recognise that Russia has legitimate concerns about the asymmetrical impact of the end of the Cold War on its security. Russia felt betrayed in its expectations that the end of the Cold War would mean the demilitarisation of central and eastern Europe. And while NATO enlargement did not bring any real security threats to Russia, it has changed the military balance between Russia and the west and it has fueled Moscow's revisionism. Russia has legitimate reasons to suspect that the west's policy of democracy promotion is more interested in promoting western foreign policy objectives than in strengthening democratic institutions. Western blessing for the bombing of the Russian parliament in 1993 and western endorsement of the "free and fair" re-election of Boris Yeltsin in 1996 have given democracy promotion a dubious name in Moscow.

What the EU and the US can offer Russia today is not so much a grand bargain, but an opportunity for reinventing the post-Cold War European order. Trade-offs, like Moscow's tolerance of Kosovo's independence, or for the softening of the western position on the installation of America's anti-missile defense shield in Poland and the Czech Republic, will not work as a model for a relationship. The

EU should focus on establishing institutional foundations for the co-existence of a post-modern empire-in-progress in the western part of the continent, and a post-imperial nation-state-in-progress in Russia. Both projects are internally controversial and fragile. The world hasn't experienced a state-like structure that's similar to the present EU and it hasn't it really experienced a modern Russian nation state either.

The EU today cannot be described anymore as federalist state in the making – it is something much more complex and undefined. It resembles something closer to post-colonial India, with its mixture of languages, legal regimes, traditions and sensitivities, than it does post-war Germany or France. In the powerful metaphor of Jan Zielonka the post-enlargement EU is not a kind of Westphalia federation; it is more a kind of neo-medieval empire. There is no European demos and there probably never will be – but there is kind of European public. There are no final borders but moving borders and variable geometries. And it was Count Sergei Witte, Prime Minister under Nicholas II, who said there was no such thing as Russia, but only a Russian empire.

The post-modern European order has emerged out of the ruins of such Cold War institutions as the OSCE and the Treaty of Conventional Weapons. It was shaped by the EU's eastern enlargement and the understanding that enlargement was nothing less than the reunification of Europe. From Brussels there was no immediate pressure to re-invent the institutional foundation of the European order because EU enlargement was the institutional foundation of the new

European order. Brussels was molding the new European order by transforming the economy and the political institutions on its periphery. The democratisation of its neighbours was the EU's common foreign policy message to the former communist societies – essentially: if you behave like us, you will become one of us. This is no longer true. The new reality in Europe in the next decade will be the emergence of a post-enlargement EU and a resurgent Russia that presents itself as an alternative model to the EU.

The real source of confrontation between Russia and the EU today is not primarily based on rival interests or unshared values – it is political incompatibility. Russia's

challenge to the EU cannot be reduced to the issue of energy dependency and Moscow's ambition to dominate its "near abroad" – a region that happens to be the EU's new neighborhood. At the heart of the current crisis is not the clash between democracy and authoritarianism – history demonstrates that democratic and authoritarian states can easily cooperate – but the clash between that of a post-modern state, embodied by the EU, and the traditional modern state embodied by Russia.

The EU, which emphasizes human rights and openness, threatens the Kremlin's sovereign democracy project. Russia's insistence on a balance of power approach, and its mercantilist geopolitical



MATTERS OF OPINION

Ukraine opts for closer ties with Russia than with the US

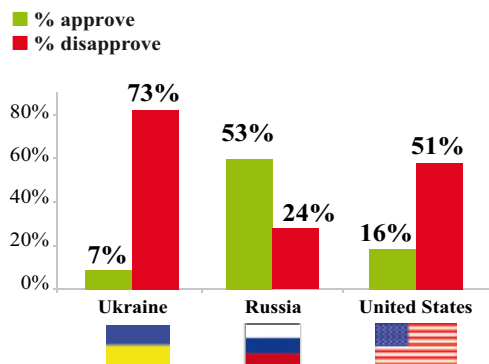
Ukrainians are more inclined to favour close ties with Russia than with the United States, according to Gallup polls carried out in the first half of 2007.

When questioned, almost half (46%) of Ukrainians said it was important to have a good relationship with Moscow, even if this came at the cost of friendship with Washington. Only 10% said that Ukraine should put US-Ukraine relations first, regardless of the impact this might have on their country's relationship with Russia. Over a third (36%) volunteered the response that it was important to have good links with both powers.

When asked their opinion of the respective regimes, there was considerably more support for Russian than American leadership. Over half (53%) approved of leadership in Moscow, compared to just 16% support for that of the US. Ukraine's own government fared worse: just seven in a hundred people were positive

about their leaders' performance, while three-quarters (73%) of those questioned were critical.

HOW DO UKRAINIANS JUDGE THE LEADERSHIP IN RUSSIA, THE US AND THEIR OWN COUNTRY?



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GALLUP

hardball philosophy, is stimulating the re-nationalisation of the foreign policy of EU member states. In Moscow, the EU's policy of democracy promotion awakens the nightmare of ethnic and religious politics and the threat of the territorial disintegration of the Russian Federation. At the same time, faced with the invasion of Russian state-minded companies, EU member states are tempted to ring-fence certain sectors of their economies (such as domestic energy markets), thus threatening the liberal economic order that is at the centre of the European project.

Russia, on the other hand, feels threatened by the invasion of western-funded non-governmental organisations.

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MEF is an independent operating foundation dedicated to promoting innovative thinking on the role and responsibilities of the EU in an era of global challenges. Acting as a platform for dialogue between public and private actors, civil society and academia, the Foundation currently specialises in developing projects on Conflict Prevention. In parallel to its project-oriented activities, MEF pursues an active information and communication strategy for a deeper understanding of major European issues stake.

The Kremlin is tempted to recreate the police state in order to prevent foreign interference in its domestic politics. Brussels is ready to endorse the Central Asian autocrats in order to limit its dependence on Russian gas. In short, what threatens Europe today is not mutually destructive nuclear war, but the mutual destabilisation of Russia and the EU – this could result in the marginalisation of Europe in global politics.

The western policy community presently demonstrates an unwillingness to focus on the problem of European order. It rejects all of Russia's attempts for a renegotiation of the Treaty on Conventional Weapons, as well as the mandate and the agenda of the OSCE. The conventional wisdom is that the result of such renegotiations would involve a retreat from the achievements of the 1990s. But how correct is this judgment?

The EU cannot act as a fervent guardian of the post-Cold War status quo without risking a total collapse of the institutional infrastructure of post-Cold War Europe. In reality, it is in Brussels' interest to take the initiative and to engage Russia in a dialogue over the institutional foundations of what has become a shaken European order. The EU's main objective in political terms should be to preserve the distinctive character of this order. More so than the world at large, Europe today is founded on the centrality of human rights and the rule of law. This is something that Brussels should fight for and preserve.

The EU's main objective in institutional terms, regarding its relations with Russia, should be to centre the institutions of the

new European order around the EU as a principal policy actor and not on its member states. The dueling nature of Russia's regime – capitalist and non-democratic, European and anti-EU – and the finalisation of EU institutional reforms, suggest such a strategy. The Kremlin is not rejecting any of the basic principles of the democratic west. Officially, it is not rejecting liberal democracy but trying to define its national model. The Kremlin is not officially rejecting the primacy of human rights and a rule-of-law based society, it is simply not practicing them. Moscow's major complaint is not about the west's standards, but about the west's double standards.

The EU should make use of this ambiguity at the heart of Russia's sovereign democracy. It should use the fact that the legitimacy of Russia's current regime inside the country is based, to a large extent, on the perception that it is a regime that strives to bring Russia back into the European civilization. It is true that Russia does not dream of being part of the EU anymore. However, Russia's stability depends on preserving the European nature of its regime. And it is not by accident that – unlike his central Asian fellow-presidents – Vladimir Putin decided to step down from office and let go of power after the end of his second term. The Kremlin, better than anybody, knows that the regime will be doomed at precisely the moment when the Russian elite loses its European legitimacy.

Brussels should use the fact that the Lisbon treaty unblocked the EU reform agenda and allowed Brussels to concentrate on building an EU-centered European order that would guarantee the co-existence of the EU's post-modern empire and the

post-imperial Russia – without damaging the interests of third countries. The transformation of the Contact Group on Kosovo, consisting of six countries (the US, Russia, France, the UK, Germany, and Italy) into the Troika Process (consisting of the US, Russia and the EU) is the model for such a re-institutionalisation of Europe.

Creating institutional incentives for the EU's unity would help Europe overcome the structural contradiction of the European project. The transformation of the OSCE into a political forum where EU member states will be individually represented by the EU, for example, could be such an institutional innovation that can block Moscow's effort to split the union. If Russia's strategy aims to erode the union by focusing on bilateral relations with selected member states, Brussels' priority should be to institutionalise the union as Russia's negotiating partner.

We need a new European order that will not only allow for the co-existence of a post-modern EU and a post-imperial Russia, but will allow for a co-existence based on the principles of the Council of Europe. The EU and the US cannot pretend anymore that they have the legitimacy or the capacity to transform Russia into a liberal democracy in the coming decade. But the EU should not allow Russia to send it into a benevolent irrelevance. □

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Blueprint for a new relationship with Russia



The EU's fractious relations with Moscow owe much to Europe's "flying on the wrong compass course and heading further and further away from reality", says **Roderic Lyne**. He explains how Brussels should re-set its political and economic autopilot

To say, as some do, that the European Union has no policy towards Russia is inaccurate. The European Commission's 2007-2013 country strategy paper for Russia is based on the four "common spaces" the EU and Russia agreed to create in 2003. It declares that "EU cooperation with Russia is conceived in terms of, and is designed to strengthen, a strategic partnership."

To say that the EU is incapable of acting cohesively and effectively towards Russia is also inaccurate. In the negotiations with Russia over a plethora of issues raised by the last enlargement (such as access to Russia's Kaliningrad exclave), the Union's cohesion and discipline led to a successful and rational outcome. The EU would be in a much stronger position if similar discipline had characterised its handling of energy policy.

After a lengthy internal review process, the Union is now lumbering without much

enthusiasm towards a negotiation with the new (or, more precisely, reshuffled) administration in Moscow about a successor to the 1997 Partnership and Cooperation Agreement (PCA). But is this a negotiation that will be grounded in reality? Has the EU drawn the right conclusions from the past decade? Does it have achievable objectives – or is it going to negotiate in a parallel universe?

The EU's current approach to Russia was forged in the mid-1990s, and was imbued with benign aspirations. These were to encourage the building of (to quote the EU's Common Strategy of June 1999) "a genuine strategic partnership, founded on common interests and shared values in particular democracy, human rights, the rule of law, and market economy principles." As a long-term vision of the sort of relationship we would like to have with Russia, this seems entirely right; and, as I have argued before in the pages of *Europe's World*, the EU

needs to hold out a constructive vision of the future relationship, and to demolish any notion that we seek to encase Russia on the far side of a new dividing wall across eastern Europe.

But where the approach went wrong was to confuse the long and the short term, and to ignore what was actually happening in Russia. The 1997 agreement declared that a strategic partnership had been established (and subsequent documents have taken this as a fact). Patently it hadn't. From 1994 onwards, and especially from 1998/9, Yeltsin's Russia was moving away from the vision set out in the 1997 agreement. But the EU has remained on autopilot to this day, flying on the wrong compass course and heading further and further away from reality. It's time to re-set the compass.

Reality means dealing with the Russian Federation as it is now – a state with which we have some interests in common, but by no means all; and with which we share some values, but by no means all. Reality means accepting that with Russia (as with China), the EU has a hugely important relationship with a powerful state that does not share our value system; and a state which will pay serious attention to the Union when it stands as one, but will treat it with contempt and insouciance when it fails to do so. Reality means absorbing what Russia's leaders are saying and doing.

The Russian leadership has been telling us loud and clear for the past five years that it wants Russia to be accepted and respected as an independent sovereign power. It will act according to its own perception of its

COMMENTARY

By Pami Aalto

Yes, but it's the energy dialogue that really matters

It is easy enough to agree with Sir Roderic Lyne's message that EU-Russia relations need to build on common interests. Economic relations and in particular energy trade stand at the very core of those interests and, as Lyne suggests, this also means that the EU needs to develop a single energy policy instead of the current bilateralism where its member states lose collectively vis-à-vis Russia.

But contrary to what Lyne says, this does not pre-suppose developing a "new paradigm" or dusting off the term "strategic partnership". Our existing institutions (and vocabulary) are enough to engage Dmitry Medvedev's Russia. By this I do not mean that the term strategic partnership is perfect. For some, like Lyne, it means too ambitious an agenda; for others it means an agenda that is too narrow and that is characterised by the unilateral and strategic visions of both the EU and Russia, and thus accommodates their clashing interests in the traditional mould of great power politics.

Rather than get into this sort of abstract terminological debate, we need to make our point of departure a definition of what the term "strategic partnership" means to both parties. For the EU and Russia, today it represents a mutually acceptable basis for their relations after years of cat and mouse games. It recognises both entities as having something close to a great power status. And it grants

natural interests, and make hard-headed use of Russia's natural advantages. It feels that the West took advantage of Russia's weakness in the 1990s, and now that Russia has regained strength, it no longer needs to defer to the Western viewpoint. Russian politicians argue that they were ignored when, for example, NATO bombed Yugoslavia in 1999, and today have a right to expect their views to be taken into account, whether over Kosovo, missile defence, the CFE Treaty or NATO enlargement. The hard-liners among them, of course, go much further. To them, it is not just a case of Russia being ignored, but of the West plotting to weaken, undermine and even "dismember" the Russian Federation – however absurd this might seem to any half-rational person in the West.

Likewise the Russian leadership is in no mood to accept, let alone implement, the benchmarks for partnership inscribed in considerable detail in the PCA and the four "common spaces", especially the "Common Space of Freedom, Security and Justice". It argues that Russia's course must be determined from within, taking account of the particular circumstances of Russia; and it will not accept the imposition from outside of Western definitions of democracy and freedom.

What this means is that the conceptual basis on which EU policy towards Russia has been built over the past decade is a chimera. Despite the Kremlin's often vitriolic rhetoric (which may perhaps moderate when the new

administration feels more secure) and the activities of certain revanchist elements, I do not believe that most Russians are looking for confrontation or for a fundamentally adversarial relationship with the West, because this would so obviously not be in their best interests. They are interested in cooperating where it suits them; they want to sit at the table – at all of the world's top tables, in a seat befitting Russia's status; but they are not ready to accept the terms, conditions, responsibilities, obligations and compromises inseparable from the "genuine partnership" proposed by the EU. Its time may come, but "partnership" is too ambitious a goal at this relatively early stage of the Russian transition.

So we need a new paradigm for the EU-Russia relationship. Or, rather, the EU has a choice. It could allow inertia to carry it forward into a new, grandiose Partnership and Cooperation Agreement, which would take it deeper into the parallel universe – because any new agreement by definition has to aim higher than its predecessor, even if the aspirations of previous deals are a very long way from being fulfilled. This would be a recipe for a long and unrewarding negotiation towards an outcome that lacked any credibility. Or both sides could stop for a reality check, and decide to fly back from outer space to planet Earth.

First, we should ask ourselves what we are dealing with in Moscow. What is the character and orientation of the new

Reality means that Russia does not share our value system; and will pay serious attention to the Union when it stands as one, but will treat it with contempt and insouciance when it fails to do so

administration? The short answer is that it is too soon to tell. Policymakers in Moscow have stressed continuity, caution and pragmatism, discouraging notions that there will be an early change of direction either internally or externally. This is logical, given that President Medvedev was not merely his predecessor's nominee but has spent almost his entire working life in Putin's entourage (which was not the case in the Putin/Yeltsin relationship). But, however close the personal relationship may be, the Medvedev/Putin tandem has moved Russia into uncharted waters. Power is being redistributed within the ruling elite. This has led to a great deal of manoeuvring and infighting between clans and interest groups over much of the past year, and the process is not at an end. What has appeared at long range to be a smooth and seamless transition has, on closer inspection, been a tense and bumpy affair. It may be another year or two before it is clear where authority lies, who aligns with whom, and how the administration is going to address critical questions in the Russian economy and society. Will the hard decisions be taken or put off? Will there be a new drive for modernisation, or will oil-fed inertia prevail?

Given this degree of uncertainty, the EU would be wise to take its time – not to rush into premature judgements or leap into new negotiations. Let Russia settle down first. Judge the administration on its track record.

Second, we need to be clear about the hierarchy of the Union's interests. Our most vital interest is in ensuring the peace and stability of the European continent. This means that the EU, NATO and their member

COMMENTARY

Pami Aalto

Russia the all-important label of recognition and equality that for centuries it has longed for from Europe. This is something that western Europe has finally understood.

The real challenge is therefore to use the existing terminological framework and institutions effectively so as to make the EU-Russia energy dialogue the flagship project. There are already enough regular meetings and working groups for this to succeed.

The first task is to make the energy dialogue the main channel for EU member states' energy relations with Russia. In that way, the geographical scope of the dialogue would be enlarged into an all-European affair. The EU Commission should be equipped with an adequate policy planning and negotiating mandate. In the medium to long-term, it would also need additional competences regarding energy mix, infrastructure and transport routes issues. To the extent that it is possible, Norway should be involved to avoid a confusing cacophony of different energy dialogues with Russia. Getting the north-eastern and south-eastern EU member states on board will also be pivotal, as energy transit projects are shifting into these areas at the expense of the traditional central European route.

The second task is to enlarge the issues covered by the energy dialogue. The focus should not only be on what hydrocarbons Russia can sell to whom and who can participate in their transit, but on what the EU can offer in return. This includes renewable energy technology, where companies in Germany and Denmark are global leaders. It also includes learning from hydrocarbon reduction programmes like Sweden's, as well as energy saving and

states need to cooperate with Russia on a wide range of hard and soft security issues. Our cooperation is most severely tested in the countries close to Russia's borders, both members and non-members of the EU, that were once under Soviet control and are still generally seen in Russia in zero-sum terms as part of Russia's natural "sphere of influence". As the EU is not a military alliance, it is better placed than NATO to uphold the sovereign rights of these states in a way that should not be perceived as threatening to Russia. We have to convey to Russia that although inalienable, these rights need not be a source of conflict: Russia's neighbours do not have to choose between Russia and the EU, but should naturally

have strong relationships with both – which would be more beneficial to Russia than the counter-productive fractiousness of the past few years.

Self-evidently, the EU's economic relationship with Russia, including energy but not only that, is for both sides another vital interest (and one which has roots deep in the Cold War period).

But what about values? The EU has important relationships with many states where the divergence in values is even sharper than with Russia. From a western European point of view, the development of democracy and the better protection of human rights

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in Russia would be highly desirable; but these are not vital interests, in the sense that their absence does not threaten us or prevent cooperation in security or trade. The argument here is a different one. We have defined a "strategic partnership" as standing not only on "common interests" but also "shared values". The lack of shared values is one reason why we do not have a genuine partnership. A partnership leaves plenty of room for disagreement, but embraces the understanding that when the chips are down the partners will find themselves on the same side. That degree of trust does not exist in the EU-Russia relationship.

Does this mean that the Union should take "values" out of the relationship? Not at all. To do so would be to ignore the principles which bind our union of democratic countries, and would also undermine the many people in Russia who wish to develop these values there. But we should stop pretending that values are shared where they are not; and we should inject a dose of realism.

Democracy is not a realistic benchmark, because the concept is open to different definitions and, much as we would wish otherwise, because there is little prospect that genuine democracy will even begin to develop in Russia within the next decade. A better measure would be respect for the rule of law at home and abroad, and for human rights. Russia has taken on specific commitments in these areas. Promoting the rule of law cannot be held to be destabilising, and improvements are clearly achievable. At the moment democracy is not a popular concept in Russia. But

efficiency measures common to many EU area economies. This will help Russia to curb its high domestic use and its waste of hydrocarbons, to realise its own renewable energy potential, and to meet the Kyoto and post-Kyoto CO₂ targets, while ensuring that enough oil and gas is left for cash-generating exports in the long-term. The development of EU-Russia electricity networks and trade integration should also be given high priority, as there are decent market opportunities on both sides, with relatively little risk of political controversy. The experience of the Nordic electricity market already points the way.

The overall goal should be that the energy dialogue is presented as a means for Russia to achieve its self-declared aim of modernising both its economy and society. Only by enlarging the energy dialogue's agenda both geographically and sectorally can the EU maintain its privileged relationship with Russia in the face of rising Asian interest in Russia and its increased courting of Russian energy resources. □

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the Russian people would overwhelmingly like to see fairer and more effective implementation of the law, and the new president has spoken strongly in favour of this. We should work with the grain.

Third, what instruments should the EU employ? The Union needs to demonstrate a united purpose. There is a strong case for a clear and constructive statement of the principles guiding the EU's approach to Russia, enunciated at the highest level, to act as a signpost for the future. The EU needs a single energy policy, not a plethora of bilateral deals undercutting the common interest; and an energy relationship with Russia which recognises the interdependence of the two parties. The Union is by far Russia's largest export market. The two-way interaction of business has an educative effect, and growing economic interdependence (not just in energy) is an incentive to civilised behaviour. The EU should therefore facilitate increased trade and investment links in both directions, along with Russia's entry into the WTO. And when it becomes possible, it should be prepared to negotiate a Free Trade Agreement. In a wider sense, the objective should be to multiply all forms of normal contact and cooperation with the Russian people, especially in areas like education, science and technology which will involve the next generation. These are all practical steps where the Union has much to offer.

The EU and Russia need a new paradigm grounded in reality. Instead of a formula which raises unachievable expectations and thereby highlights our differences, we need to focus rigorously on the areas where we genuinely share interests

Partnership requires trust. Over the past five years, in place of trust between Russia and the West there has been suspicion and recrimination, for a variety of reasons. The task for the period ahead should be to try to rebuild a degree of mutual confidence, step by step. This will be achieved neither by diplomatic bromide which ignores reality nor by histrionic finger-pointing. In place of "strategic partnership", the EU and Russia need a new paradigm grounded in reality. Instead of a formula which raises unachievable expectations and thereby highlights our differences, we need to focus rigorously on the areas where we genuinely share interests, and build out from there towards a more fruitful and, in time, convergent relationship. We may perhaps achieve partnership in the next generation. For now, we should seek hard-headed, law-based, pragmatic constructive cooperation on specific issues. There will be more than enough of these issues to keep us busy. □

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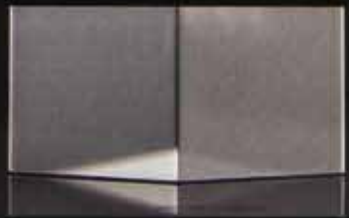
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Is Gazprom's strategy political?



The widespread view in Europe that Gazprom is a “political weapon of the Kremlin” is wrong, says top Gazprom executive **Alexander Medvedev**. He argues that it is the European Commission's energy thinking that is cause for concern

Many things have been said or written about Gazprom, and not all of them are wrong. We take fair criticism seriously as it can help us to improve our business.

Europe and Russia have been energy partners for several decades now and Gazprom has played a major part in that. This year we celebrate the 40th anniversary since we began uninterrupted gas supplies to Europe. During that time – spanning the Cold War and the very difficult years of Russia's transition from a planned to a market economy – there were no significant interruptions or shortfalls in supply. Perhaps no other energy company in the world can boast such a record of continuous service. Gazprom has exported 1.9 trillion cubic metres of gas to Europe since the collapse of the Soviet Union (roughly equivalent in energy terms to America's oil imports from the Middle East since 1992). We now provide a quarter of the EU's gas consumption, and expect to increase this to 33% by 2015.

I and my colleagues are of course familiar with the perception that Gazprom

is a “political weapon of the Kremlin” – a so-called instrument of Russian foreign policy. I can well imagine that this perception can influence many of the decisions that politicians, bureaucrats and other energy companies make on strategic questions of energy supplies. Perhaps this is not surprising given the historical standpoints we all inherit, but a better understanding of the facts and of Gazprom's corporate strategy might help to challenge some of the more widely accepted stereotypes.

Some people argue that state participation in the capital of a company hinders sound business decisions. Yet in truth it is quite possible to run a coherent and commercially-driven strategy while being partly state-owned, as the case of Gazprom shows. In most western countries it is not unusual to find the state holding a controlling share in major energy companies, so in this Russia is no different from France, Norway or other countries where the state's involvement in the energy industry is high. And as the Russian state owns 50.02% of Gazprom Group, it is hardly surprising that the majority shareholder takes an interest in the company's operations.

Gazprom has invested billions in developing new gas fields, improving pipeline infrastructure and in developing its business. Our company is going downstream to move closer to its customers, – entering power generation and the oil sector, and working on developing the entire hydrocarbon processing chain, just like any other international energy company. And we will be further boosting our production capacity, but only as soon as additional gas volumes are contracted, which is standard practice in this industry. State ownership or not, our investors seem to appreciate it.

Gazprom owns 60% of Russia's proven reserves of natural gas, which themselves make up a third of the planet's known blue fuel reserves. We are responsible for a quarter of the world's total gas exports, a responsibility we take very seriously. Gazprom's business model in export markets like Europe is to provide reliable long-term supplies in stable conditions at predictable prices. We believe this is what our customers in the industrial and domestic sectors require. And it provides the best basis for mutually beneficial relationships.

It is not economically or commercially possible to generate the investment for such costly infrastructure without robust arrangements for recouping it. These are achieved by long-term supply contracts, typically running up to 25 years, under which the purchasers commit to receiving specific volumes of gas year-on-year, and to pay for it even when they do not require it all (the "take or pay" principle). We do not build a pipeline in the hope that we will at some later date be able to find enough

customers for the fuel it will supply; nor does it make sense to extract gas out of the ground without an assured market for it in the long term.

So I find puzzling statements that an increase in Gazprom's gas deliveries constitutes a threat to the EU's security, and that it is therefore necessary to limit them. The suggestion that Gazprom would invest billions of dollars in expensive gas export pipelines so that we could then disrupt them for political reasons looks absurd, especially in view of the substantial contribution these gas exports make to Russia's budget and the country's economy. And it is often forgotten that Russia is currently more dependent on the EU than vice versa. The EU depends for 25% of its gas consumption on Russia, yet Gazprom depends on the EU for over 70% of its export earnings. The bottom line is that Gazprom needs Europe as much as Europe needs our gas.

Being a commercially-driven company, Gazprom aims at getting the market price for its products. Pricing is at the root of the controversy between us and the Ukraine and Belarus. For many years western governments advocated the transition of former Soviet republics to market prices for the energy they import from Russia. This is even a condition for Russia's entry into the WTO. Agreements to introduce market prices were thus reached gradually. Yet some of our partners did not live up to their obligations and accumulated massive debt. What would any other commercially-driven company do when its customers refused to pay its invoices? After months of negotiation and many letters, what option was left other

than to indicate to our business partners that deliveries might have to be reduced? This is exactly what Gazprom did.

We are very much aware that disputes involving transit countries for energy to Europe raise concerns among EU governments. We therefore make sure that we inform the European Commission about our measures in advance, and reassure them about the security of supplies to our European partners.

Some commentators seem convinced that major Gazprom pipeline projects, like Nord Stream and South Stream disguise some sinister purpose. In fact they have a sound commercial rationale, which will contribute significantly to Europe's goal of greater energy supply security – as the European Commission was no doubt aware when it awarded Nord Stream priority status as a Trans-European Network (TEN) project. The aim is to provide a direct and secure connection to our customers in the EU, avoiding intermediate and volatile transit states which, as experience shows, may not always be able to provide a reliable transit environment.

Secure supply routes are very much in the commercial interest both of Gazprom and of our customers, and the proof of it is the participation of German companies like E.ON and Winstershall in Nord Stream, along with Gasunie of the Netherlands; and of Italy's ENI in South Stream. Despite the additional costs and technical challenges

involved, under-sea pipelines of this kind minimise transit risks at a reasonable cost. Our own export security is also enhanced by diversifying the routes by which gas reaches the EU. It should be noted that the development of Nord Stream in no way alters Gazprom's contractual obligations to consumers in Poland and the Baltic States, and in fact Nord Stream may even improve the provision of gas to them.

The suggestion that Gazprom would invest billions of dollars in expensive gas export pipelines so that we could then disrupt them for political reasons looks absurd

The European Commission's proposals for the integration of the EU energy market, as set out in their Third Energy Package of last September should be a matter of concern to everyone in the EU with an interest in stable and secure energy supplies. They seek to alter quite radically the current gas market structures in ways that could adversely

affect the investment climate. The concept of requiring ownership of supply networks to be completely separated from the business of supplying gas is seriously flawed, quite apart from the questions it raises of a violation of property rights.

Under the Commission's proposals, entirely separate – and separately-owned – undertakings would have to be established to transport gas from the supplier to the customer (whether a large industrial user or a retail distribution network), in a highly regulated environment. At the same time, the Commission is calling for a substantial increase in investment in cross-border transmission systems, so as to ensure security of supply. It is hard to see how



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these two demands can be reconciled: How would companies whose sole function would be to operate pipelines have the commercial interest or the financial muscle to mobilise the capital needed for major infrastructure projects if they are prohibited from having any interest in extracting and selling natural gas? Unlike the suppliers and distributors, they would have no access to the revenue generated from gas sales – the essential underpinning for financing new gas infrastructures.

Gazprom is in no way opposed to an integrated EU energy market in which gas can be freely traded across member states' borders. The reality at present, though, is that market conditions in Europe fall far short of this goal, witness the EU's limited interconnection capacity and the noticeable differences in the degree of development of national systems, not to mention the significant variations in the tax systems and tax rates applied to gas. But the priority should be to work with proven market structures. The Commission's current approach seems to favour secondary traders and speculators over the market players who actually have access to gas resources. Gazprom follows with interest the vigorous debate inside the EU, and we have established a close dialogue with European Commission to discuss all of these questions.

There is a protectionist rhetoric that now seems fashionable in some political circles in Europe. European citizens are understandably worried about job cuts and the erosion of the welfare state in the face of globalisation, with the result that

there has been much talk of restricting foreign investment. Even the European Union, hitherto been a beacon of free trade and open markets, seems in danger of succumbing to the temptation to keep "third country companies" out. This is dangerous. A Europe and a Russia open for business and investments make up a two-way street of mutual benefit.

A number of important facts should help put the investment debate in perspective:

- European investment in Russia is 7-8 times higher than Russian investment in EU.
- Several EU companies have important stakes in the Russian energy sector, including Germany's BASF and Italy's ENI.
- In the Russian crude oil sector, more than 50% of production is in the hands of private and foreign companies.

Russia and Europe share a long history. Sometimes turbulent to be sure, but more often than not – and this often tends to be overlooked – fruitful and mutually beneficial. If we focus our attention and energy on this latter aspect, we will be looking at promising future. □

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SECURITY AND DEFENCE

Towards fairer burden-sharing in NATO



It's not only in Afghanistan that some NATO allies shoulder a greater share of defence costs and responsibilities, says NATO's Secretary General **Jaap de Hoop Scheffer**. He explains how the problem is now being addressed, and stresses that the alliance offers the best solution to the problem, even though it may never be "totally fair"

Recent headlines like "Two tier Alliance" or "Some NATO allies not pulling their weight" have helped to foster a false impression in some quarters that many of the European allies in NATO are under-performing in Afghanistan, and are either unable, or unwilling to make a greater effort. Naturally, those allies who have been criticised feel that their own efforts and sacrifices are under-valued, and complain about being treated unfairly. But how do you assess or calculate what is a fair and equitable burden?

There is no simple answer to that question, not least because there is no

unequivocal yardstick for measuring burden-sharing. Nor should we fall into the trap of reducing burden-sharing to a debate solely on today's force levels in Afghanistan, because however important these force levels are, they only tell part of the story.

Let me therefore broaden the debate and offer a more holistic perspective by covering three interconnected elements: defence transformation, operations, and the wider context of the international community's efforts.

It might come as a surprise that I start by highlighting defence transformation as

an important aspect of burden sharing. It is a golden rule within the alliance that, for reasons of national sovereignty, the bulk of the forces and capabilities are owned by individual nations – the alliance’s fleet of Airborne Warning and Command System (AWACS) aircraft is one of the rare exceptions. As I don’t expect nations to give up this principle, NATO will continue to depend heavily on the efficiency and effectiveness of individual allies and on their willingness to commit adequate resources to defence. The nations that make up NATO hold the key to equitable burden and risk sharing; they need to make their forces more usable and allocate the necessary financial resources to actually deploy them.

Contrary to popular opinion, the type of forces and capabilities needed by the alliance are not as widely available in national inventories as one might think. Large proportions of NATO allies’ armed forces are still better equipped and suited for static territorial defence, rather than for the expeditionary type of operation needed in places like Afghanistan. And when the right type of forces and capabilities do exist, NATO-led operations are not the only call on these assets; operations led by the United Nations, the European Union or ad hoc coalitions, as well as national requirements, place additional demands on these rare assets.

Developing the necessary expeditionary capabilities is a major feature of NATO’s

Large proportions of NATO forces are still better equipped for static defence than for the type of operation needed in Afghanistan

transformation process, but it’s a process that is costly as well as lengthy. It is not possible to convert territorial forces into expeditionary forces overnight, and the costs of transformation programmes often have to compete with the costs of deploying forces on actual operational missions. Many allies are now facing the dilemma of either spending money on operations or investing it in new acquisition programmes. I certainly am not advocating that we should run operations on the cheap, but nor can we run them at the expense of future capabilities. The fact that many allies still fail to respect the 2% of GDP target for their defence budget

clearly imposes limits on their ability to fund operations, and it also widens the capability gap between themselves and those allies that are genuinely investing in usable and deployable forces. This is not only a NATO problem; the EU suffers from similar problems that stem from inadequate defence spending.

While there clearly is no substitute for appropriate defence budgets, I still believe we could be getting more from the current budget levels, especially through a smarter approach to defence acquisition. In spite of the efforts of NATO and the EU, the defence sector in Europe is still very fragmented. This fragmentation exists both on the demand side, with government’s identification of their military requirements, and on the supply side in the defence industry. Fragmentation leads, of course, to unnecessary duplication, unhelpful

competition, and as our operational experience in Afghanistan shows, significant gaps or incompatibilities. In Afghanistan, for example, national systems for friendly-force tracking, which are vital aids to preventing accidental attacks on one's own forces or allies, are not compatible. Extra time and money has therefore had to be invested in the urgent acquisition of NATO friendly-force identification gateways to achieve an appropriate level of interconnectivity between the different systems, and so provide allied commanders with an integrated picture of ISAF troop deployments.

Although these quick fixes are helpful, we run the risk that "urgent military requirements" become the norm rather than the exception. More collaboration is needed on capability development as a means of sharing the burden and dealing effectively with common challenges. In Europe, many national defence budgets can no longer sustain both fully-fledged national forces and a national defence industry. Only smarter multinational and transatlantic cooperation will give us forces that are capable of dealing with the security challenges of today.

It is against this background that NATO and its allies continue to pursue their transformation efforts. I have therefore launched an ambitious overhaul of our defence planning processes at NATO headquarters and in national capitals. Over time, this should provide us with the right pool of forces and capabilities from which to draw for the type of operations that the alliance is conducting, both today and in the future.

Obtaining the necessary troops and capabilities for NATO-led operations is done through a process called force generation. In essence, the operational commander identifies the forces and capabilities he feels he needs to accomplish his mission and nations are invited to offer contributions to meet the stated requirements.

In an alliance founded on the musketeer principle of "all for one, and one for all", it is vital that all nations are seen to contribute fairly to operations. At NATO, a burden-sharing mechanism was developed to assess the manning commitments of nations for critical operational activities in relation to their gross national income. This sort of arithmetic has the merit of giving some indications on burden-sharing, but it has also showed that the burden-sharing issue cannot be fully captured in graphs and spreadsheets. How does one decide what is a fair contribution from a country of 50m people against a contribution from a country with a population of only 4m? How can you evaluate a contribution of light infantry against the provision of critical enablers such as helicopters or air-to-air refuelling tankers? And over what time period do you make your calculations? How can you measure contributions in one part of Afghanistan against contributions in others, or contributions in Afghanistan against contributions to other operations elsewhere around the globe, whether they be other NATO operations, such as Kosovo, or are UN or EU-led operations?

It is often said that burden-sharing boils down to the political will of national capitals. There's some truth in this, but it is not the

whole truth. Sending soldiers into harm's way is a national decision, but I believe that collectively NATO could do more to help facilitate capitals' decisions to deploy their national forces and capabilities.

Common funding, where all the allies pay a share according to their GDP is one of the instruments that can be used to achieve more equitable burden sharing. Traditionally, NATO has applied a policy of "costs lie where they fall", which means that each nation picked up all the costs for the operational contribution it made to an alliance operation. Over the last couple of years, NATO's funding policy has been updated to allow common funding to be used as an incentive for the provision of certain theatre-level enabling capabilities, like medical facilities, airports handling troops and supplies, intelligence, air-to-ground surveillance, engineering support, and fuel storage and supply. We also developed arrangements for financial support to short-notice deployments of the NATO Response Force, and currently I am urging allies to consider extending the use of common funding to cover the basic infrastructure needed by rotating forces. Until now, the first NATO country to send in troops has to pick up all the costs of constructing these vital facilities, and that has been a clear disincentive to initiating an operation.

When I read some press reports, I at times get the impression that the media

associates Afghanistan solely with NATO, rather than seeing it as a challenge for the entire international community. Yet when we look at the enormous challenge of supporting Afghanistan on its way to stability and security, it's obvious that burden-sharing cannot take place only within NATO but has to be seen in a much broader international

It is often said that burden-sharing boils down to political will. There's some truth in this, but it is not the whole truth. NATO could do more to facilitate decisions to deploy national forces

context. ISAF's contribution to creating a secure environment is clearly indispensable, but greater security must go hand in hand with stronger development. NATO provides a multilateral format for security assistance to the government of Afghanistan, but it also recognises that its contribution can only work if it is part of a broader approach. This idea has been encapsulated in

the so-called "comprehensive approach", which emphasises the importance of all international actors - not just NATO but also the United Nations, the European Union, the G-8 and other partners still - coordinating their individual efforts more effectively.

From this perspective, burden-sharing should be seen as not just a NATO-centric exercise. Some countries have taken on important responsibilities as lead nations in a G-8 framework, many more have developed bi-lateral frameworks for assistance, and the EU has committed to a partnership with Afghanistan. And we should not forget that the government of Afghanistan itself bears an important part of the responsibility in building democratic institutions in a country free of fear. Assessing burden sharing through



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this complex network of cooperative models is impossible, but from time to time it is good to put things into perspective and identify NATO's role vis-à-vis the responsibilities of the broader international community. This is what we have done through the comprehensive strategic political-military plan for Afghanistan that has been presented at the Bucharest Summit

Burden-sharing is an emotive issue, both inside NATO and beyond in the international community, and at times passions run high. But by stepping back and looking at the broader picture, it is clear that it is not just an emotive issue but a highly complicated one. It is not just a matter of having the right capabilities but also having the money

and political will to deploy them. It is also clear that no single measure will on its own resolve the burden-sharing problem. But the range of initiatives now underway in the alliance should certainly help: the transformation efforts to increase the pool of usable and deployable forces; the wider use of multinational initiatives; a greater use of common funding to assist force generation; and our comprehensive approach for sharing burdens more equitably across the whole of the international community.

My final point is perhaps the most important: an alliance like NATO, in contrast to many coalitions of the willing, has the political consultation structures, the proven planning mechanisms, the effective command and control and the legitimacy that encourages nations to contribute to an operation in the first place. Alliance solidarity is not just a slogan. The sense of keeping one's obligations and commitments to other allies upon whom one's own security ultimately depends, is a powerful driver towards equitable burden-sharing. Totally fair burden-sharing may not be possible, but an organised security organisation like NATO undoubtedly allows us to come closer to it than could any other approach. □

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The steps needed to move ESDP from theory to fact



Financial as well as political solidarity is crucially important if the EU's military capabilities are to be adequately developed. **Henri Bontégeat**, the French General who is chairman of the European Union's Military Committee, sets out the practical steps that have already been taken, and those that still lie ahead

Anyone reflecting on the value of today's European military forces, on their weight in global affairs and on the relevance of their actions needs to keep two crucial questions in mind: Where do we want to go? What do we want to achieve?

The EU's ambitions were defined at its Helsinki summit in December 1999, and were later formulated in the European Security Strategy of 2003. The goal is to be a worldwide player with a foreign policy of its own that is shared by the EU's 27 member states. And a foreign policy clearly needs to be able to rely on military and civil resources that can take action.

That is the objective: To be able to manage crises all over the world, aiming at creating a stable situation where conflict threatens to erupt, and at implementing long-term guarantees of peace and stability.

Does this goal mean that the EU will compete with NATO? Honestly, I don't think

so. NATO is a political-military alliance, the EU endorses the development of a community of national destinies. NATO can pride itself on almost 60 years of joint training of allied forces, while the EU's common foreign and security policy (CFSP) is not even 10 years old and is still working on fine-tuning its constituents parts so as to make them simpler and more coherent. And of course, NATO has the benefit of the military might of a dominant nation, while the EU must depend on the shared voluntary efforts of its member states. So at what level could they compete? It would be more correct, and more in line with reality, to say that NATO and the European Security and Defence Policy (ESDP) are complementary, and there are two key reasons for that.

The first reason relates to a political fact: There are certain countries in the world that specifically turn to Europe for help. Whether in sub-Saharan Africa or in the Middle East, their populations and governments are more inclined to request, for political, historical

or cultural reasons, European rather than NATO assistance. Likewise, there are certain long-term crises, such as those provoked by latent and organised terrorism, for which NATO is better placed to deal with.

Given the current state of its member states' resources, the European Union would be unable, for example, to assure, alone, a western commitment in Afghanistan. At the same time, the governments of Chad and the Central African Republic would have never accepted NATO's intervention to help resolve the Darfur crisis.

The second reason is of a more military nature. The European Union is building its crisis management know-how on the basis of a global approach. Military resources are only one tool among many others, and generally speaking their mission is clearly defined, limited in time and coordinated with civil actions. As a result, the EU doesn't need at present the articulated military structure that NATO has.

This synergy between the civil and military aspects of EU action is quite original. It will for quite some time yet require an effort from all parties concerned to adapt old habits, to open itself to new questions and to synchronise organisations and procedures. But its underlying potential is already being felt. The recent creation in Brussels of the Civilian Planning Conduct Capability (CPC), based on a system comparable to that of a military command chain, offers a demonstration, and above all a guarantee, of cohesive action. And in the same way, at operational level EUFOR force commanders regularly and frequently exchange

information with the heads of such EU civil missions as the EUPOL police mission, the EUSEC security reform mission, the EUJUST justice mission, and so on, including, if present, the European Commission's own representatives. The coordination of all these dynamics in the field is in the hands of the EU Special Representative (EUSR) of the High Representative for the Common Foreign and Security Policy, with the collaboration, if applicable, of the Head of the Commission's delegation. The whole organisational structure will be simplified once the provisions of the Lisbon treaty are implemented, as the post of High Representative for CFSP will be combined with that of vice-President of the Commission, thus bridging the gap between the Commission's assistance and crisis management.

Being able to act: What does this mean at military level? First, that it is necessary to have solid military forces that are suited and suitable to their mission. This means forces whose essential military tasks in the field should be movement, information gathering and, if necessary, combat. Moreover, their main qualities should be resistance – the ability to hold out – and resilience in the psychological sense, meaning the ability to deal successfully with an "intense" situation and to respond to it by exerting the best possible control.

This implies a high level of cohesion, which in the case of multinational forces is not guaranteed a priori. And yet it doesn't seem unreasonable to say that our Battlegroups are a first response to this requirement because of the military

cohesion they offer. As multinational forces that are built either on regional affiliations, or strong bi-lateral relations, they bestow a "European" label on military resources while guaranteeing efficiency in the field. Where necessary, they can be backed up by air and maritime rapid response assets, and thus constitute a fully-fledged military resource for armed intervention in crises with clear space and time limits.

This attractive-sounding structure can't, of course, be left as largely theoretical constructs. Although these Battlegroups have been created – two of them out of a pool of 15 are at any time on permanent call for six months – none of them has actually been deployed since the Artemis "prototype" mission to the Democratic Republic of Congo in 2003. Time passes and a concept without real commitment in the field may eventually raise suspicions about its relevance.

The European Union also suffers from a well-known lack of capacity as strategic air transport and in-theatre air transport and combat support. The Airbus A400M transport programme, which is to build 170 heavy-lift aircrafts for a number of EU member states, has already incurred delays. As far as helicopters are concerned, everyone is aware of the difficulties encountered in ensuring the availability of the assets needed to launch the EU's operation in Chad and in the Central African Republic. NATO

has had to deal with the same problem in Afghanistan and the UN in Sudan.

For the procurement of these weapon systems and for the related joint training and long-term maintenance programmes, the role of the European Defence Agency is of the most importance. The Capability Development Plan (CDP), which the EDA is developing in close collaboration with the EU Military Committee, aims at fostering

and improving solidarity in capability terms, which is what Europe needs.

There are other areas where we need to make progress if the European Union's military resources are to be brought into line with its political ambitions. One that needs urgent attention is the simplification of our operational planning tools and the manner in which we conduct operations.

Interoperability – in the broadest sense of the term, i.e. beyond the merely military signification – merits sustained attention because it holds the key to the success of military missions in today's environment where information is overabundant, immediate and volatile.

Finally, as all the 27 member states are now trying to reduce public spending in sustainable ways, the financing of the military operations, without which nothing is possible, requires a new approach. The paradox is that those member states that are most heavily involved in an operation,

Those member states most heavily involved in an operation are penalised by the financial burden that places on their national budget. Political solidarity needs to be underpinned by financial solidarity

both in terms of human resources and military equipment, are penalised by the financial burden that their commitment to an operation places on their national budget. If political solidarity exists, it needs to be underpinned by effective financial solidarity. Although the military commitments of the EU's member states are not limited to an ESDP framework, it is here more than anywhere else that this thought applies, given the global political objective laid down in the Preamble of the European Union Treaty and the ambitions set up in the European Security Strategy.

As an integral part of the CFSP, today's European Security and Defence Policy and tomorrow's Common Security and Defence Policy (CSDP) will only work if the member

states responsible for implementing it also allocate the resources that it needs. This implies a Europe-based approach which would take precedence over national considerations once the national and European-level foreign policies become one and the same. And only then will it be possible to say without any reservation that our newly-created Common Security and Defence Policy reflects Robert Schuman's vision half a century ago of a Europe built on "concrete realisations, which first generate effective solidarity". □

Henri Bentégeat is chairman of the European Union Military Committee and was formerly France's Chief of the Defence Staff.

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Cold War lessons for security policy today



Nuclear armageddon was such a potent threat that it yielded disarmament deals and the OSCE's collective approach to European security. But **Alyson Bailes** warns that not just pillars but "whole bastions" of European security architecture have now crumbled away

During the Cold War, the threats to the security of the Euro-Atlantic community were clear. They were military and ideological, concrete and close at hand. Had these dangers been less obvious, NATO would most probably not have developed its unique system of binding and permanent defence guarantees.

The very real risk of armed confrontation also drew both camps of the Cold War into a broader structure of collective security in Europe. NATO and the Warsaw Pact reached disarmament deals and agreed the CSCE/OSCE regime of transparency and cooperation – the Conference on Security and Cooperation in Europe and follow-up Organisation for Security and Cooperation in Europe – which was remarkably well observed in spite of the two sides' extreme political differences. In those desperate times, collective defence and collective security were not so much competitors as natural complements to each other.

This somewhat surprising conclusion explains in large part why yesterday's Cold War certainties have today been replaced in Europe by confusion, unease and cracks of disunity. The celebrations over the fall of the Berlin Wall had barely ended before people began to question how long NATO could survive without its long-time opponent, for the Warsaw Pact had challenged NATO and sustained it. Pessimists at that time prophesied trouble might still come from the east, but said it would no longer be military in nature. They therefore expected US attention to turn towards new threats from less advanced regions, or from non-state and non-human sources. Why then, these doom-merchants asked, should the world's sole superpower continue to offer a collective defence guarantee to its old allies in Europe, let alone bring new partners into the fold?

In the immediate post-Cold War days, some analysts also guessed that the

European Union would inherit some of NATO's security duties in Europe, albeit the "softer" ones. But already they were unsure whether the EU would be up to the job, given its imperfectly integrated structure. In the early 1990s, the first phases of the crisis in the former Yugoslavia had already shown-up the weaknesses in joint diplomacy in the EU. Analysts questioned whether further expansion would harm the EU's supranational "deepening", and whether NATO's enlargement might undermine its common purpose. They feared enlargement would block cooperation with Moscow, tipping the balance of opinion within Russia against Western influence, and thus towards new forms of authoritarianism.

Recent history suggests, at first glance, that these early post-Cold War worries were exaggerated. EU and NATO enlargements happened, yet the alliance's Article 5, guaranteeing collective defence, survived. The EU adopted the Nice and Lisbon reform treaties and created its own military arm, along with several other innovations. Both NATO and the EU also established programmes for working with Russia as (officially) an equal partner. And east-west military conflict looks even less likely today than it did in the mid-1990s, when Moscow at one point boycotted NATO after the first round of enlargement decisions were taken.

But a closer inspection of events reveals a different picture. The fact is that NATO and the EU have arrived where they are today by a strenuous and unremitting process of change. When we look at what they have jettisoned along the way, we see the sceptics' warning signals starting to flash again. NATO's Article 5 may survive on

COMMENTARY

By **Plamen Pantev**

Collective security yes, but not through a return to the Cold War

One way of reassessing the West's collective security would be a return to the Cold War format based on tensions between states. But it would be a historical nonsense to dream of Cold War times and their relative stability. That would also mean the West seeing itself in conflict with emerging powers like China and newly-assertive Russia. It would be a tremendous waste of effort and money by the West to create what would amount to a polarised world, thus worsening rather than improving global security. It would hardly be in the West's own interests.

Today's security problems differ vastly from those at the time of the Cold War. Tension these days is more likely to rise around the world as a result of imbalances between well-run states and failing ones. So the question is how should we deal with these tensions? How can we reconcile the imposition of stability, perhaps by military means, on a country where we are also trying to promote social, political and economic progress? And what should be done about potentially powerful countries that pursue ideas and policies rejected by the west as they seek to catch-up in terms of living standards? How can stability be established in such cases that can ensure the globalisation process is a positive one?

Globalisation has brought new advantages to many, but in some cases it has not necessarily made the world a better place. That sort of global security provided by the

paper, but it applies to an alliance with no collective military presence to speak of, both in the 10 new NATO members' territories and in the eastern Länder of Germany. The last remnants of a US troop presence for collective defence are evaporating, and the planned new US bases in central Europe are to be built under purely bi-lateral agreements. Recent Russian incursions, or non-military styles of aggression against various Baltic states, have been described by NATO's secretary-general as "bi-lateral matters". Meanwhile, the alliance has watched, having tied its own hands, while Russia rescinded the most basic east-west military restraint agreement of the 1990s – the Conventional Forces in Europe (CFE) treaty.

Could it be that both collective defence and collective security have withered away while the world was distracted by the façade of "globalisation"? If so, what went wrong and what may happen next?

It is tempting to link the turning point in east-west relations to the enlargement of NATO and the EU itself. After all, the timetable looks right. Russia's former president Vladimir Putin rose to power only after NATO had decided to take in three central European states in 1997. After 1997, the EU never again created a treaty that was as clearly integrationist as the one signed in Amsterdam. And the downward trend for the OSCE and for European conventional disarmament became most evident after 2001-2002, when NATO and the EU decided on parallel "Big Bang" enlargements.

The connection between NATO as well as EU enlargement with the shift in east-west relations in fact exists, but at a higher geo-

strategic level. One argument in favour of enlargement was to eliminate the potential "grey zone" of weakness and uncertainty between the borders of western institutions and the nearest Great Power. In earlier ages, this kind of no-man's-land in central and eastern Europe had led to repeated conflicts, with in-between countries suffering most of all. Since 2004 the grey zone has disappeared, occupied by the West in a way that gave Russia neither a *droit de regard* nor an accepted "sphere of influence". The momentous result is that Russia faces NATO and the EU across a common border in the north. So does Ukraine to the south, making the country a target for the strongest stream of western influence ever seen – and the most direct channel for such influence – into the very heart of the former Soviet region.

These developments account for one of the saddest features of current European institutional politics – the erosion of the roles of the OSCE and of the Council of Europe. Outnumbered by NATO and EU members, Moscow finds that neither institution provides Russia with a cushion against Western intrusion. Nor do they offer an effective arena for political bargaining with the twin giants of Brussels. In the circumstances Russia has concluded its energies might as well be spent tackling NATO and the EU head-on, and that it should not hesitate if bullying or bluff in that game can win it a better deal.

The arrival of the West on Russia's doorstep also explains Moscow's current priorities. Russia wants to block further encroachment into its own strategic neighbourhood and to strengthen its border

as the only remaining cordon sanitaire against western interference in domestic governance. The recent crisis over the CFE treaty should be seen in this light. It was Putin's way of challenging Europeans to decide if they were serious about wanting to salvage the rules of collective security, which were agreed under a more balanced strategic situation. If not, Putin was in effect saying, Russia too can play the game without rules.

Oddly enough, given how high the stakes are, no-one seems to be turning this drama into a crisis. Pillars of NATO's 20th century policy have crumbled along with whole bastions of the European security architecture, but one barely hears the recriminations among western allies that could have been expected. This rather ominous calm could, of course, be due to NATO being in a state of pathological denial. Or it could be put down to one of three more likely explanations.

The first possible reason for the relative calm is that hopes and plans are quietly building for some return to west-east military détente when the next US president takes office. This notion needs little further discussion as only time will tell if it is correct. The other two theories are more far-reaching and suggest that both the conceptual and geographical goal posts have been moved. These theories assume (a) that a direct military conflict with Russia is out of the question, and (b) that we do not need Russia as a military ally against anyone else – China, for example. If either assumption is false, the West really is in trouble. If both are true, security relations with Russia that are tense and increasingly

COMMENTARY

Plamen Pantev

permanent members of the United Nations Security Council has been a disappointment. Even over Kosovo's future, a seemingly minor problem in the Balkans, the five permanent powers and presumed moral leaders of the world were unable to agree, and with the United States and Russia diametrically opposed over Kosovo's independence.

Yet the UN Security Council has to remain the indispensable institution committed to global stability. With its permanent members sharing a common interest in protecting the planet and working for the progress of humankind. Whatever their disagreements, they are united in such areas as fighting terrorism and environmental protection. But the West needs to design additional forms of cooperation and integration based on universal values – all implemented in practical ways in the standards of NATO and the European Union, as well as in treaties with their closest global partners.

One way doing this could be an inter-locking of the European Union and the United States. They already have a close working relationship through NATO and other organisations, and both have security systems that might be pooled. They could be joined by like-minded countries to form a "coalition of the willing", even though it has to be said that past coalitions have tended to be short-lived. As to multilateral institutions, few have reached a level of ripeness needed to deal with practical contingencies. It would be hard to conceive of a meaningful new coalition of willing to cope with security problems without American leadership and strong EU participation.

Such a system of international relations, if armed with such good governance tools

unregulated may be tolerable so long as the West can command the field in other games that today matter more.

The first alternative explanation along these lines is that the western democracies have found a new “threat agenda” to unite them. Military restraint or balance in any particular location is not especially critical, because this new agenda hinges on success in ad hoc crisis management tasks, like those that began in the western Balkans and continue in distant places like Iraq, Afghanistan, Congo or Aceh. Russian military involvement only matters if it has troops to contribute to western operations – which it currently does not – or if Moscow intervenes on the opposing side, which is so far unthinkable.

Success in these tasks would arguably allow western democracies to help build the equivalent of collective security in other needier continents. But some people still worry that the new trade-off sells Europe’s own territory short, sending the cream of European forces abroad while leaving eastern Europe without a collective defence apparatus and only minimal cover in depth. Nor does it make much sense for the West to plan new military installations in eastern Europe that provoke Moscow but which are specifically not designed to protect the local population.

Still, all these considerations may matter far less to western survival today than

the fight against non-military threats from terrorism, crime, non-state proliferation of dangerous technologies, epidemic diseases, violent weather, climate change and so on. If these are now the main danger, then the NATO ideal of “collectivity” has not so much died out as been partially replaced by such relevant EU commitments as the Solidarity Declaration of March 2004, and partly by common Atlantic platforms in the G-8, the UN, NATO and various US-EU frameworks. Under these circumstances, the modern equivalent of Cold War collective security is the West’s ability to cooperate when necessary not only with Russia but also with China, India and at least some Islamic states to fight these common global foes.

The modern equivalent of Cold War collective security is the West’s ability to cooperate not only with Russia but also with China, India and some Islamic states

“Victory” against such non-military threats will be far from easy. That said this 21st century cause is still largely to play for, and is certainly far from hopeless. It is arguable that Russia neither needs to be properly democratic nor to have an open border to be our partner in the fight against non-military opponents. Nevertheless, Cold War experiences raise other doubts. For instance, is Russia’s understanding of the terrorist challenge sufficiently close to ours to undertake joint action? And can threats that must be combated at home as well as abroad be fought effectively by political systems whose values are drifting apart?

The final theory on offer to explain the post-Cold War shift in west-east relations can be headed: “It’s the economy, stupid”. We are living under the shadow of a

global economic down-turn, highlighting the possibility that economic, financial, technological, energy and ecological forces are far more important for the future than outdated military balances. Over-spending on the wrong military objectives would plainly be an own-goal in this context. Russia, in particular, needs to avoid this pitfall or it will add to the economic problems created by its over-dependence on natural products and a mercantilist handling of external relations. Under the "economy" theory of security, the West's main question is no longer how to live with Russia without war, but how long Europe can do business with Russia without a more genuine form of integration – and integration on whose terms?

Again, success will be far removed from defence commitments and the arms control treaties of the Cold War days, even though the latter also have their own economic logic. Yet it is as well to remember that the Cold War can teach us useful lessons. The nuclear stand-off focused minds in east and west alike, so enemies as well as friends took each other more seriously in the face of utter peril. The threats lurking out there for Europe and Russia are still sufficiently real to revive the mutual seriousness that served us well in the Cold War. This holds true whether we define the worst case scenario as a US implosion, Chinese domination of the world or a failure to reconcile economic growth and climate change. □

Alyson Bailes is a Visiting Professor at the University of Iceland and a former Director of the Stockholm International Peace Research Institute (SIPRI)

as diplomacy, defence, economic exchange and trade, democracy promotion projects and private-public partnerships, would be in a strong position to promote in a practical manner universal ideas and values, and of course global interests. The West has to close ranks and produce a single approach both to anticipating threats and overcoming them. Not to do so could mean that states, peoples and territories, could fall unchecked into anarchy, allowing corruption, poverty, disorder and criminality to dominate, thus paving the way for international conflict.

A joint EU-US-NATO security governance system could encourage regional bodies to take responsibility for their own stability. Such grave matters as the future of Afghanistan are an example of what's needed. As well as helping the Afghan people to create their own long-term security, other problems that might best be resolved by a new international governance system include ensuring Iraq will have a peaceful and democratic future; neutralising any efforts by Iran to use nuclear energy for military purposes; and encouraging the European future of Serbia.

Unless some sort of global security governance vehicle can start to deliver results on a regular basis, all the talk of an "ignored UN system" and the "violation of international law" will remain empty phrases that lead nowhere. Of course international law and UN institutions matter, but only if the West can lead the way towards making them truly effective. □

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Homegrown terrorism 1: We must slay the mythical dragons of "Eurabia"



Europe has a long history of homegrown terrorism, says **Muhammad Abdul Bari** of the Muslim Council of Britain, even if today's concerns centre on a handful of European Muslims claiming to act in the name of Islam. He examines the narratives that are doing the most damage

The phenomenon of homegrown terrorism is not unique to either my faith or my community. Our continent has a long history of it, from the right-wing French Organisation de l'armée secrète (OAS) that opposed Algerian independence through to the Basque separatists, the Irish republicans and Italy's Red Army Brigades. We were right to worry about all of them, just as we were right to deal with them politically once they renounced arms.

Nevertheless, today's concern centres on a handful of people who claim both to be Muslim and act in the name of Islam. As a conscientious citizen and as a human being, I understand the real and valid worries people have about peace, safety and security. It is our responsibility to protect these social values. Part of that responsibility, however, is to ensure we analyse the problem correctly so that we can find the most appropriate and effective solution.

Within my own community in Britain, my concern turns to anguish when terrorist

acts are carried out in the name of Islam, even though such heinous actions have no basis in the faith. And yes, I worry about the very real possibility of young people in my community degrading themselves to such a level as to become perpetrators of these un-Islamic acts.

As Muslims, we have unreservedly spoken out against this perversion of our faith. There is no Islamic basis to what we witnessed in Madrid, London or anywhere else where there is indiscriminate murder. We persistently remind ourselves of the Qur'anic edict – "If anyone kills a human being it should be looked upon as though he had slain all mankind, and if anyone saves a life it should be regarded as though he had saved the lives of all mankind."(5:32)

Terrorism is against religion and outside religion, despite those who claim otherwise. Muslims everywhere have tried to repudiate these assertions and worked hard to dissuade from violence those who choose to go down

this futile path. Our best defence is found within the traditions of our faith and the higher principles of justice and humanity embedded in it. From within the Muslim community, we have seen initiatives that aim to tackle this issue from the inside.

The Muslim Council of Britain (MCB) has since 9/11 reminded its affiliated bodies to work with the authorities in reporting terrorist acts, and engage with young people who are susceptible to what we call a "militant fringe" within the community. Bodies like the MCB, or Islamic initiatives like the 2004 Amman Message of tolerance or the Topkapi Declaration in 2006, have brought together the diversity of traditions within Islam to provide a common platform to speak out against terrorism. No serious scholar of Islam has ever praised or validated acts of nihilism.

Yet we are told that condemnation and community action is not enough. Today there exists a powerful narrative that presents startling assertions of how large swathes of young European Muslims are susceptible to terrorism, how the very faith of Islam leads to radicalisation and how Muslims, because of their creed, choose to live in ghettos and therefore create swamps from which terrorists feed. The most extreme form of this narrative is found in the idea of "Eurabia", an incendiary term that purportedly describes a phenomenon where Muslim hordes have already breached fortress Europe and are now contaminating Europe's very DNA. From this narrative, the fear of homegrown terrorism resonates the most, as does the impetus to deal with Muslims as a foreign foe who must

be treated harshly. So too does the idea that accommodating religious differences is dangerous. A false dichotomy is created in which Muslims must choose between a western and European identity or a supposedly separate Islamic identity.

These notions are given currency in the media, when isolated Muslim stories are reported as regular occurrences and polls are cited out of context. Three examples come to mind. The first is the riots of 2005/06 in French inner-cities that were described as a Muslim issue, when in fact the events were a symptom of social alienation and economic deprivation.

The second was the hysteria generated in Britain not long ago around the Archbishop of Canterbury's thoughtful interventions on the role of the Shariah. These were somehow translated into the belief that western values were succumbing to foreign Islamic ones, whereas in fact all he had sought was to promote debate on the role of faith in public life.

The third example is the citation of polls, often out of context, to illustrate how Muslims in Europe are separatists. An ICM poll in Britain in 2006 suggested that 40% of British Muslims wanted the introduction of Shariah law. There was, of course, no mention of the nuances. Muslims – like those from the Jewish faith – requested parity in certain aspects of family law and where Shariah law was already in place in some parts of the British financial system.

The relationship between a European Muslim's faith, his or her creed and the

identification towards his or her European nation is much more complex. Seldom does it conform to the stereotype constructed by the Eurabia thesis. A wide ranging global Gallup study that has culminated in the book "Who Speaks for Islam: What a Billion Muslims Really Think" by John L. Esposito and Dalia Mogahed includes detailed and sophisticated analysis of European Muslims' attitudes. Muslims living in Paris, London and Berlin are more religious

than the general public, and at the same time just as likely as the general public to identify strongly with their nation and its democratic institutions, and just as likely to reject violence. Simply put, Muslims reflect the prevailing status quo with regard to loyalty to their nation and its democracy, and in rejecting violence. The results suggest that religious and national identities are complimentary not competing concepts.



MATTERS OF OPINION

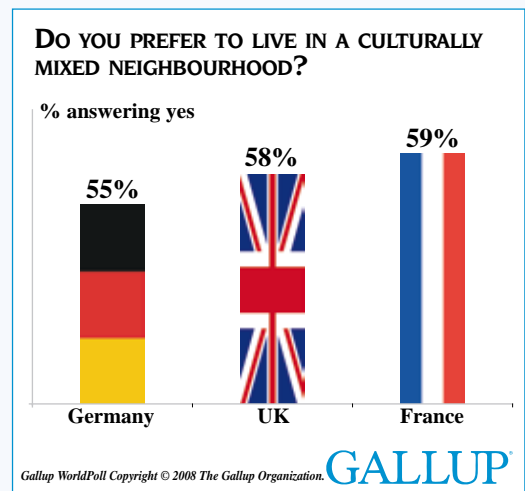
Minority groups enrich cultural life, say British public

UK media reports often suggest a creeping Islamophobia, but a Gallup survey of British public opinion suggests the contrary. Three out of four Britons questioned said that they did not believe their way of life was threatened by people with other religious beliefs.

The survey, in late 2006 and early 2007, showed 22% agreeing with a statement saying that people of different faiths threatened their way of life; while three-quarters of Britons questioned disagreed. Among Londoners, there was even less support, with 20% agreeing and 77% disagreeing.

A second question, relating to the impact of minority groups on cultural life, also found broad recognition of their positive contribution. Over two-thirds of Britons (68%) agreed that people from minority groups enriched the cultural life of their country. In London, support for the statement was markedly stronger, with 78% supporting the notion.

Further polls conducted around the same period in France, Germany and the UK, found that the majority of people would prefer to live in a neighbourhood with a mix of ethnic and religious backgrounds rather than one mostly made up people sharing their own background.



The phenomenon described as homegrown terrorism when seen through the prism of Europe's Muslim communities must therefore be placed in its correct context. We need to bring greater perspective to our analysis, without any of the cynicism that emanates from those who are warning against the mythical dragons of Eurabia.

For our subsequent responses to be effective, our analysis must be well thought out, measured and one which involves European Muslims without alienating them or casting them out as suspect and foreign. The terrorism we have faced since 9/11 requires a collective response and a recognition of its globalised nature.

A good place to start is an examination of the youth alienation that exists amongst all our communities. Social problems persist, and for young Muslims there is a double bind of discrimination, coping with multiple identities and being singled out as ripe recruits of terrorism. The tools of youth culture are on the one hand global, but on the other fragmented, disparate and catering to those alienated by mainstream society.

The prevailing narrative often speaks of mosques and Islamic associations as creating spaces for radicalisation, but I would contend that some young people are actively turning away from these very peaceful institutions. This may be because

they are finding it difficult to compete with the promises of solace available through the internet, where voices can address political issues, feed off injustices around the world, and launch calls to arms that can ultimately be murderous. The internet is where some young Muslims have succumbed to an alluring narrative of Islam as constructed by those behind 9/11 and 7/7. We also

Laws enacted to single out and "persecute" Muslims, and statements that affirm the Islamophobia of our media, go some way towards buttressing the absurd notion that what we are really witnessing is a "war on Islam"

know that the devastating impact of the internet on handfuls of young people is not confined to the Muslim community, as evidenced by the tragic events in Bridgend in the UK where 17 young people, seemingly connected through the internet, all committed suicide.

For some young Muslims, the paramount sub-culture is virtual and it operates on the fringes of Muslim communities, whether in Europe or in the Islamic

world. The story presented is of a world beset by very real injustices, for which the only viable solution is violent action that will supposedly lead to the victory of a monolithic Muslim world. Never mind the inconvenient truth that the acts may be theologically impermissible, the ends justify the means and there really is no alternative.

Such a narrative is appealing because it feeds into the alienation faced by young Muslims. Some may look to unjust foreign adventures in Iraq – despite the wishes of the common people to the contrary – as examples

of the futility of political action. Others cannot help a sense of suffocation at the prevailing and toxic discourse which casts European Muslims as foreign, alien and suspect. Laws enacted to single out and "persecute" Muslims, and statements that affirm the Islamophobia of our media, go some way towards buttressing the absurd notion that what we are really witnessing is a "war on Islam".

In Muslim communities everywhere, there is a need to challenge this narrative, for example by making known more loudly the theological repudiation of violence. Furthermore, in the face of the despair that engulfs us with the media's relentless cynicism, we must redouble our efforts to reach out in local communities and demonstrate the realities of our faith. Thus one should pay tribute to the resilience of Dutch Muslims who are currently resisting the provocations of right-wing politician Geert Wilders, who is bent on releasing a film that can only inflame public prejudice against Islam. Muslims in The Netherlands are responding by opening up their mosques and reaching out to neighbours, and European Muslims should also persuade their young of the long-term value of reaching out to their fellow man.

But beyond the community there is a collective responsibility to treat such problems not as Muslim ones, but ones whose solutions will enhance the very values on which European society is based. Addressing the sense of injustice, siege and alienation faced by young Muslims is not a victory for the extremists. Rather it is a victory for European liberal values because it clearly demonstrates that every individual and every minority is of equal worth.

Just as we should not see the phenomenon of homegrown terrorism as being new to Europe, we should not consider the presence of Muslims as new to Europe and European culture. Islam's interaction with European society sparked a flowering of knowledge. Large numbers of Muslims have inhabited the Balkans and eastern and central Europe for hundreds of years. They helped rebuild the economies of war-torn Europe in the 1950s, arriving as immigrants and then making Europe their home. In almost every field of life, Muslims have been an integral part of the European tapestry. Muslims are today at home in Europe, have been contributors to its past and are stakeholders in its future.

All Europeans, including those who are Muslims, are right to worry about the issue of homegrown terrorism, just as they are right to worry about climate change or the credit crunch. Our right to security and life is paramount, as is the need to inhabit a space free of prejudice and suspicion. The 7/7 bombings in 2005 in my home city of London brought this into sharp relief. The victims were of all faiths and races, including Muslims, as were the heroes who helped London get back on her feet again so quickly. The collective message that came from all Londoners after 7/7 was decisive – we will not allow such atrocities to divide us. □

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Homegrown terrorism 2: Breaking the vicious circle of marginalisation and radicalisation



Countering homegrown terrorism in Europe is high on the security policy agenda, writes, **Busso von Alvensleben** of the German Foreign Ministry. But it will demand a much more sophisticated response than western societies have so far been capable of

The phenomenon of homegrown terrorism features prominently in experts' discussions and stands high on the security policy agenda, thanks to the terrorist attacks by Islamist militants in Madrid in March 2004 and London in July 2005. Abortive attacks in Germany and Denmark last autumn and arrests in Barcelona earlier this year underline the on-going nature of the threat.

Because it's a new phenomenon, we need to review and re-think how we respond to it. International security cooperation, border controls and transport sector monitoring are all important, but they don't go far enough. What is also needed – and is absolutely critical – is to identify radical tendencies within Europe's Muslim communities and devise strategies to counteract them. These strategies can vary in approach: our narrower aim should be to nip terrorism in the bud, and our broader one to open a dialogue with the Muslim community comparable to Germany's Islam Conference.

What both have in common, though, is the strong emphasis they place on intercultural communication because it is seen as the best way to break down prejudices and negative clichés on both sides, and in both cases are constantly nurtured and reinforced by jihadi propaganda.

From a security policy point of view intercultural communication is intended to immunise those sections of the Muslim community that are deemed to be potentially receptive to such propaganda, with the clear aim being to prevent their radicalisation and recruitment to jihad.

For immunisation of this sort to be successful, it is important to first clarify what it is that can turn someone into a jihadi. There appears to be no single answer to this, but the experts say it often has to do with feelings of marginalisation and victimisation, as well as with migration-related identity problems. This is certainly true, but it's too broad an explanation to be very useful. One

common pattern that does emerge is that because it promises meaning and identity, the jihadi message seems to appeal particularly to people who are unsure about who they are and where they are heading.

Last year a study of Germany's Muslim community analysed social integration (including obstacles), religion, attitudes to democracy, the rule of law and politically inspired violence. The vast majority of respondents were from a migrant background, and a quarter were Muslims whose families had been in Germany for a generation or more. In terms of ethnic origin and religious practice they were a representative sample of Germany's Muslim community.

The study gave some valuable insights into homegrown terrorism, for it revealed a consistently close link between radicalisation and "vicarious" experiences of marginalisation and discrimination. A critical factor was the powerful emotions generated by US-led military interventions in Muslim countries, and by the situation of the Palestinians. The blanket suspicion that was widely seen as falling on the whole Muslim community after every terrorist attack was also strongly resented.

But the study showed there was no automatic correlation between condoning the use of violence and having Islamist sympathies. It concluded that individuals who condoned the use of violence and also had Islamist sympathies were more likely than others to become involved in homegrown terrorism, and that a mere 1.1% of Germany's Muslims fell into this category. The authors also noted that the mechanisms that turn Muslims into potential terrorists are the same as those that make German teenagers

and young adults susceptible to xenophobic propaganda and right-wing extremism.

The study's conclusions applied only to Germany, but its main findings have been largely corroborated by a Gallup study based on a large-scale survey of the world's Muslim population. According to Gallup, only 7% are politically radical and condone the use of violence, their motives are not so much religious as inspired by the demeaning treatment Muslims are perceived to suffer politically and socially. This was also found to be a significant factor in the German study.

As with any research, these findings are open to question, yet it seems reasonable to conclude that in terms of actual policy radical change isn't needed. But the findings nevertheless shed new light on homegrown terrorism as a phenomenon.

Certain aspects of the host country environment may contribute to radicalisation, but external factors also play a major role. Muslims' attitudes towards their host country are strongly influenced by the perception that Muslims in general are subjected to humiliation and oppression. This is constantly reflected in media coverage and is also exploited by Al-Qaeda for its own ends. It is also liable to be reinforced by any negative experiences that Muslims may suffer themselves. In this light, the term "homegrown" is misleading because it suggests that the reasons for radicalisation are purely domestic, whereas the hallmark of Islamist terrorism is its transnational nature.

Political factors clearly play a greater role in radicalisation than do religious ones. This is in marked contrast to the conventional view in the West that the prime motive for

Islamist terrorism is religious. That erroneous assumption is seen by many Muslims as evidence of the West's contempt for Islam, reinforcing their view that Muslims as a whole are victims of discrimination. This sets up a vicious cycle that is liable to generate further radicalisation on both sides.

Finally, there is the quantitative aspect. The number of potential terrorism recruits

can obviously only be estimated, but it corresponds more or less to the percentage of the population in any western society likely to be involved in violent crime. In no sense do these people amount to a movement, let alone a mass movement. But as protagonists in the complex web of interaction between the Muslim and the Western world, they see militant terrorism as their preferred option.



MATTERS OF OPINION

Europeans overwhelmingly support cultural diversity

The great majority of Europeans believe that young people benefit from contact with their peers of other origins or beliefs, according to a Eurobarometer survey last December in advance of the 2008 EU Year of Intercultural Dialogue.

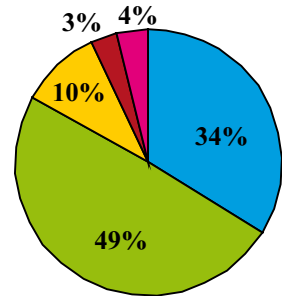
Over eight in 10 agreed about the benefits of intercultural contact for young people, with only 13% disagreeing. Support was the greatest in Sweden, Denmark, Ireland, Hungary, Luxembourg and Portugal – with all having over 89% of respondents in favour. The lowest support, but still with a clear majority in favour, was in Romania, Malta and Bulgaria.

However, a two-thirds majority also believed in the importance of maintaining family and cultural traditions. Across the board, Europeans were in favour of both supporting cross-cultural communication and upholding family traditions. Only in Denmark did a majority support the former proposition while dismissing the need for the latter.

Support for cultural isolationism was expressed by just 13% of EU citizens, and was mainly held by those with a lower level of educational attainment. In the EU15 (the older member states), this opinion was the most prevalent (although still held by fewer than one in four people) in Belgium, Austria and the Netherlands.

INTERCULTURAL CONTACT BENEFITS YOUNG PEOPLE

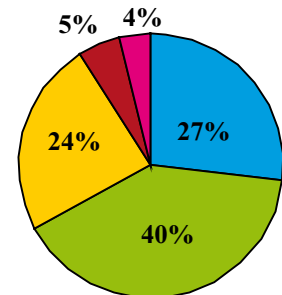
- very much agree
- agree
- disagree
- very much disagree
- don't know



Source: Eurobarometer 2007

YOUNG PEOPLE SHOULD STICK TO FAMILY TRADITIONS

- very much agree
- agree
- disagree
- very much disagree
- don't know



Source: Eurobarometer 2007

WHY THE EU SHOULD BE ENCOURAGING PLURALIST MUSLIM DEMOCRACIES

By Jan Marinus Wiersma MEP, Vice-President of the Socialist Group in the European Parliament



In partnership with my Dutch Green MEP colleague Joost Lagendijk I have written a book called "Travels among our Muslim neighbours" in which we explain why the EU should work with and encourage

Muslim parties who are committed to pluralist democracies, even when we disagree with them on social issues such as the role of women.

In the book, we recount meetings with Islamist parties in countries which are near neighbours of the EU, such as Turkey, Morocco and Egypt. We define Islamist parties as those which use democratic processes to turn their states into ones based on sharia law. As a secular politician I try to promote universal values. I am not in favour of Islamist states, and I would cite the examples of Iran, which is run by Shia clerics, and Saudi Arabia where sharia law applies. But I would also argue there should be space for political parties inspired by religious belief, and the example I would give is that of Christian Democratic parties in western Europe. I want to highlight the case of the AK Party in Turkey led by Prime Minister Recep Tayyip Erdogan, which he calls a "post-Islamist party", because it has given up all attempts to convert the state into an Islamic one. The AK Party developed out of a predecessor party, the Welfare Party, which had a stronger Islamic agenda and was banned by Turkey's secular establishment. But the AKP leadership learned their lesson, and

now is a role model for other religious political parties in the region.

But I would also urge authoritarian regimes in the region to be more tolerant of democratic Islamist parties. In Morocco, where there is an Islamist opposition party, the Justice and Development Party (PJD) that is comparable to Turkey's governing AKP party, my advice to the monarchy is to open up, because the PJD party accepts the monarchy and the role of King Mohamed as the country's religious leader.

I am more negative about the situation in Egypt under the authoritarian and dictatorial rule of President Hosni Mubarak, who has run the country for 27 years and where the main opposition to the regime comes from the banned Muslim Brotherhood which is allowed to operate only as a social welfare organisation. The problem is that in Egypt there is now nothing in the country's political structure that lies between the regime and the extremist Muslim Brotherhood.

The EU should keep open channels of communication with Islamist parties to encourage them to stick to democratic methods and behaviour even if we disagree with their attitudes to the role of women. We in Europe are in favour of dialogue with parties we still don't trust, like the Muslim Brotherhood, and we should remain loyal to our principles. But ignoring social movements inspired by religious belief is dangerous, and if we don't communicate with them we will be creating a very real problem.

This section is supported by the Socialist Group (<http://www.socialistgroup.eu>)

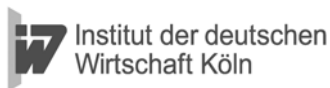
There are, of course, other quite different forms of interaction, and that brings us back to the question of how best to respond to the phenomenon of homegrown terrorism. A distinction is often made between "hard" tools for combating terrorism – i.e. executive, including military measures – and "soft" tools such as programmes promoting the integration of Muslim immigrants, efforts to stabilise and develop problem countries and strategies for intercultural dialogue. The slogan "war for Muslim hearts and minds" is a grotesque yet revealing attempt to link both sets of tools. Even when the intention of such interaction is to communicate a political message, an image of war is used. This comes close to mounting a counter-offensive in the propaganda war initiated by Al-Qaeda and its PR network. The first

casualty of any such operation is likely to be the West's own credibility – yet credibility is the key to successful communication.

If we adopt the parlance employed by Al-Qaeda while at the same time proclaiming our intention to communicate with the whole Muslim world, we run the risk of reinforcing Al-Qaeda's message. The impression given is that the rationale for communicating with the Muslim world is to combat terrorism and any "competition of ideas" is confined solely to Al-Qaeda's jihad agenda. Such a response is hardly likely to alter the mindset of potential recruits. Their friends and associates, too, may take it as confirmation of their prejudices and that could trigger further radicalisation.

The conclusion that all this points to is that we should worry not just about homegrown terrorism, but also our response to it. At the end of the Cold War there was much talk of a broader definition of security. Yet what we are now seeing is a return to a narrower definition. The current focus on combating terrorism means that at home and abroad security issues are encroaching on policy areas concerned with entirely different matters, thus jeopardising effective action in these areas. The tendency to view Muslim grievances in one-dimensional terms reduces political discourse to a very simplistic level. Our interactions with Muslims may be unconsciously influenced by this defensive reflex, and that may encourage equally defensive attitudes on their part. □

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How France intends to meet all those EU presidency expectations



From immigration to defence, from social to environmental issues, there are high expectations throughout the EU for France's stint in the chair. Its Europe Minister **Jean-Pierre Jouyet** previews the presidency agenda

France's six-month presidency of the Council of the European Union begins on July 1, and we, in the French government, are fully aware that expectations are high. Holding the presidency offers an opportunity to re-launch Europe – so it's a task that carries a heavy responsibility. At a practical level, this will involve offering the Union's citizens a vision of a Europe that is both reassuring and responsible.

Europeans need a Union that addresses social and environmental issues, and also a Europe that is committed to stability, transparency and financial regulation. We also need a Europe that will uphold the principle of reciprocity by being open to business and investment. And that means new energy policies based on expertise and

knowledge which don't give up any of the Union's founding principles – and we need to start with agricultural policy.

The Lisbon treaty will enable us to give shape to a set of demanding policy objectives. It is a blueprint for action. It offers us the prospect of a way out of the institutional and political deadlock that followed the French and Dutch referenda in 2005 and a way to leave behind the last 15 years of doubt and institutional debate. It is very significant that, for the first time, this political agreement embraces all the 27 member states of the enlarged European Union. The distinction between new and old members has now lost any significance. The 27 countries are ready to face the challenges of the 21st century together.

A top priority of the French presidency is therefore to prepare the implementation of the Lisbon treaty which everyone now hopes will come into effect on next January, by when it should have been formally ratified by all member states. The French Presidency will thus need to begin organising the creation of the permanent Presidency of the European Council – an institution that will answer the question so famously asked by Henry Kissinger about the phone number that could be used to call Europe. This will involve working together with our Czech and Swedish friends, building around a programme for a triple presidency – to be announced in May in Prague.

Europe is facing many challenges. The French Presidency, by the voice of Nicolas Sarkozy, the President of the Republic has set priorities for Europe to address those challenges. They include a common approach to migration, climate change, energy policy, and defence and security issues. These are areas where quite a lot is being expected of Europe.

We are living through a time of change in Europe's demographic make-up, and this means that all of the EU's member states must jointly manage migration issues. Because of the challenges that are now arising from mass migration – and set against the backdrop of integration and dialogue with our southern partners – a European pact on immigration and asylum will be proposed. This pact will involve agreeing a comprehensive approach with migrants' countries of origin, and should facilitate better policy co-ordination amongst member states. To ensure that the Schengen area – which now includes most EU countries

– continues to be characterised by both liberty and security, close attention will also have to be paid to controlling our external borders. To safeguard the cohesiveness of the EU, it is necessary to build common standards for things like the criteria for issuing visas. National practices will need to be converged in the field of asylum laws, even though there are different cultures and sensitivities among the member states. And clearly it is only responsible to demand that Europe should organise the whole process of legal immigration on the basis of the economic and social conditions that prevail within the Union. So to ensure a fully-balanced approach, Europe must think in terms of widening its development aid efforts, for example by facilitating fund transfers in migrants' countries of origin and by providing aid to poorer countries in new areas like health, education and governance.

In March 2007, Europe set itself the ambitious goal of taking the global lead in the fight against climate change. The French presidency will stick to that objective. The recently proposed energy-climate package which, it is hoped will secure EU-wide political agreement under France's presidency, will help towards achieving this. It is also essential to promote a new and more sustainable type of economic growth in Europe. And here the goal should be to focus on sustainable development combined with more ecologically-friendly agriculture and with industry which is more sensitive to the needs of the environment. This is going to be a major source of activity for Europe's economy, so those who take the lead today will be among the most competitive tomorrow.

Another vital issue that Europe must address is energy policy and its various components. First, we need to bring about a managed liberalisation of the energy market so as to provide appropriate interconnections between European countries. Energy infrastructures need to be accessible to a number of different operators and the consumer must be allowed to benefit from more competitive prices. Along with Germany, Austria and four other partners, France has put forward proposals that could offer an escape route from the apparent impasse that this debate has thus far ended up in. Market liberalisation cannot take place without there first being a strategic vision of energy supply policy in the EU. That is why our Prime Minister, François Fillon, has asked the former managing director of the International Energy Agency (IAE) to look into this whole question. We also need to set clear objectives regarding more diversified energy sources, while at the same time facing up to the nuclear energy issue. Europe needs an energy strategy that will protect Europe's interests – all this is not just a matter of sovereignty, independence and competitiveness, but for some companies it is even one of survival.

Finally, defence and security policy needs to be seriously addressed, in conjunction with NATO, in order to further improve Europe's defence capabilities. A key aspect of improving Europe's security and defence capacity will surely involve equipping the Union with military tools commensurate with Europe's economic and commercial strength. In particular, this means that better use has to be made of Europe's operational capability – our armed forces need to be mobilised more effectively and the European Defence Agency needs to be re-launched.

Under the French presidency a "health check" will be carried out on the Common Agricultural Policy (CAP), as it is planned by the European agenda. The ground will also be prepared for reform of the CAP, after 2013.

Last of all, we must do what we can to reinforce the various components of the Lisbon strategy for growth and jobs, now that its main priorities have again been confirmed by the European Council in March of this year. That means we will try to promote small and medium-sized business through the European Small Business Administration, climate change, "flexi-security" and more support for research and innovation. France will be paying particular attention to promoting the Lisbon strategy's social dimension. The social agenda must be put into the context of those practical areas where an EU-level response is widely expected: the mobility of workers inside the internal market, the fight against all forms of discrimination, the promotion both of equal opportunities and social cohesion and an enlarged and upgraded ERASMUS student exchange programme, to establish a "right for mobility" for young Europeans.

France's presidency offers my country an opportunity to help create a more effective Europe, a Europe that is closer to the everyday concerns of its citizens. It is an opportunity that has to be seized. Now is no longer a time for introspection, but a time for action. We shall be fully mobilised and ready to move on every front in the service of all of Europeans. □

Jean-Pierre Jouyet is France's Minister of State for European Affairs.

Getting the Franco-German engine back into gear



Although enfeebled, the Franco-German relationship is still the main driving force in the EU, says **Ulrike Guérot**. The challenge now is not just to revive it, but to make it the basis for a broader leadership mechanism

The good old days of Franco-German relations seem long gone. Those were the times when common initiatives for Europe were the rule, and a Franco-German proposal constituted a comfortable and acceptable compromise for Europe as a whole. In that heady but bygone era, the two partners pulling together towards a common goal meant that one way or another it would be achieved. It demands an effort of memory nowadays, but in retrospect the Maastricht treaty of 1992 was the last masterpiece of Franco-German creativity.

The estrangement of French and German policymakers had already set in during the 1990s, even though these were glorious years for European integration. France never engaged enthusiastically in the enlargement process, while the creation of the euro led to serious Franco-German economic policy tensions from 1993 right up to 1999. On defence, French decisions such as abandoning military conscription in 1996 but pressing ahead on nuclear testing did little to improve the relationship. Nor was

the run-up to the Nice treaty in 2000 proof of a happy Franco-German couple, while the European Convention in the following years also failed to yield any worthwhile Franco-German initiatives. And the last five years of Jacques Chirac's time in office produced more in terms of deadlock than anything else, finally being crowned in May 2005 by the spectacular French "No" vote in the referendum on the EU's draft constitutional treaty.

The authoritarian behaviour of France and Germany – for example, criticising tax regimes in Eastern Europe while themselves not complying with the Stability Pact – and their arrogant claim that they alone understood "political Europe" and so would sew up deals bi-laterally, like that on agriculture in October 2002, appalled other EU countries, and especially the more recent members. And has hardly helped the process of European integration.

The Franco-German engine cannot function as before, and there is no point

in wishing it could. Yet the European Union remains dependent on the driving force provided by the two countries. They may have lost authority, but without them nothing much happens in the EU. They comprise the critical mass essential for progress within the Union. What then can be done to generate a new sense of leadership around the Franco-German axis?

The election of a new French President might be thought a promising start to a new era of cooperation. But Nicolas Sarkozy's apparent view that the European Central Bank should be subject to some degree of political engineering upset Germany. The time for discussion about the ECB's independence was over, said Berlin. A visit Sarkozy made to Moscow also irritated Germany, which believes it has a close relationship with Russia, and felt that it was being by-passed.

Last December, the European Council decided to establish what was called an independent Reflection Group to consider the future of the European Union. It was seen as a French invention partly designed to torpedo Turkey's full membership of the EU. It was generally received with little enthusiasm, and Germany in particular voiced scepticism about its purpose.

Germany also clashed with France over Sarkozy's proposal for a "Union for the Mediterranean". It considers, along with other EU countries, that the 1995 Barcelona Process covering the Euro-Mediterranean relationship, still has some life in it. Sarkozy and Germany's Chancellor Angela Merkel met in March to sort things out, and

reached agreement on the development of Euro-Mediterranean relations. Essentially, now all EU-countries are invited to the Mediterranean summit on July 13, which was the hardest disputed question. The dossier had the potential to split the EU. Temporarily, tensions grew so big that France announced the postponement of the "Blaesheim talks", a regular exchange of views by French and German leaders on European issues, that was started in 2001 in the Alsatian town of Blaesheim and is now held in various locations. This looked like a threat to break down this line of communication. In the event, though, that has not happened, and the two countries' institutional mechanisms have held. Franco-German disputes often seem fierce but do not last long, and can even serve to make people realise how important the relationship is.

Sarkozy's two-day state visit to London in March, carefully staged and enthusiastically celebrated, was in marked contrast to the morose atmosphere of Franco-German relations. Nicolas Sarkozy discussed with Prime Minister Gordon Brown a number of topics that could easily make Germany feel left behind. Prominence was given to a deal to build a new generation of nuclear power stations in Britain, using France's considerable nuclear expertise.

Germany, by contrast, is still committed to a withdrawal from nuclear energy, a policy that Angela Merkel had placed at the top of her agenda during Germany's EU presidency in 2007. For Sarkozy, nuclear energy is among the "renewables", so the issue is yet another pomme de discorde, and unlikely to re-build confidence between France and

Germany. Sarkozy's UK visit also produced a Franco-British commitment to further promote European Security and Defence Policy (ESDP), and in France's case to send more troops to Afghanistan. But Germany too, needs to be engaged over ESDP and Afghanistan, and should not be by-passed. If the Sarkozy presidency has any relevance to Franco-German relations, it may be to reinforce the view that the EU needs new leadership, and that it must still be based on the founding partners.

It is good that Franco-British cooperation should be closer, pulling the UK once more towards Europe. And German-British relations are also improving. European responsibilities are being distributed onto more shoulders, and that too is good: Iran, climate change and ESDP are all examples of shared decision-making. The Franco-German engine is still necessary, but is showing wear and tear. The larger geo-strategic questions, such as the EU's future relations with Russia and its links to NATO, require the attention of a bigger leadership team, especially including those with experience of eastern Europe. Poland has that experience and leadership potential, even if Germany will remain the glue between East and West.

Everybody, and especially Germany, has an interest in a successful French EU presidency, starting in July. France will need Germany's support if it is to make useful progress during its six-month stint. Sarkozy has said he wants to promote measures to deal with climate change; to review European migration policy and finally to re-energize ESDP, in line with France's decision to return to NATO. The Lisbon treaty will very

probably start being implemented during the French presidency, with nominations for future EU leadership, including a permanent president, along with steps to shape the future European External Action Service, essentially an EU foreign ministry. It is an ambitious programme, calling for hard work without any guarantee of reward. The EU is not an organisation designed to promote French gloire.

Even François Mitterrand, it is perhaps forgotten, needed two years to arrive at this conclusion and to re-acknowledge the importance of Franco-German cooperation. He changed his financial policy in 1983 in order to stay in the European Monetary System. In 1984 he master-minded the famous Fontainebleau summit, fixing the EU budget problem, and clearing the way for the European Single Act that formally established a single European market and thus gave new impetus to the continent. Maybe Sarkozy will surprise us yet.

France and Germany, along with the other EU states, need to remember that the Lisbon treaty is, in effect, the newly restored European constitution that had been shaped to lead the Union into the 21st century. For it to work, the leadership needs to become bigger so that it can function again. France especially must show that it truly cares for Europe and its role in the world, and that the EU is much more than a French tool. Working with Germany, Sarkozy's France has to build a new team for the EU. □

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The Polish Oil and Gas Company (PGNiG), leader on the domestic gas market, ranks among the largest and most profitable Polish companies. Its core business involves exploration of and production from gas and oil deposits, as well as import, storage, sale and distribution of gaseous and liquid fuels.

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The questions facing Europe's development bank



The European Bank for Reconstruction and Development was founded following the collapse of communism, and has turned out to be a resounding success. **Jean Lemierre**, who is stepping down after eight years as its president, urges the EBRD's shareholders to be true to its founding principles

Since its creation in 1991, following the fall of the Berlin Wall, the European Bank for Reconstruction and Development has joined the pantheon of international financial institutions dedicated to creating prosperity and driving economic change. Yet it has been, perhaps, an unlikely success story. Launched into a sea of paradox(es), the EBRD has gone from strength to strength while gaining momentum from precisely those inherent contradictions: it is a public sector institution that deals mainly with the private sector, a "development" bank that costs more than the commercial market and it is a European bank that is not only active in countries outside Europe, but is also partly owned by them.

The feature that has singled out the EBRD has been its ability to adapt to changes in the regions where it operates, adjusting its approach to meet local needs while remaining true to its founding principles. That said, the bank I have had led for

eight years is in many ways a very different institution from the one I joined in 2000.

Its focus has moved away from those countries it was created to support. The bank is proud of the contribution it made to help eight former communist states join the EU in 2004. But the real achievement was made by the people of those countries. After the collapse of the old system they endured drastic economic reform – perhaps not even benefiting from it themselves, but in the belief that they were working towards a better life for their children and future generations. When I visit those countries now I see the fruits of those sacrifices, even if there is still more to do.

The EBRD has moved further east and south. The challenges that Poland and the Czech Republic grappled with in the 1990s are still present across great swathes of the EBRD region. The conflict that ripped through Yugoslavia in the 1990s meant

there was no opportunity then even to contemplate economic reform. The countries of the western Balkans are now ripe for that change and the EBRD is ready to make its contribution.

A changed Russia in the 1990s, following the break-up of the Soviet Union, was seen by many in the West as a haven of burgeoning democracy. The Cold War had been won and the country was "enjoying" the victor's regime of a free market economy. But for millions of Russians the 1990s were a period of economic disaster and personal tragedy. That situation is now changing. And even though questions remain about some basic democratic freedoms a new generation is emerging in Russia that is perhaps less burdened with the oppression of history and more interested in a decent standard of living, the ability to travel, good access to health and education for their families.

The challenge for the West, and the EBRD remains a key part of this process, is to develop an economic partnership with Russia that is mature and balanced. But the broader economic issues persist. In the resource-rich countries of the former Soviet Union, there is the need for diversification to create a sustainable domestic manufacturing industry that will provide for prosperity even when the price of oil is well below \$100 a barrel.

In many of the countries where we in the EBRD work there has been an understandable desire to have access to consumer goods. But consumer-driven economic growth is unbalanced and hides the seeds of future economic problems. As important as it

is to have a thriving demand side of an economy, it is equally crucial to build up the supply side, supporting a domestic industry that will impose less of a strain on a country's balance of payments. A stable financial sector is the life blood of any mature economy, and the creation of an infrastructure that allows the economy to function.

To pluck just one figure out of a hat, Russia's infrastructural investment programme up to 2020 calls for investments of \$1 trillion, a sombre rejoinder to critics who say Russia is awash with liquidity and needs no external financial support. Over the past 16 years the EBRD has invested more than €30bn across its countries of operations, and garnered third party support for total investments well in excess of €100bn. But the special contribution that the bank has made – and which it will continue to make – is not the amount of public sector funding it has provided. The actual numbers are a drop in the ocean. But the investments support and are a catalyst for change; they are conditional, driving the process of economic transformation, whether by insisting on good corporate governance, being targeted at building up competition in one particular industry or by strengthening the development of a socially sustainable private sector.

Initiatives by the EBRD throughout the region have always had a practical purpose. The bank's Sustainable Energy Initiative, launched in 2006 in response to concerns about climate change, made an immediate impact on companies and economies by providing finance to promote

energy efficiency in homes, industry and local utilities. The bank has helped to develop domestic capital markets so that they can provide local currency funding to industries for which an accumulation of foreign currency debt could prove fatal.

The bank has been agile. In 2004 it created facilities for what it calls Early Transition Countries – those with less advanced economies – providing small scale funding for thousands of micro enterprises, so helping to create a bedrock of entrepreneurship.

For me, though, the special strength of the EBRD is in its ownership and geographical structure. The bank is present in all the countries in which it invests, and in some countries in several key cities. And not by just a letterbox address but with resident offices teamed with dedicated bankers and sector experts.

The countries where the EBRD operates are also its shareholders, so there is a genuine sense of regional ownership. The EBRD office in Tbilisi is not an outpost of some remote western economic power group. It is a local bank, working with local clients and helping to build up a local economy.

The bank is also truly multilateral, truly international. It is American, it is Japanese, it is Turkish. Crucially, it is also Russian, it is Hungarian, it is Georgian, Serbian, Kazakh and Mongolian.

In any institution such as the EBRD there will always be questions about future

strategy. Where should the bank be active, how much should it invest and in what sort of projects and, thankfully in the case of the EBRD, what should it do with its profits?

When these serious questions are considered by the bank's larger shareholders they should remember the importance of its special ownership structure and that its original purpose was to work hand in hand with the countries it was created to serve.

To meet the challenges of the future, the EBRD needs to retain its independence and the multilateral structure that has guaranteed its success over the past 17 years.

Its work in developing the private sector will become ever more crucial as it steps up its investments further afield, especially in more difficult economic terrains such as the Caucasus, the Balkans and Central Asia.

The underlying mandate of the EBRD remains unchanged from its foundation – nurturing the private sector, helping to transform economies, and most importantly by being a catalyst for other long-term investors. There may be other areas where the bank's shareholders would like to apply that mission. The EBRD has the capacity to extend its scope, but not at the expense of its original mandate. The bank's success has been a result of a clear focus to do one job and see that job through to completion. □

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Why Sarkozy's Mediterranean plan is arousing suspicions



French President Sarkozy's proposal for a new "Mediterranean Union" underlines the fact that the EU's policies in the region have so far fallen short of expectations says **Eduard Soler i Lecha**

The early months of 2008 saw the Mediterranean become a key element in European foreign policy. It all began in February of last year, when Nicolas Sarkozy as a French presidential candidate criticised in a speech in Toulon the results of the Barcelona Process, a cooperation framework launched in 1995 between the EU and Mediterranean states to develop their political and economic relationship. Sarkozy suggested that a "Mediterranean Union" should be created to bring together all the countries bordering the Mediterranean. Its effect, of course, would be to exclude most of the EU's member states.

On the night of his election victory, the new French President declared that the Mediterranean Union project would be one of his foreign policy priorities. Yet no one seemed quite sure of the details of Sarkozy's initiative – there were question-marks over how this new Union would be structured, which countries would be invited to join, how it would function and how it would fit in with existing regional cooperation frameworks

and policies such as the Barcelona Process and the European Neighbourhood Policy.

Last December, the project was renamed "Union for the Mediterranean" and some details emerged. France planned, at that stage, to have as full members of the Union the countries bordering the Mediterranean, to hold regular summits and establish some kind of institutionalisation. Its main objective would be to set up projects in fields such as the environment, energy, infrastructure and civil protection, while business conglomerates would be encouraged to invest in the projects. It was said that all member countries – as well as third countries and regional or international entities – would be able to participate in these projects, though only a small number of states would be needed to execute each project.

The French initiative awoke suspicion both in Europe and among Mediterranean countries, though it also generated a certain amount of expectation. Italy was the European country that showed the

greatest enthusiasm. Spain later agreed to the initiative, while stressing that it should not replace the Barcelona Process, but should complement it. Germany and northern European countries expressed their unease at not having been included, while the United Kingdom was sceptical about the project's viability. The European Commission noted with suspicion that most of the projects being mooted by the French President were already being implemented within the Barcelona Process.

Turkey stressed that it would not accept the Mediterranean Union as an alternative to joining the EU. Egypt agreed in late December to work with France on a common work programme. Libya and Tunisia reacted positively as the project did not seem to include any political conditionality. Algeria was ambivalent. Morocco appreciated France's interest in Mediterranean issues, while noting that its priority was to achieve an "advanced statute" – a deal to improve political and economic relations with the EU. The countries of the Near East paid little attention to the French proposal.

Sarkozy's individual style – and especially the fact that he first announced his proposal and only then started to seek support and ways of implementing it – did not help to create a consensus. He underestimated German unease at this example of French unilateralism; the French President had thought that the Mediterranean represented a minor issue in the eyes of Berlin.

It was the German government's resistance (and particularly that of Chancellor Angela Merkel) which forced Sarkozy to seriously reconsider his proposal.

In a climate of deteriorating French-German relations, Merkel and Sarkozy held a tense meeting on March 3, where they agreed to present a bilateral proposal for the Mediterranean Union at a European Council meeting 10 days later.

This meeting resulted in the Europeanisation of the French proposal. Its name was changed again, this time to "Barcelona Process: Union for the Mediterranean", ample proof of a shift of emphasis. It was decided that all EU states would be invited to attend a summit in Paris on July 13. Finally, the European Commission was asked submit proposals for the development of this stage in Euro-Mediterranean relations. The big question now is whether it amounts to anything more than a cosmetic name-change.

The virtue of the French initiative is that it drew attention to the Mediterranean and to the Barcelona Process, which had become eclipsed (though not entirely replaced) by the European Neighbourhood Policy. The development, freedom and security of the Mediterranean area is of great importance to European interests.

Sarkozy's initial proposal would have endangered the coherence of the EU's Mediterranean policy. It could have produced contradictions in areas such as human rights. It could have resulted in an unjustified dispersion of political and financial efforts. It was unclear who would select the projects to be funded and what criteria would be used in their selection. And it was unfair to exclude countries such as Germany and the Scandinavians, which have greatly contributed to the EU's Mediterranean policy.

Even so, the French proposal contained several interesting points that should be considered during preparations for the forthcoming summit. Institutionalisation is one. After years of waiting, it seems that the time has come for the creation of an EU secretariat and a co-presidency. It will not be an easy task. The European Commission could be deprived of some of its work. Arabs and Israelis might object. Could an Arab state ever agree to be represented by an Israeli co-president, or vice-versa? In designing the two organisations, a bureaucratic logic should not end up being imposed on political logic and, secondly, that Euro-Mediterranean relations should not be held hostage by the Arab-Israeli conflict.

The second point might be dealt with by working multilaterally, but without the need for all the member states of the Barcelona Process to participate in each and every one of the projects. In some cases, it may be that only the countries bordering the Mediterranean, or only the members of a smaller regional area (for example, the western Mediterranean), would be interested in implementing a specific action. What EU's jargon calls "variable geometries". A lack of consensus between the 39 members of the Barcelona Process should not become an obstacle to intensify cooperation. But to prevent any sense of exclusion over a particular project, the new Union should involve a minimum number of participating states and be open to any new country wanting to collaborate.

In the past, it has to be said, the EU's Mediterranean policy has fallen short of expectations. In 1995, when the Euro-Mediterranean Partnership was launched,

it was frustrated by fresh outbreaks of tension in the Middle East, and later by the realisation that the objectives set down in the ambitious declaration that founded the Barcelona Process were not being achieved. In 2005, the "Year of the Mediterranean" – Barcelona plus 10 – the first Euro-Mediterranean summit of heads of state was held. But whatever renewed interest in Euro-Mediterranean affairs the summit achieved soon faded. In 2008 we may go through a similar situation

If Euro-Mediterranean relations were a car, getting it to its desired destination will depend on three factors. The first is the skill of the driver (that is, the political determination of European and Mediterranean leaders to reach agreements). Secondly, the car has to have enough fuel (money for projects). And thirdly, the weather has to be suitable for the journey (Middle East tensions must not, once again, wreck the efforts being made to create a Mediterranean that is safer, more democratic, more prosperous and more integrated).

This final point does not depend on the European Union, and weather tends to be unpredictable. Still, it is worth making another attempt, this time with improved instruments and better resources. □

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What a truly democratic EU might look like



Pretending that more democracy will automatically make the EU more popular misses the point, says **Sabine Leidig** who heads the ATTAC Germany office. She argues that the EU must be made to work for the people if it is ever to achieve real democratic legitimacy

There's been a lot of soul-searching about the democratic deficit in Europe, but much of it overlooks – or deliberately distorts – the basic problem. Europe won't become more popular through some democratic quick fix, whatever some commentators claim. Nor will we ever understand public opinion in Europe if the EU's eurocrats continue to insist that every "No" vote in an EU referendum is simply an expression of domestic political disaffection.

The real answer to Europe's democratic deficit is more far-reaching. We have to address public perceptions that the Union is a serious obstacle to genuine representation in Europe, and that the EU also stands in the way of raising social standards, like higher minimum wages and better working conditions. I therefore believe that the Europe Union will only gain democratic legitimacy when it is re-constructed by the people and for the people.

One good starting point would be to listen to what people really want, rather than

misinterpreting public opinion on the rare occasions when voters are given a chance to speak for themselves. Take the French and Dutch rejections of the EU constitution back in 2005. Even though both referendums attracted a lot of public attention about the future of Europe, most commentators concluded that the "No" votes reflected domestic policy problems. Why so? A more likely explanation is that a majority of people felt important decisions about Europe were being taken over their heads and against their will. In which case, the lesson to be learnt from 2005 was that people wanted better representation and more information during the EU law-making process. Had this view been widely accepted, it could have paved the way for changes in the EU that would have truly benefited the public.

Instead, the Treaty of Lisbon made very little headway in resolving the democratic deficit within the institutions of Europe. There was no attempt to separate executive, legislative and judicial powers clearly, nor was the European Parliament given the right

to initiate legislation. Thus any serious effort to increase EU-level democracy in future would require a new “treaty for the people”, with fresh institutional reforms, new direct democratic measures, higher levels of transparency and steps to consolidate and extend current democratic achievements. Crucially, a new treaty would also have to reassess the EU’s neo-liberal economic policies which have become more and more embedded in existing agreements.

This economic aspect of the democratic deficit is often ignored. The Bolkestein directive on cross-border services, for example, has provoked widespread resistance and would not have come into force if it had to be approved by a popular referendum. Neo-liberal policies are imposed on member states – and the rest of the world – regardless of the EU’s lack of democratic accountability. These policies erode social security for many ordinary Europeans, while boosting corporate profits through lower tax regimes. They also allow companies to play employees in the EU off against each other as businesses shop around for the “best” national employment conditions. This leads to a “race to the bottom” in tax, social security and wages as countries compete to attract corporate investment. A more collective approach to taxation would be an effective counter-measure. The new treaty for the people would therefore have to include ambitious targets for EU-wide taxes on business, especially minimum standards for corporate income and capital taxation.

Neo-liberal policies also force a growing number of economic sectors into a competitive market. As a result, ownership

COMMENTARY

By Matej Avbelj

No, this is a political agenda and not about democracy

Sabine Leidig’s article is another example of the long tradition of EU soul-searching that seeks to tackle the issue of the so-called democratic deficit. The opinions expressed in the article are undoubtedly frank, but they are hardly original – she re-states old mantras and attempts to mix together various democracy-enhancing strategies even though they are mutually exclusive.

Leidig seeks to blame the European democratic deficit on the alleged dominance of neo-liberal policies within the EU. These, she believes, lead to all manner of negative outcomes, ranging from workers’ wages and the quality of the working environment, through to national tax regimes and the apparent inability of member states to provide even the most essential public services. If Europe was truly democratic, we are told, there would be democratic alternatives available to these neo-liberal policies which appear to have done so much damage.

It is at this point in Leidig’s article that the real cause of Europe’s democratic deficit is revealed to the reader: it’s all down to the prevalence of neo-liberal economic policies over those with a more pronounced social dimension. The democratic deficit therefore turns out to be a social democratic deficit.

This is nothing more than a political point of view, because the interests of democracy within

becomes more and more concentrated, small businesses are put at a disadvantage and social and workers' rights come under increasing pressure. Neo-liberal economics also mean that sustainability plays only a minor role in corporate and official decision-making, with predictably negative long-term impacts on both people and the environment. A neo-liberal system is more likely to allow genetically-modified and high-risk foods to be grown and sold in the EU, or water industries to be privatised.

A truly democratic Europe would limit such environmental risks through non-market-based economic policies and more enforceable rights, allowing people to resist developments that could jeopardize their well-being. So-called free competition should not be the EU's sole guiding principle. Rather than blocking member states' efforts to fund essential services such as drinking water, health care, education and transport, we should be seeking ways to provide these public benefits at the European level.



MATTERS OF OPINION

Europeans know less and less about the EU and the rights it guarantees them

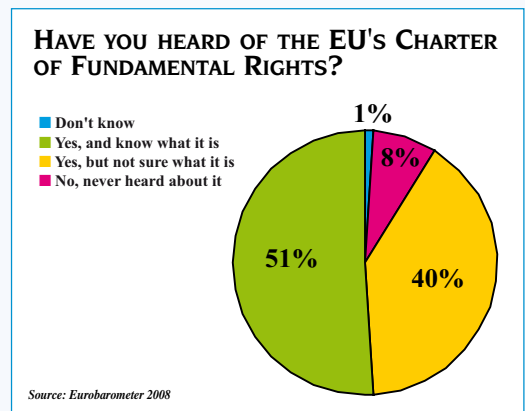
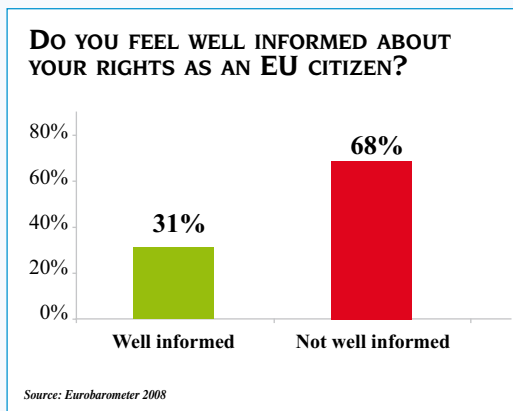
In a recent Eurobarometer survey of European citizens' awareness about the European Parliament, fewer than 5% in any of the 27 Member States said that they were "very well informed". Only in four countries – Luxembourg, Slovenia, Ireland and Malta – did more than one in three of the population describe themselves as "well-informed".

In an earlier Eurobarometer survey about rights, fewer than two in 10 people (18%) could correctly identify six rights that they possessed as EU citizens. Two-thirds of the 27,000 people questioned (1,000

in each EU member state) in autumn 2007, said they did not feel "well-informed" about their rights as EU citizens.

Alarming, respondents now know less about their rights (a 15-17 percentage point drop) than they did in a poll five years ago. Then, many more Europeans knew that they could vote or stand as a candidate in municipal elections in any EU member state, as well as in elections for the European Parliament.

In addition, half of the people surveyed had never heard of the EU's Charter of Fundamental Rights, and fewer than one in 10 said they had heard of it and knew what the charter signified for EU citizens.



A more democratic Europe must also find ways to allow the public to take an active part in decisions that will shape the Europe of tomorrow. Today, people are forced into the role of passive recipients of EU laws because the institutions of Europe are closed to direct popular participation. It would be much fairer if ordinary people were able to intervene if enough of them felt that important decisions were being made without proper consultation or popular support. One option would be to allow people to initiate EU legislation – on condition that the proposal is supported by a sufficiently large percentage of the total EU population who come from, say, a pre-determined number of member states. The proposed legislation would then have to be debated and put to a vote in the European Parliament. A similar system could be introduced for referendums, with a pre-arranged popular quorum able to force the European Parliament to organise a binding referendum on a specific question.

Another barrier to more public participation in Europe is the incomprehensible language used in EU treaties. Ordinary people must be able understand the legal basis of rules that affect their lives in so many ways. Unfortunately, very little has been done to overcome this deplorable situation. Were a new treaty for the people to be drafted, the EU could address the problem by holding direct elections to a special Assembly. Citizen representatives from all the member states could get support from their national parliaments to write the new treaty, which would also have to be ratified and enforced in a transparent way.

Another problem with democratic decision-making is the excessive influence wielded by financially powerful lobby

the EU are equally served whether people choose a political and economic agenda that is social democratic or neo-liberal. Disagreements about political and economic objectives are an essential and intrinsic part of a pluralist modern democracy. The quality of the latter does not depend on concrete policy outcomes, but on appropriate institutional and broader constitutional conditions which guarantee that all shades of political opinion have an equal opportunity to win support.

The EU's political shade may well not be intrinsically social democratic, but it is unreasonable to claim that the Union suffers from a democratic deficit for that reason alone. European integration is a pluralist political project because it is attempting to unite a diverse collection of peoples who hold very different social and political views. And this diversity has been further accentuated by the EU's eastern enlargement. Ordinary Europeans, to use Leidig's own term, are actually a very heterogeneous body of individuals living in different states in unequal socio-economic conditions. While classical social democratic policies might be preferred by the majority in the EU's more affluent member states so as to sustain their welfare state regimes, neo-liberal measures may well appear more advantageous to those living in the newer member states. It is therefore by no means clear that neo-liberal measures, like the Bolkenstein directive cannot be popular in the Union.

In short, although EU democracy is far from perfect, it is hardly in a terminal state either. Much of the debate on the European democratic deficit therefore looks to be overdone for purely political reasons. Our energies would be better directed elsewhere, and here there is

“WE HAVE TO COMBINE TOUGH ENVIRONMENTAL STANDARDS AND AN EMPHASIS ON INNOVATION”

Martin Schulz MEP, President of the Socialist Group



Is business doing enough to tackle climate change?

President George W. Bush shocked the world again with his attitude to climate change when he recently announced a

new national target: stopping the growth of US greenhouse gas emissions by 2025! Thankfully we in Europe are leading action not just to stop but to reverse climate change, and that requires significant commitment from all sections of society. Of course we always want to see business doing more - the energy sector, aviation, the car industry. Things are happening and business is moving forward because it's environmentally and economically sensible to do so. But we have to ensure that tough legislative standards are met and that there is constant innovation.

In April the European Parliament voted a resolution on adapting to climate change. MEPs want cross-sector partnerships to share knowledge and policies, develop tools to gauge the success of measures adopted, and communicate to the public scientific findings and scenarios on the need to adapt to climate change. The Socialist Group wants to see all stakeholders involved to ensure the right balance between competitiveness, environmental protection and social rights.

Should the EU be so concerned about the loss of manufacturing jobs to other parts of the world such as India and China?

We should all be concerned about the loss of jobs wherever it occurs and whatever the cause. One of the main issues for Social Democrats engaged in EU politics is to make sure that its citizens have decent work, decent pay and decent

conditions. The global economy is changing and we have to stay ahead of that change. That is one of the reasons why Social Democrat leaders of national parliaments met in Slovenia on 4 April to issue a call for reform of an EU directive on posting workers abroad.

The European labour market should be open for competition - but quality must count, not the undermining of social and labour standards. The single market needs rules and the recognition of social and labour standards. The playing field must be level. Workers in China and in India also deserve these standards too. The fight against social dumping is a crucial aspect of our fight for a social Europe.

What are your hopes and fears for France's presidency?

The Presidency of the EU should not be about national flags or personalities or who is supposed to get which top job. The presidency is about co-ordinating 27 member states and working constructively with the Commission and with the Parliament to build agreements to take the EU's agenda forward. During the French presidency we will continue and hopefully complete the ratification process of the Lisbon Treaty. Rather than speculating about who is going to occupy which post we need to see these posts created in the first place. In the coming year we must agree concrete action on the climate change package and I sincerely hope that the French Presidency is able to achieve this. We have also got to ensure that our citizens see that the EU is addressing their concerns following the sub-prime mortgage crisis. We have also got to look urgently at the worldwide food situation and at what the EU can contribute within its borders and outside. I hope that the Presidency will work closely with the Parliament and will lead a united team through challenging times.

This section is supported by the Socialist Group (<http://www.socialistgroup.eu>)

groups. The process could be made more transparent if these lobbyists had to identify all their interests and sources of funding in a public register. Privileged access for corporate lobby groups to EU decision-makers should also be limited.

More should be done, too, to improve the enforcement of democratic rights in Europe. For instance, individuals cannot currently make their own claims at a European court, nor does any EU court effectively enforce fundamental rights. All people living in a truly democratic society – together with organisations such as trades unions – should be able to assert their social and labour rights through an effective judicial system.

Thus, a great deal can and should be done to make the European Union more democratic and more responsive to the social and economic demands of its citizens. But change, no matter how important, won't happen by itself. The drive for democracy needs to be constantly renewed through discussion and education about the complexities of EU procedures. Change will also require cooperation within civil society so that a host of individual voices can unite into a powerful popular movement. The ATTAC network is proud to take part in this process, furthering cooperation and helping to develop alternatives for a better Europe. Our European Summer University in Saarbrücken this year will be another opportunity for people from different countries to exchange their visions for a more democratic and social Europe and begin to create a more desirable model of EU development. □

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COMMENTARY

Matej Avbelj

some scope for finding consensus with Leidig. More than anything else, it is essential to educate Europe's citizens about the value of European integration – and that must go well beyond a dry discussion on constitutional matters. We need to project an image of the Union that demonstrates the pluralist and diverse nature of Europe, and it's in this social rather than institutional context that the democratic deficit may conceivably lurk. □

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PROMOTING INTERCULTURAL DIALOGUE

AT THE HEART OF EUROPEAN DEMOCRACY AND DIVERSITY

Promoting dialogue and building bridges between people of different cultures are key elements of our political programme. We work in many fields, influencing people's daily lives, touching upon various aspects of their cultures and in 2008, the year of intercultural dialogue, we aim to promote European citizenship, based on common values and respect for cultural diversity.

Our principles

- International solidarity
- Promotion of political and diplomatic solutions to crises and conflicts
- Support for democratic processes and dialogue with civil society
- An end to intolerance and extremism
- Equal access for all to education and employment
- Empowerment in citizenship and political participation at all levels
- Respect for fundamental human rights
- Mutual understanding of different cultures and beliefs

Our initiatives

- We are continuing our dialogue with Muslim communities in Europe and in Arab countries, looking at the issues of citizenship and identities and the situation in different locations.
- We are pursuing the development of a European strategy for integration of Roma people, following the 2004 EU enlargement, working on concrete ways to ensure that Roma people in the EU are able to live as full citizens.
- We will present an integration charter for citizenship, defining core fundamental rights and responsibilities for all to share.

The future

This year is an opportunity for us to continue our drive for a Europe of tolerance. We need to use it to renew our energy, refocus our aim and push forward to overcome the hatred, mistrust and division between communities spread by our opponents.

The goal of an integrated Europe in which people from different cultures live together in peace and harmony is an honourable one, and one that we as social democrats are proud to set for ourselves.



"Do you like the EU?" - The pollsters' puzzling conclusions



Eurobarometer's findings when measuring opinion in the EU can produce misleading results, warns **Helen Szamuely** of the UK's Bruges Group think-tank. She traces the confusions in public opinion between "European values" and the EU itself

Eurobarometer is the instrument that supposedly measures public opinion across the European Union. Yet there is a lack of agreement – of synchronicity – between opinion in most member states and the results produced by Eurobarometer. Do people give answers to independent pollsters that differ from their responses to interviewers from Eurobarometer? Do they perhaps think differently when confronted with questions that pre-suppose European integration is inevitable and, in one way or another desirable?

Eurobarometer's results sometimes appear odd, especially in the way they are their interpreted when reported in the media. In a Chinese news agency report on a Eurobarometer survey last year it was claimed that "more than 62% of the public in the old 15 member states are interested in scientific research, compared with only 38% in those member states that joined the bloc in 2004 and after." Although this might appear to show that "Old Europe" is the more scientifically-minded, a careful look at

the details of the survey shows that science is apparently of interest throughout the EU. The people of "New Europe" – the post-communist countries that joined the EU recently – are interested in what one might call hard science, to do with technology and space; those of "Old Europe" concentrate on the more life-style sciences, medicine, environment and energy, that also happen to be those more covered by the media.

In another report on the same survey, this time on the European Commission's Europa website, different figures have been selected: "According to Eurobarometer, some 57% of Europeans claim to be interested in scientific research. Interest is particularly high (over 70% of citizens interested) in the Nordic and Benelux countries plus France, while at the other end of the scale three-quarters of Bulgarians claim to have little or no interest in the subject." Those questioned also showed themselves to be largely (56%) satisfied with the science they read in the media, while most scientists were horrified by the way the media, especially TV, turned

their researches and discussions into black and white issues.

But being satisfied with the way the media presents scientific work does not mean being genuinely interested in science, only that those questioned were content with accepting what TV programmes choose to tell them on the subject – a most unscientific attitude. We can see from just one example that it is very hard to come to any conclusion about people's opinions on the basis of Eurobarometer or, probably, any other opinion poll responses.

With this uncertainty about the reliability of people's responses, what is there to say about the value of Eurobarometer's efforts? By the early years of this century even Eurobarometer was reflecting a disenchantment with what might be termed "the European project". That is to say, the European Union. The Laeken Declaration of 2001 was the EU's response. It was argued on the basis of national opinion polls, of Eurobarometer and of views expressed in various parts of the media that the people of Europe had become dissatisfied with the way the EU was developing. It seemed that integration was moving too fast for most people, who had not fully realised that the end aim was a single European state with an integrated political and economic structure. The Laeken Declaration led to the setting-up of the European Convention, whose solution, as we know, was a constitution for Europe, which fell at the first hurdles of popular opinion – referendums in France and the Netherlands. The EU's subsequent pronouncements on the need to listen and engage in dialogue did not much change the situation.

By the time Germany took over the rotating presidency of the EU in the first half of 2007, it had become a more or less established fact that the EU and the integration process was not popular across Europe. For the celebration of the 50th anniversary of the Treaty of Rome, the German presidency issued a paper on communicating European values, which it was assumed would achieve the Holy Grail that had eluded Europe's rulers since the late 1990s: to "re-connect" the people with what is sometimes described as "Europe" but is actually the European Union, a political construct that is not much understood and, it would appear, liked even less.

Confronted with signs of the EU's declining popularity, Germany's chancellor Angela Merkel stressed the need for finding a "new rationale to the historical reasons for the foundation of the European Union" as early as May 2006. She argued that the narrative of Europe as a "community of pacific interests", once the central reference point for legitimising European integration, had lost its appeal. Even if the unification of the European continent, which was almost completed with the Union's fifth and biggest enlargement round in 2004/2007, was a great historical achievement after the disastrous experience of two World Wars, this pattern of justification was not sufficient any more to ensure popular support for the Union.

As Merkel acknowledged, a new narrative had to be found that could clearly be attributed to the EU. The chancellor's approach has been two-fold: on the one hand, the Union's output was to be strengthened to benefit its citizens materially. On the other, the Union should be developed towards a "community

of values". Merkel referred to such inclusive and universal values laid down in the Union's treaties such as peace, freedom, democracy and human rights.

Merkel's strategy during Germany's EU presidency was not to talk too much about the Union and where it was heading, but about European values, and to focus the Eurobarometer on those. To some extent this has been successful. When asked, people make it clear that they think highly of "European values", even though these values seem to be rather randomly chosen from Europe's complicated history.

Eurobarometer reported as follows: "When asked about the most important personal values, Europeans mention peace (52%), respect for human life (43%) and human rights (41%). With regard to the European Union, human rights (38%), democracy (38%) and peace (36%) as most important values are mentioned (see Eurobarometer 66). At a first glance, the answers seem to indicate a high support for the values communicated by the German presidency. However, the question has to be raised why, despite an obvious support for the general European principles, an alarming alienation between the Union and its citizens can be observed."

The most obvious answer to this question is that people might not be quite as stupid as politicians sometimes seem to think. Even if one accepts that these values are entirely European, and are indeed the only European ones worth considering, there is no particular reason why the European Union should be seen as in any way linked to them. The seeming popularity of the European project in various Eurobarometer

studies has really shown the popularity of certain concepts. Just as people have said that they are interested in science when really they like to watch TV programmes about the environment, so they have in the past implied that they supported further extension of EU powers and European integration because they feel positively about peace and respect for human life and human rights. It does not necessarily mean that they agree with the EU being the only purveyor of these shibboleths, or that they consider that further European integration is needed for human rights to be safeguarded in European countries.

Can this dichotomy be breached? There does not seem to be a solution at the moment. Political leaders have reproduced almost exactly the old, rejected constitution and re-named it the Lisbon Treaty, having first called it the Reform Treaty. And they have explained, as if to a group of backward children, that as it is now called something else, there will be no referendums on it. This is likely to increase popular alienation from the European project, though that may not show up strongly in Eurobarometer surveys.

European politicians appear to hope that by abandoning much of the discussion about the European Union as such, and instead concentrating on "European values", people will, when asked by Eurobarometer, keep on saying they approve of them. And that they will somehow perceive a connection between such notions as peace and human rights and the European Union. □

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OPEN TO CHANGE

By Jean-Paul Bailly, CEO of the La Poste Group

The French postal services market will be completely opened up to competition on 1st January 2011. After several years preparing for the change inherent to this new situation, La Poste launched a new strategic plan at the beginning of 2008 called Performance et Confiance to make the most of this historic turning point and to build a pre-eminent position for itself in the European postal market of the future. Jean-Paul Bailly, President of the La Poste Group, explains the ins and outs

Its size – €88 billion, 1.7 million employees and about 1% of the European Union's gross national product - and also the nature of what it does, ensuring the efficiency and fluidity of "physical" correspondence across the country, make the postal sector a major challenge in terms of integrating the European market.

The political will to create a Single Market for postal services at the beginning of the 1990s and the emergence and growth of e-commerce led to discussions targeting the reform of this key sector by opening the state monopolies to competition in the same way as changes have been made to the energy and telecommunications markets. Two directives in 1997 and 2002 led to the progressive liberalisation of the mail market whilst giving incumbent operators a reserved area: the distribution of letters weighing less than 50 grams – or about 60% of overall income in the sector. The justification for this "reserved area" is to finance the universal service that guarantees postal collection and distribution services five days a week at fair prices and meeting high levels of quality. In France, this extends to a sixth day and covers domestic

and international letters or magazines that weigh less than 2kg, and registered or declared value letters and parcels at less than 20kg. La Poste's remit goes beyond this as it includes an obligation to distribute magazines and a regional development role relayed by a network of 17,000 points of contact and the proximity of 90,000 postal distribution staff.

A game with new rules

In October 2006, Charlie McCreevy, the European Commissioner responsible for the single market presented a draft of a third directive aimed at completing the process by abolishing the principle of the reserved area. Initially programmed for 2009, the total opening of the sector to competition was put back to 2011(*). The objective was unanimously agreed, but the speed of this transformation worries certain members of the union, particularly Spain, Belgium, Italy, Greece, Poland, Hungary... and France that is looking to subordinate this change to a set of clear and fair rules on the financing of said universal service and also on competition. Until now, only the mail distribution monopoly has enabled the operating losses generated

by less profitable services to be compensated; if this reserved area disappeared at the same time as the universal service obligation continued to be imposed on the historical operator, we can see how this would quickly cause problems. The European Parliament and Council therefore strengthened the initial proposal from the European Commission enabling member states to continue to provide the universal service either through subsidies or subjecting access to the national market to a contribution to a compensation fund. In addition and beyond the commercial challenge, total opening also has an important social dimension. To preserve the quality of employment within the postal sector, the third directive says that labour rights applicable in member states will not be impacted by its implementation. In this perspective, La Poste is actively arguing for the creation of a collective agreement specific to postal services.

Management means planning

La Poste has not waited for the third directive to be adopted before making the inevitable changes. Opting for a resolutely offensive strategy, it first started completely overhauling its production system. Between 2003 and 2010, €3.4 billion, entirely self-financed, will have been invested in this modernisation making the Mail Quality Project, the largest industrial programme in the history of La Poste. New industrial platforms and the latest generation sorting machines have been introduced, buildings have been constructed and renovated, fleets of vehicles have been upgraded and Poste Relais outlets have been opened in rural areas. At the same time, infrastructures to deal with competition have been announced, La Poste has also diversified its services for the entire Mail channel, strengthened its total quality policy, successfully created La Banque Postale and

modernised its financial centres. La Poste is therefore ready for the opening up to competition. If we accept countries that have already liberalised the postal sectors (Sweden, Finland, United Kingdom and, this year, Germany and the Netherlands), the French market is one of the most open in the Union. The electronic communications and postal services regulatory authority (Arcep) has already granted licences to about 15 European operators and in 2006, 46% of Mail turnover was made in competitive markets.

La Poste: Challenger in the European Landscape

Having strengthened its production tool and stabilised quality of service, La Poste is justified in displaying its ambition to become leader in innovative services and position itself alongside its two main competitors, Deutsche Post in Germany and TNT in the Netherlands. This is the main objective of the Performance et Confiance plan covering the period up to 2012. In the meantime, La Poste has already started its transformation and is on a virtuous curve as shown by the Group results in 2007 posting good financial health.

Indeed, in 2007, La Poste made profits of €943 million; its 6.2% operating margin was greater than Deutsche Post, considered as the "model" in the sector.

La Poste's four businesses have participated in the improvement of performances. Mail, despite the development of the Internet, is resisting well. But faced with a falling volume of traffic engendered by the opening of the market, it must be given a boost particularly by developing multi-channel accessibility to mail in all its forms, finding long-term growth relays through the Internet, new writing technologies and remedying the recurrent losses linked to

SPONSORED SECTION

the distribution of magazines and newspapers under conditions governed by public service obligations.

Colis-Express, already solid on a European level (800 million objects processed and €4.5 billion turnover in 2007), must now reach for the world stage through GeoPost – the recent agreement reached with KLM is an important stage – and strengthen ColiPoste's leading position in the domestic market.

La Banque Postale must continue its organic development whilst improving its productivity; it will have to face competition from banks in the distribution of the Livret A passbook savings accounts, but will be able to count on the diversification of its offer – consumer loans before the end of 2009, general (**) insurance as soon as possible – and the solidity of its partnerships. The aim is to reach 10 million "main bank" customers in 2010 and €1 billion operating profit in 2012.

Finally the 17,000 post offices that are La Poste's life blood and give it its national network will do everything to provide these three businesses with the conditions enabling them to meet their respective objectives. It will be necessary to focus the company on customer service and customer satisfaction - particularly the never-ending fight against counter waiting times.

Finally, we should not also forget that if the French market is about to open up to competing operators, other European Union countries are preparing to do the same. This reciprocity opens up possibilities for prospecting and potential for sales development that should at least compensate for the loss in market share that will automatically come from the abolition of the monopoly.

Responsible conquest

Performance leads to trust, which stimulates performance in return and so on. The virtuous circle governs this ambitious plan that is part of a spirit of responsible development. Societal and environmental challenges weigh heavily in this fundamental commitment. The diversity policy in terms of recruitment and accessibility for products, services and premises must continue to make La Poste both a mirror of and a reference in society. At the same time, La Poste wants to remain a committed player in regional development maintaining its 17,000 points of contact. The size of its carbon footprint (1,244 tonnes generated every year by all its activities and equipment) and its natural involvement in the promotion of paper media mean it must deploy a genuine environmental policy. By 2012, with office renovations, the acquisition of clean vehicles, awareness campaigns and the adoption of reliable and auditable indicators, the Group will have reduced its greenhouse gases by at least 12%. In addition, promoting the responsible use of paper in-house and with customers and partners, at least 80% of the paper it uses will be recycled or from sustainably-developed forests. A competitive advantage that brings tangible economic results and motivates staff, sustainable development is a major lever for anyone intending to simultaneously grow performance and trust.

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(*) 2013 for certain Member States and Greece and Luxembourg due to their specific nature. Sweden, Finland and the United Kingdom have liberalised their domestic markets early and Germany and the Netherlands are planning to do so in 2008.

(**) Fire, accidents and miscellaneous risks

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Make the western Balkans the EU's next prize



Kosovo's declaration of its independence makes the disintegration of Yugoslavia complete. **Doris Pack** looks at the prospects for its successor states, some of which have already taken the road to EU membership with others hoping to. She wants them all to join the European family as soon as possible

Kosovo is the latest, and no doubt the last state in the western Balkans to declare itself independent, and anybody who followed developments there between the fall of the Berlin Wall in 1989 and NATO's intervention in 1999 will doubtless agree that it was inevitable. With Kosovo's breakaway from Serbia the last piece of the post-communist, post-Yugoslavic puzzle has been put into place. The status quo of Kosovo was no longer manageable, and further delay could only worsen matters. The best way of ensuring regional peace and stability, while also lifting Kosovo out of its eight-year limbo – with an exhausted UN administration, an undeveloped, low-growth economy and crippling unemployment rate – was to break the stalemate. After the international community's missed opportunity to clarify the issue of Kosovo's status after the Milosevic genocide,

we have now closed the last chapter of Yugoslavia's dismemberment and can look forward to seeing how this small country will take its fate into its own hands.

We would all, of course, have wished that Pristina and Belgrade could have found a

The best way of ensuring regional peace and stability, while also lifting Kosovo out of its eight-year limbo was to break the stalemate

compromise solution on the status issue. The EU turned every stone in the negotiation between both parties, but unfortunately without result. It had to take a decision and start to orchestrate a peaceful transition culminating into the most sustainable solution for Kosovo and the region: the supervised independence as predicted in the plan drawn up by Marti Ahtisaari, the

UN's special envoy to Kosovo.

Kosovo has a weak justice system and the EU will work with local judges and

prosecutors, the police and other partners to establish a demonstrably independent and multi-ethnic system that respects the human rights of all communities. On February 16 an EU-led international justice mission was launched. It has two elements: one, called EULEX, concerned with the rule of law (justice, police, customs) and which will oversee the reform of the criminal justice system; and the other to oversee the implementation of the Ahtisaari plan. Ahtisaari offers a recipe for the creation of a multi-ethnic and decentralised society, which perfectly suits the EU's multi-ethnic project for the western Balkans. It offers the Kosovo Serbs extensive rights, and privileged relations with Serbia, and Serbia the chance to accept that its future is not in Kosovo, but together with Kosovo in the European family.

Once the EU mission takes over the mandate from the UNMIK administration by the end of a four-month transit period, it aims to help the Kosovo's authorities in the running of the state, rather than running it for them. But over war crimes and other serious crimes the mission will take responsibility for any prosecution and will have the last word. It is of great importance that, from the start, EULEX, the rule of law mission, should gain the trust and cooperation of all the communities, including the Kosovo Serbs.

A partition of Kosovo along the Ibar river, envisaged by some nationalist Serb politicians, is unacceptable. It would not be beneficial for the future of Kosovo, nor for the future of Kosovo Serbs, some 50,000 of whom live in the north, with around 80,000 living elsewhere in the country. The

COMMENTARY

By Eric Bonse

Until the EU has a common Balkans policy, the US will call the shots there

Now the decision on Kosovo's independence has been taken, it's easy to claim, as Doris Pack does, that it was inevitable. But there are always alternative ways of dealing with political problems, especially in the Balkans. The EU was not obliged to abandon its original "standards before status" approach, which had meant that Kosovo must meet international standards on human rights and the rule of law before the question of its status could be dealt with. The European Union never explained why they finally dropped this consensual approach, even though it was fully in line with the EU's own principles, nor why it suddenly decided to turn to the thorny question of Kosovo's independence.

The EU also failed to explain why independence was the only solution to the status question. After the final round of bi-lateral talks between Serbia and Kosovo ended in December 2007, not one but two options were on the table: either independence or the substantial autonomy Serbia proposed. Surprisingly, the autonomy option was dropped without further debate, although it was an option fitted much better with UN resolution 1244 than did a unilateral declaration of independence. Instead, the EU decided to bypass the UN Security Council, and so created a dangerous precedent by encouraging Kosovo in the direction of unilateral independence.

partition of Kosovo into Serb and Albanian entities would harm the regional stability and endanger multi-ethnicity in neighbouring countries.

Parallel to the mission's assistance to Kosovo it should also pay special attention to political and social developments in its biggest neighbour, Serbia. I deeply regret the polarisation of Serb political parties over European integration. I hope that all the political parties will soon realise that only through cooperation and constructive political dialogue between them, and with the EU, they will overcome their differences and achieve the economic and social standards they have promised the people of Serbia. In the parliamentary elections in May Serbian citizens will have to choose between a European future or the risk of self-imposed isolation, which does not lead anywhere.

The relationship between Serbia and the EU should not depend on the EU's position over Kosovo. I hope that the political powers in Serbia will soon accept that the Kosovo issue belongs to the past and it should not prevent Serbia from developing its relations with the EU. The Union has not changed its policy towards Belgrade and wants to see both Serbia and Kosovo as its full members. This is in the interest of all the Serbian people, especially the generations that will eventually run the country. The EU hopes to sign a Stabilisation and Association Agreement (SAA) with Serbia as soon as possible.

With all eyes on Kosovo and Serbia we should not forget that challenges lie ahead in their neighbouring countries. After the tragic events of the past decade the western Balkans are in need of major political, economic and social reforms. The EU offers the region guaranteed progress and democratisation. It stands for tolerance, human rights, the acceptance of cultural diversity and offers security, prosperity, rule of law and economic development for its member states. The EU has several times assured the states of the western Balkans of its willingness to move forward in the pre-accession process. The EU's relationship to them is shifting more and more from that of teacher-student towards an equal partnership. But big challenges still lie ahead in the areas of rule of law, good governance, judicial and administrative reforms

The Union has not changed its policy towards Belgrade and wants to see both Serbia and Kosovo as its full members

Education is particularly important in the countries of the region with their very young populations. Without good education it would not be possible to overcome the difficulties of the past, reach reconciliation among peoples of different entities and create sustainable growth. Among other moves, the EU is willing to increase the number of scholarships for students in Erasmus, the programme to increase the quality of higher education in Europe, and to increase the activities of the European Commission's Youth in Action programme.

The EU is talking to the region's countries about moves to end visas. Discussions

started with Serbia in January and with Macedonia in February, with Albania and Bosnia to follow soon. I consider a visa-free regime for the western Balkans, ending a restriction on travel to the rest of Europe, of paramount importance, particularly for young people, the driving force in society, who will one day lead their countries.

The EU is the biggest donor and trade partner in the region but more investment is needed. The region's countries have high unemployment, contributing to organised crime and human trafficking, illegal migration to EU countries and general insecurity in the region itself. More needs to be done to promote tourism, to develop the energy sector, to extend infrastructure and improve transportation.

Good neighbourly relations and regional cooperation are essential for countries seeking to join the European family. The EU welcomes the achievements of the region's Stability Pact, and its successor the Regional Co-operation Council. Personally, I think that the EU needs to speed up its plans to bring all western Balkans states into the family, although obviously membership depends on a country's performance in various areas. Croatia, a promising candidate for accession, could motivate other states in the western Balkans to meet the political, judicial and economic conditions for joining the EU. The EU granted Macedonia candidate status in December 2005 and it is hoped that accession negotiations will be opened in the near future. Albania has maintained a balanced position on the Kosovo issue, contributing to regional stability. The EU has noted an improvement in Albania's economy and that judicial and

There is, of course, an explanation for all these shortcomings: As is so often the case in foreign policy matters, it was not the EU but the United States that paved the way when it decided that Kosovo should be granted independence. The Americans had in fact taken this decision soon after the Kosovo war of 1999. And although the Europeans were at first reluctant, they finally followed. Comme d'habitude, Britain was the first EU country to align itself with the American decision, and in 2007, after some hesitation, Germany, France and Italy went along too. The so-called "Quintet" the US, Germany, France, the UK and Italy – a new "transatlantic" format especially created for the occasion – successfully put pressure on the Slovenian EU presidency to take the same view.

Kosovo thus proclaimed independence on February 17 of this year. But several EU countries, including Spain and Cyprus, still refuse to recognise the new state. Others, notably Belgium and the Netherlands, are still reserving their positions. After its long years of careful negotiation, this lack of full agreement is one of the biggest setbacks the EU's Common Foreign and Security Policy (CFSP) has suffered. The Union has disintegrated into incompatible groups in its dealings with Serbia and Kosovo, with the latter now a de facto EU protectorate. Nobody knows how to put the pieces together, and even the "Quintet" is helpless.

Instead of dealing with the relatively small problem of Kosovo, the EU now has to deal with the much bigger and thornier problem of Serbia. And even for Kosovo, the outlook is far from bright. Because of the unrelenting opposition of Serbia and Russia, the new state will not be able to join international organisations like the United Nations or the IMF. It will be largely

“BUSINESS SHOULD REALISE THAT NEW SUSTAINABILITY CRITERIA MAY PLEASE BOTH THEIR CUSTOMERS AND SHAREHOLDERS”

Graham Watson MEP, leader of the Alliance of Liberals and Democrats for Europe Group



Is business doing enough to tackle climate change?

Probably not. Businesses have many priorities to juggle, including those of shareholders, employees and ambitious chief executives

for whom profits are paramount. Environmental obligations are often perceived as a burden. Smarter businesses have realised that they cannot prevent governments legislating to reduce carbon emissions so many are now actively participating in the legislative process to adapt our society to the new challenges. However their aim is still to try and slow down or reduce the environmental ambitions of policy makers. This is the case for airlines, car manufacturers and energy suppliers alike. Some have fair points, related to lead-in times for new technologies, while others are genuinely concerned about becoming less competitive compared to their business rivals. What they are all missing is the opportunity to gain a competitive advantage through new sustainability criteria which may also end up pleasing their customers, their shareholders and their CEOs.

Should the EU be so concerned about the loss of manufacturing jobs to other parts of the world such as India and China?

Any job losses are a cause for concern and we should not take the matter lightly. However we also have to realise that we now live in a global economic village where technology and transport allow businesses to operate not just across counties or countries but across continents. The answer is not to close our doors

or prevent our industries from taking whatever business decisions they deem fit, but to make our own business environment as attractive as possible and invest more in new, emerging technologies. We must maintain our open trade policy. Otherwise we risk protectionism and introspection dragging our economy down. We should focus on protecting workers from the negative effects of globalisation but we cannot always protect the jobs themselves. Our workforce must adapt if we are to survive and grow as an economy. Otherwise we would still be operating Victorian style coal mines and textile mills instead of biotech and IT businesses.

What are your hopes and fears for France's presidency?

The French administration has been working hard preparing for its presidency of the EU in the second half of this year. Although French President Nicholas Sarkozy initially appeared to upstage his Slovenian colleagues by announcing his priorities for the presidency in January, on the same day as Slovenia was presenting its own, announcements from the Elysée have since dropped off. The French President has had his fingers burned on a couple of big issues - the Mediterranean Union and an EU military planning HQ, but has realised now that he needs to build policy by consensus rather than diktat. There are some big issues for him to complete during his presidency, not least getting political agreement on the climate change package and on reform of telecoms regulations. Meanwhile he must oversee the EU's response to the credit crunch and global financial turmoil which are beginning to hit the real economy. He should also launch a serious debate on the reform of EU's budget priorities and the Common Agricultural Policy.

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electoral reforms are expected soon, with the fight continuing against corruption and organised crime. The progress achieved by Montenegro since its independence in June 2006 has resulted in the signing of an SAA with the EU. Bosnia and Herzegovina will each get an SAA when their political leaders agree on police reform.

The future of all the countries in the western Balkans lies in the European family and accompanying them towards the path of the European integration will remain the EU's long term commitment. Without the western Balkans on board Europe will never be complete. □

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COMMENTARY

Eric Bonse

dependent on EU aid, and in the meantime nobody knows if the new entity is really viable, or if it is going to be a "failed state" whose economy will go on being largely based on corruption and organised crime.

The famous "European perspective" of EU membership for Serbia and Kosovo won't be of much help in dealing with this mess. A majority of Serbs of course want to join the EU, as Doris Pack points out. But she seems to forget that there isn't a majority that would be willing to abandon Serbia's claims on Kosovo in exchange for EU membership. Serbia is thus split, just as the EU is itself divided. And for as long as the 27 EU member states are not in full agreement, neither Serbia nor Kosovo can be invited to open membership discussions.

As a journalist covering EU affairs, I have long been impressed by the Union's progressive enlargements and by neighbourhood policies that have expanded its influence into North Africa and the Caucasus. The famous "soft power" of the EU even works when dealing with countries as problematic as Turkey or Ukraine. But when it comes to the Balkans, "soft power" just isn't enough. Until Europe can work out a coherent strategy for dealing with the problems not just of Serbia and Kosovo but also other critical issues in Albania, Bosnia and Macedonia, it will always be hampered by its own internal contradictions. And so long as Europe fails to speak with a single voice, it will never become a global player. The EU will instead remain dependant on decisions taken in Washington. □

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Policing Kosovo: The challenges awaiting EULEX



Bringing the rule of law to Kosovo's entrenched crime culture isn't going to be easy, warns **Elizabeth Pond**. But she believes the EU's peacekeepers have advantages that were denied its predecessor the "unloved UNMIK"

The European Union's efforts to ensure Serb minority rights in Kosovo, the world's newest state, have already made headlines, but they may well be the easiest of the jobs confronting the most ambitious peacekeeping operation the EU has ever mounted. The EULEX rule-of-law mission has a pioneering role in the new field of post-conflict executive policing, and its toughest assignment will be to shrink the power of organised crime there.

Ethnic violence since Kosovo's independence has so far been minimal. In mid-March a confrontation at the courthouse in Serb-majority northern Mitrovica saw one Ukrainian police officer die and 64 internationals and half as many protestors injured in the mêlée. Serb rioters fired automatic weapons and threw 20 to 30 assault grenades at international police and NATO/KFOR peacekeepers. They did not, however, attack Kosovar Albanians.

Serb-Albanian clashes have been isolated and have not produced casualties. And

significantly, that single major confrontation in northern Mitrovica was, according to Serbian Defense Minister Dragan Sutanovac, not initiated by Kosovars, but was orchestrated by Serbia's Prime Minister Vojislav Kostunica without the knowledge of the full cabinet. International observers in Pristina interpreted the incident as a provocation by the Serbian security services, which have run "parallel structures" among Serbs from ten safehouses in Kosovo ever since massive Serbian ethnic cleansing of Kosovar Albanians triggered NATO's intervention in 1999 and the province's subsequent governance by the United Nations Mission in Kosovo (UNMIK). Apparently, the aim was to goad the Albanians to overreact on the pattern of anti-Serb riots in 2004 that left 20 dead, more than 900 injured, 4100 Serbs and Roma homeless, and 36 Serb churches and monasteries desecrated.

This time around, the disciplined Kosovar Albanians did not respond in kind. No mobs attacked the concentration of Serbs in northern Mitrovica, or ageing Serb farmers in

the vulnerable enclaves in Kosovo's south. "We will not provoke, and we will not be provoked," declared Bajram Rexhepi, Mitrovica's mayor, in an interview. He said the Albanians will respect scrupulously all the guarantees of minority rights and positive discrimination that had been enshrined in the Ahtisaari plan for "supervised independence" proposed in March 2007 by the UN's Special Envoy, former Finnish president Martti Ahtisaari. Now, having won that independence after close to a century of heavy-handed Serbian rule, Rexhepi is among those Kosovar Albanians who point out that they can afford to be generous in implementing what is widely regarded as the most far-reaching legal protection of minority rights in Europe.

Bujar Bukoshi, a member of parliament who in the 1990s collected taxes for the Kosovar independence movement from the large Albanian diaspora in western Europe, agrees. He notes that the Albanians "had to sacrifice a lot" in endorsing the Ahtisaari de-centralisation that gives new Serb-majority municipalities extensive self-rule; he points to "fantastic privileges" for Serbs, including toleration of direct ties between Belgrade and Kosovar Serbs, and emphasises the restrictions placed on Kosovo's sovereignty by its conditional independence. But in the long term, he adds, Kosovo must anyway meet the same standards for the treatment of minorities and other legal norms if it is to realise its dream of EU membership. "Kosovo must be nurtured to become a normal state with the rule of law. That is the alpha and omega," he asserts.

Pristina needs to demonstrate good behaviour to win formal recognition of Kosovar independence by those states that are hesitating

The real enforcer of Albanian civility towards the long-feared Serbs will probably be self-interest rather than any EU oversight. The new state has every incentive to be magnanimous toward the Serb, Roma and other ethnicities that make up perhaps 10% of the 2.4m population. Pristina needs to demonstrate good behaviour to win formal recognition of Kosovar independence by those states that are hesitating until they see deeds that match the words of Kosovo's behaviour toward its minorities. The government also wants to persuade Kosovar Serbs that they have a much brighter future as citizens of Kosovo than as pawns of Belgrade's politics. There is already a harbinger of the shift towards their acceptance of this in

the voice of Rada Trajkovic, an obstreperous nationalist member of the Kosovo Assembly in the old days before Belgrade ordered all Serbs to boycott Kosovar elections. Now she has begun criticising Belgrade politicians for not caring about the well-being of Serbs in Kosovo, saying they are just using them for their own purposes.

The second task facing EULEX when supervising Kosovo's independence is executive policing and mentoring, and it will require far more innovation than will prevention of communal violence. This reflects the newness of post-conflict executive policing, and of carrying out criminal investigations, arrests, and enforcement by international police who are not only advisers but also "executors" empowered to act in their own right. So far, executive policing has only been practiced

on a significant scale in two places, Kosovo and East Timor.

In the post-Cold-War world, the western international community that began intervening in failed or failing states was slow to realise both the crucial importance of the rule of law in establishing or re-establishing order, and the specific deterrents needed to follow up with effective police patrolling on the streets

the military defeat of local bullies like Serbia's Slobodan Milosevic. When UNMIK failed to set up a full complement of international police for almost a year after NATO had forced Serbian security forces out of Kosovo, rival gangs – often spun off from units of the Kosovo Liberation Army – exploited the lawless interim to extort Serbs and Albanians alike. Some segments of the competing patronage networks morphed into political parties

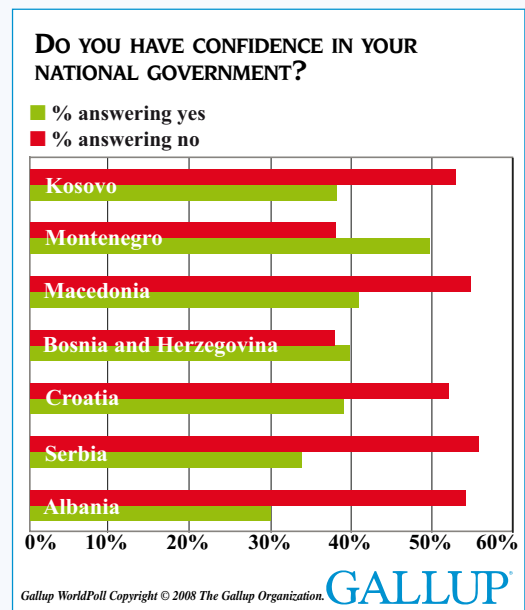
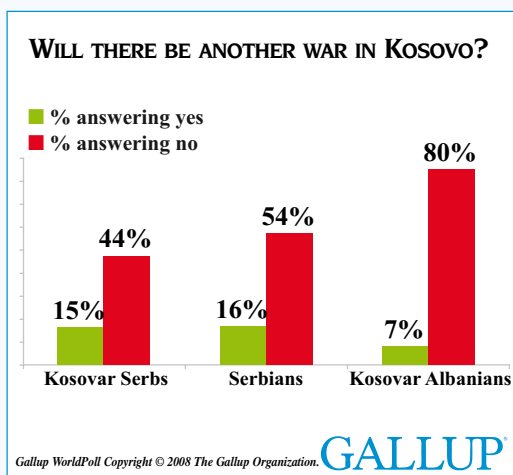
MATTERS OF OPINION

What Serbs feared about Kosovo's independence

A year before Kosovo's independence, Serbs – from Kosovo and Serbia - predicted that a declaration of independence would destabilise the region. A smaller proportion – under one in five Serbs – thought that it might lead to war.

When asked in an early 2007 Gallup poll whether they thought that there would be another war in Kosovo, 16% of Serbs and 15% of Kosovar Serbs replied that they believed there would be, with 54% and 44%, respectively, disagreeing. More than 30% said they didn't know. Only 7% of Kosovar Albanians were of the same opinion, while eight in 10 did not think there would be war.

Levels of confidence in national government remain low across the Balkan region. The exceptions were Montenegro, and Bosnia and Herzegovina, the only countries where more people express confidence in their government than not. In both Kosovo and Serbia, levels of confidence in the national government were below 40%, whereas more than half of the population in each country said they did not have confidence in their political leaders. This majority-held view was echoed in Albania, Croatia and Macedonia.



with ruthless intelligence branches. Other segments, according to European intelligence reports, turned to lucrative drugs trafficking, muscled out the Turkish and Kurdish gangs that had previously dominated the trade from Asia to Europe, and developed highly effective mechanisms for international cooperation with Serb and Macedonian gangs to control the trans-shipment of most of the heroin that enters the EU.

When they finally arrived on the scene, the UNMIK police, and especially the international prosecutors and judges, tended to operate on their own. Without bringing their Kosovar counterparts in as partners, they reserved to themselves the pursuit of organised crime and other "serious crime", including inter-ethnic etc. While inheriting the

UNMIK executive powers, the EULEX team will by contrast aim for a partnership that will gradually prepare Kosovo's law-enforcement officials to handle such sensitive cases on their own and reduce the internationals' role to monitoring implementation of the Ahtisaari minority guarantees. "That is our exit strategy," jokes EULEX spokesman Victor Reuter, making it clear that EULEX does not wish to hang around as long as did the unloved UNMIK, but wants to devolve operational responsibility as fast as possible.

Under this approach, EULEX will increase the number of international judges to more than 30 and international prosecutors to 18, and co-locate them in the offices of counterparts in the regions as well as in Pristina. In close collaboration, EULEX and US Justice Department representatives will also set up a new Kosovo Special Prosecutors Office to handle organised crime cases. For the first time since 1999 there will also be systematic vetting – "reappointment" is the official term – of the professional competence of jurists, including those who came out of the old Yugoslav system or were in the 1990s denied access to education by their Serbian masters.

In addition, the accountability of judges will be enhanced both by bringing them into hybrid decision panels with international judges in cases of serious crime and by making a single system of the five district courts so that cases cannot be shunted arbitrarily from one court to another by influential defendants in search of malleable justice.

When it comes to ordinary policing, EULEX will build on what is widely deemed a success

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of the pre-independence international team in setting up the Kosovo police school in Vushtrri. The Kosovo Centre for Public Safety, Education and Development has already graduated more than 8,100 Albanian and Serb policemen and women, and inculcated in them both an esprit de corps and the novel idea that police, far from being the traditional local enforcers of a powerful ruler, should act as the protectors and servants of their communities. In their public outreach, policemen regularly distribute explanatory leaflets and take their dogs to schools to give demonstrations of typical arrests. On weekends, the Kosovo Police Service school opens its modern sports hall to local children, and its officers already rank high in opinion polls about trust in institutions. All the signs suggest that the Kosovar public no longer expects to be solicited by police for bribes.

EULEX's Victor Reuter emphasises that tackling organised crime "is absolutely a priority." For organised crime is now deeply entrenched in Kosovo, partly because of the absence of police on the beat in UNMIK's first year, and partly because poverty and soaring unemployment among this youngest population in Europe offer few livelihoods other than crime. Another factor is the Robin Hood aura that gun-runners and other smugglers gained under autocratic Serbia rule. Disconcertingly, when asked what they want to do when they grow up, quite a few boys say they want to become mafia bosses.

Dismantling this entrenched power of crime networks is a Herculean task far beyond the capacities of the limited and frequently rotating EULEX personnel of about 1,800. No one says it in so many words, but a policy choice appears to have been made not to use scarce international manpower to pursue showcase verdicts against high-profile crime bosses as a warning to others because of the possible risk of destabilisation if criminal investigations reach too high into existing political and business elites. Instead, it seems, the more modest tactic will be to rely on economic growth, social evolution and increasing transparency and accountability to constrict the space for major crime through gradual maturing processes.

No one says it but a policy choice appears to have been made not to pursue showcase verdicts against high-profile crime bosses. Instead, the more modest tactic will be to rely on economic growth, social evolution transparency and accountability

The hope is that – as has happened in Montenegro, Slovenia and elsewhere in the Balkans – electoral legitimacy and elevation to the European stage will let new leaders distance themselves progressively from shadowy business operations. In this atmosphere, some still call the whole EULEX experiment a mission impossible. Others remain ready to break their lances for this test of the EU's Common Foreign and Security Policy. □

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Sharing a vision of "the new Europe"



Former Belgian Prime Minister **Mark Eyskens** says he understands why Europe's citizens care little for the details of EU constitutional reform. But he suggests that a glimpse of the future is essential to understanding today's choices

A good many Europeans are nowadays disillusioned with the EU, and especially with all the fuss their leaders have been making about the Lisbon treaty. Europe's citizens prefer solutions to constitutions and treaties; they didn't much care about the contents of a European constitution, nor do they about the new treaty. Their concerns are about very specific issues like the shifting of traditional industries elsewhere, unemployment, law and order, problems associated with an ageing society, Europe's shrinking populations and social security contributions and income tax they judge to be too high.

Yet, treaties do have a role to play, and especially this one. The Lisbon treaty that is now in the process of being ratified is an essential instrument for improving the efficiency of European decision-making. But that's the sort of efficiency that preoccupies eurocrats, not the EU's 500m citizens. Nevertheless, the enormous political and socio-economic challenges that now

face the EU mean that it would be totally irresponsible for European leaders to take a wait-and-see attitude and simply allow the treaty to "hibernate", because it in fact addresses a host of major shortcomings. It simplifies the voting system in the Council of Ministers and the European Parliament, it reinforces subsidiarity and the involvement of national parliaments, it reallocates responsibilities between the parliament and the council and restructures the Commission while providing for a more permanent EU presidency. But it stays short of at least one other institutional reform that would be most welcome – giving restricted powers of taxation to the European Parliament. A small levy on petrol could finance the entire European budget without, as is the case at present, having the EU budget become the focus of lengthy ministerial quarrels, and then having to wait for its approval by 27 national parliaments.

The EU's core countries these days, besides the original six founding ones,

are the 15 member states that make up the European Monetary Union. They have converging economies and coordinated monetary and fiscal policies. For the United Kingdom to become an EMU member would still be very desirable, as the UK should be at the heart of Europe. If the European Union is to progress beyond the limits of a common economic and monetary policy and develop a defence and security policy along with a common foreign policy, the UK needs to be on board. Exchange rate fluctuations between sterling and the euro disturb the market forces among member states, and at times even have a negative impact in London too. In the long run, the UK risks serious isolation if the eurozone starts to exert even greater power.

But other European countries must also understand British arguments in favour of the UK maintaining its own currency, given London's importance as an international financial centre as well as the privileged relations it has with more than 50 of its Commonwealth countries. The eurozone should therefore offer the UK an honourable compromise in which Britain would be allowed to become a full member of the EMU and take a seat in all of its institutions like the European Central Bank and the ministerial Eurogroup, while also being able to keep the pound in its relations with third countries. The euro would thus have to be accepted in the UK and in the commonwealth countries as legal tender, and this would demand close cooperation between the Bank of England and the ECB so there would be no need to resort to mechanisms like the old "snake-in-the-tunnel" for stabilising exchange rates. Such a compromise would

considerably increase the weight of EMU both inside and outside Europe.

Europe built around such a core corresponds to what I have often called "a Saturn-model", a huge planet in the middle, surrounded by rings, converging sooner or later in the centre. The outer circles are those countries that would be in transition, while the rings around the centre would be EU countries that are still refusing to join the EMU, or which do not yet fulfil all the conditions, like Romania and Bulgaria, or eventually the Balkan countries and Turkey. The Saturn model puts the present fierce debate on enlargement and the eventual borders of Europe into a totally different context, because the core countries would no longer find themselves being asked to accept a Europe divided into different classes of member state. The positioning of EU countries on the rings around the core planet would in any case be transitory, with the aim being to facilitate overall convergence.

The impact of globalisation and of competition from countries like China and India amounts to a direct challenge to the EU. Economic and social reform policies across Europe would be strengthened if the EU authorities were able to co-ordinate them. The European economy needs to become more innovative, and the enlargement of the EU together with the further development of its internal market of almost half a billion consumers can be made to act as a powerful stimulator for economic activity. The accession of Spain and Portugal was a vivid example of that in the 1980s, and it is an argument that should certainly be

looked at carefully when talking about such a populous country as Turkey.

The continent of Europe has been unifying gradually for 50 years now, and we can reasonably look forward to more and more inter-continental cooperation and integration, not least because of scientific and technological developments. At the same time, we can expect a growing Atlantic community as successive rounds of trade liberalisation make it easier to develop a free trade area between the EU and the US. Europe's own experience has taught us that a customs union has to be the first step, and that sooner or later the more intense economic cooperation that a customs union imposes will then compel the partners grouped inside it to set up an economic community that has all the characteristics of a unified internal market. But of course this can only function smoothly if exchange rate fluctuations between the currencies of its members have been eliminated. So it then becomes logical for an Atlantic Monetary Union (or AMU) to emerge between the US and the EU. Although this is very long term thinking, it is a prospect that even today should be recommended to policymakers as a grand design for the future.

After this glimpse into the future, where do Europe's leaders and their voting publics now stand? They have a choice between the Europe of the past and of the future. The Europe of the past began with the Schuman Plan that sowed the seeds of today's EU, and concluded when the Cold War came to an end. It was an era of integration that developed so strongly thanks to the heroic drive to reconcile post-war Germany

and France and establish a definitive Pax Europea. Europe's integration was also greatly helped by the threatened expansion of the Soviet Union, making Joseph Stalin an involuntary founding father of the European project.

During the Cold War years, Europe was at first touchily proud of its achievements, when compared to the alternative model being created behind the Iron Curtain. But after the implosion of communism, the situation in Europe was more or less reversed. The defensive demarcation of borders has been replaced by the removal of frontiers across Europe. General de Gaulle once spoke of a Europe stretching from the Atlantic to the Urals, but defining Europe in purely geographical terms omits other criteria of what it means to "belong" to Europe. These include the European social model and the scale of value it is based on. The whole concept of national borders also needs revisiting to take account of technological innovations that are having many crucial consequences, like the "de-territorialisation" of scientific, economic, financial and cultural developments. The EU's future enlargements should also be looked at in the light of these revolutionary changes. The vocation of Europe in the course of the 21st century is to become the lever of step-by-step inter-continental convergence and unification. Europe therefore needs to be reinvented in the light of such rapid and overwhelming change. This is what the phrase "the new Europe" really means. □

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What Europe's past can tell us of its future



Can European policymakers draw on lessons from the past to shape our thinking on the future? **Élie Barnavi**, one of the driving forces behind the "Musée de l'Europe" project in Brussels, explains why history matters

On the face of it, the question of whether history matters is banal, and so is the answer. Yes, history understood as the sum of past events matters a great deal. History made us what we are, whether we are aware of it or not (most often not, but that is immaterial). Even the idea of a revolutionary *tabula rasa* is an illusion. Alexis de Tocqueville showed in his celebrated book "The Ancien Régime and the Revolution" that revolutionary France retained many more features of the old monarchical France than people realised. What was true for France is true for any society, for any nation. And it's true for Europe.

Europe's past leads us to an inescapable conclusion: Out of a patchwork of nations and cultures, and of endless wars and conflicts of interest, history produced a single European civilisation. On the foundations laid by the Greeks and the Romans, Europe as an entity – distinct from, say, Asia, Islam or Byzantium – was born in

the Middle Ages. Of course, it was Antiquity that coined the concept; but Antiquity had other dichotomies: Greeks and Barbarians, citizens and slaves, Romans and foreigners. And when mediaeval Europe was born, the Church was its midwife.

The Church was "Roman", not only because the Papal See was located in Rome, but above all because it considered itself the rightful heir to the Roman Empire. And it was "Catholic", that is universal, because it wanted to unify the entire human race under its wing. By blending together the remnants of Greco-Roman civilisation and new socio-cultural realities, the learned men of the Church laid the foundations of a new civilisation: the civilisation of the Christian West and thus the first cultural map of Europe.

The outlines of this map emerged in the Middle Ages: A single, uniform way of worship; a network of religious orders that ignored political or "national" boundaries;

pilgrimage and trade routes with their traditional stations—places of devotion in the one case, periodic fairs in the other; feudal society and court life – the tournament, courtly love, the poetry of minstrels; and, of course, the university, perhaps the brightest expression of this unified cultural space. Paris and Bologna, Oxford and Cambridge, Heidelberg, Salamanca and Tübingen, shared the same language (Latin), the same doctrine (Aristotle’s philosophy), the same curriculum, the same methods, the same intellectual tools (formal logic based on syllogism), and the same textbooks. Professors, students, ideas and books roved from country to country, from town to town, from university to university. Faculties of Arts – our Humanities – gave generations of students a unique European general culture, a common European background of knowledge and thought.

The monk, the soldier, the merchant, the professor, the student, the pilgrim, the builder of cathedrals traced the map of European civilisation with their feet. It was then that Europe as we know it was born – in opposition to the “Roman” Empire of the East, Byzantium. Here, “Latins”, there Greeks; here Catholics, there the Orthodox Church; here a dual political reality (Pope and Emperor), there a caesaro-papism which united the temporal and the spiritual in the same hand. In other words, here the “Occident”, with all its cultural, political and ethical implications; there, the “Orient”.

The boundaries of the Occident were somewhat vague, but the meaning was quite clear: Poland, Hungary and Bohemia were in; Russia was outside. Sixty years

ago, Churchill’s “Iron Curtain” cut through these two worlds, but the first outline of a united Europe coincided more or less with the boundaries of Charlemagne’s Empire. The great crises that opened the modern Western Age – humanism, the Reformation and the Wars of Religion, the birth of the territorial state – did not affect this striking continuity. They broke the religious and political unity of the Christian West – that is, of Europe – but not its cultural unity: the cultural framework remained what it had been since the Middle Ages. The humanists of the Renaissance cast their values in that very framework, as the neo-humanists of the Enlightenment would do three centuries later. Without Thomas Aquinas, there could have been no Erasmus, without Erasmus no Voltaire. “Historical reality”, wrote 19th century Spanish philosopher José Ortega y Gasset, “taught me to recognise that the unity of Europe as a society is no ideal, but an old-established fact.”

It took a while for this “old-established fact” to become fully recognised. Two immense challenges helped: one, external, was the threat of Turkish Islam; the other, internal, was the growth of the modern state. From then on, Europe began to take the place of the decaying Christian Republic in the European’s heart and mind. For the intellectuals of the Enlightenment, Europe, European civilisation, European cultural superiority, the European unity of fate, were commonplace. A century later, Victor Hugo is believed to have coined the phrase “les États-Unis d’Europe”; from then on, through all the vicissitudes of history, the “European idea” has never left the European agenda. Those are the facts.

But history is more than the sum of past events; it is also an intellectual discipline designed to produce a reasoned interpretation of the past and its projection into the future. In that sense, the question posed by the title of this article is certainly less banal, and much more problematic. For it remains to be seen what "lessons" can be drawn from past events, and how these "lessons" are supposed to influence our decision-making process. It is no easy matter. Even if we consider that the historical facts are well known by leaders and citizens, which is of course a large assumption, two traits of the human soul greatly complicate things. One is hope, which tends to devalue others' experience, or even one's own. The other is our propensity to frame our desires and aspirations in ideological terms. In other words, the "lessons of history" are infinitely interpretable. There are, to be sure, crazy interpretations of historical facts, which distort them. But even if the facts are well established and accepted, there is certainly no single interpretation of these, let alone a clear-cut principle of action to be drawn from them. All we can say is that once the aim is defined, as always according to ideological preferences, action must be founded on sound historical facts. With this in mind, let us go back to Europe.

The founding fathers of today's Europe drew the lesson of recent history and did not repeat the tragic mistake of the 1919 Treaty of Versailles. Out of the ruins of the most terrible war ever ignited on European soil, the victors of World War II had wanted to build a new order with their former enemy – a totally new notion. They also understood that Europe was sidelined by

the two superpowers the United States and the Soviet Union, and had lost her dominant position; Europeans therefore had no choice but to unite if they wanted a say in world affairs. But they also knew that the recent and bitter past was only part of the story, the immediate context of their endeavour. They built on the layers of a long-shared past without which the immediate context would hardly have produced a united Europe.

Their making of Europe was an astonishing revolution. It had no historical precedent from which lessons could be drawn. For the first time in the history of mankind, sovereign states freely relinquished chunks of their sovereignty for the benefit of a supranational entity. In that sense, it may be argued that history has nothing to "teach" us, since there are no "historical lessons" available. That may hold true for the shape of Europe's institutions, the depth of its integration and the nature of the link between the member states and its central organs. But the geographical and mental framework within which this revolution is taking place must obey some sort of historical logic; otherwise it is doomed to fail.

The double question of identity and borders needs to be looked at within this framework. For half a century, Europeans put it to one side, sheltering behind the artificial border that cut across the continent. With the collapse of the Berlin Wall, it cannot be avoided anymore. What does it mean to be a European? Who is to be a citizen of Europe and who is to be left out? These are fundamental questions on which history obviously offers some insights. Admittedly, history is not deterministic; it leaves room

for human choice, that is, for politics. What has been is not necessarily what will be, or ought to be. But what has been cannot be ignored as if it has never been. Political will must take the past into consideration, if only to shape, as much as possible, the future course of history.

And so, looking to Europe's future also means looking into its past. European education is by definition historical. Those who lament the lack of a "European spirit" need to know that it will not emerge miraculously; it has to be built, just as national awareness was in the 19th century, through history books and textbooks. A common European historiography must not replace national narratives, but run

alongside them. Only in this way will generations of young Europeans discover that what they may see as national phenomena – feudalism and state-building, the Renaissance and the Reformation, the Enlightenment and the industrial revolution – were also, perhaps primarily, European ones too. So yes, history does matter when building Europe's future. That is precisely why we are setting up a Museum of Europe in the heart of its capital. □

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The new kids on the R&D block



Europe's efforts to strengthen its research and innovation performance are still flagging, but now the world of charitable and philanthropic foundations is taking a hand. **Gerry Salole** reports on their activities, but warns that EU policymakers have yet to lighten their legal burdens

The most recent figures from Eurostat show scant change in Europe's research and development (R&D) spending over the last three years, and there is mounting evidence that the EU will fail to meet the Lisbon Strategy commitment to invest 3% of its GDP in R&D by 2010. Europe will continue to lag behind the United States in annual R&D spending, lying in third place behind Japan in some sectors, and now faces competition from elsewhere in Asia, notably from China and India. With scarcely two years to go before the 2010 deadline, the burning question now is how can we save the situation and enable Europe to gain ground in this technological race?

Europe must promote R&D investment by creating an integrated market for innovation. Perhaps our most vulnerable gap is our failure to effectively capture, share and retain knowledge. Europe's highly fragmented patents arrangements put us at a competitive disadvantage because they deter potential innovators and entrepreneurs, with the result being that Europe has a relatively poor

record for commercialising new products and processes – a missed opportunity given our top-class research institutes.

There are other serious inconsistencies. European patent applications are on the increase, but the European Patent Office has decided to grant fewer patents by emphasising quality over quantity. The EPO's strategy could be symptomatic of a more worrying trend, that of the Europe-to-America brain drain in which high-calibre researchers being lured to the US by better equipped laboratories, easier financing and more research-friendly conditions. Researchers based in Europe are still prevented from moving more freely between EU countries, which is quite ironic considering the importance of transnational networks in our globalised economy.

If the EU wants to meet its 3% target, it can't do so on its own. It must discover how to mobilise policy actors at all levels to create the dynamic and competitive knowledge-based economy it desires.

In one area, though, Europe's efforts to boost the potential of philanthropic funding for the European Research Area are on the right track. The European Forum on Philanthropy and Research Funding, launched by the European Foundation Centre (EFC) last December, with support from the European Commission and some research-focused funders, is the latest in a series of initiatives designed to bolster EU cooperation on research. Europe's science and research commissioner Janez Potočnik has said that "the forum is proof that the research and philanthropy worlds are ever more interested in each other . . . the time has come to put this relationship on a firmer footing." The new forum supports philanthropic funding for research in Europe through the exchange of best practice, cooperating on research funding, and promoting a more favourable environment for foundations and private philanthropy.

An important feature of the forum is that it emphasises collaboration. This doesn't mean foundations reinventing the wheel, but it does mean providing an equal platform for all stakeholders – foundations, public authorities, industry, and most importantly, universities – to work in partnership. Europe's universities are central to building the European Research Area, but they are also struggling to keep up with a rapidly changing international environment, and often have great difficulty in coping with the tighter funding conditions that are being imposed by national public authorities. Philanthropic organisations and foundations will increasingly need to be a more significant source of university research funding.

So how exactly can foundations make a difference in supporting research

excellence? The past few years have seen growing innovation by foundations across Europe, which are proving increasingly creative and ever more adept at delivering specialised products in their areas. They succeed because they are willing to test new approaches to old problems, use resources more imaginatively, make connections between people, ideas, knowledge and practice, and seek sustainable change whose outcome sparks constructive debate and problem-solving. By making best use of their competitive advantages – autonomy, alertness and flexibility – foundations are well-placed to make a difference in research. It is not the total sum spent, but the approach to spending it that will win foundations a seat at the R&D policymaking table.

In research, foundations can act autonomously to support pilot-phase experiments in new areas and take risks funding unknown or less researched territory – areas which public authorities shun. A new consortium of European foundations made up of VolkswagenStiftung, the Fondation Mérieux, the Fundação Calouste Gulbenkian and the Nuffield Foundation has recently been established to fund research on neglected tropical diseases and on delivering treatment to their victims.

Unlike publicly-financed agencies which depend on political decisions, private foundations need not wait for political consensus. They can act far more freely, flexibly and quickly. The Foundation for Polish Science's HOMING Programme is a telling example of foundations taking initiatives to staunch Europe's brain drain regardless of government policy. Following the EU's enlargement in 2004, over 1.5m people left

Poland, many of them professionals and young scientists. The HOMING Programme encourages young Polish scientists to return home after an extended research stay abroad. It gives them financial support to ease their return, and boosts their academic careers by offering improved working conditions in Poland. Each year grants to young scientists from the HOMING Programme amount to €560,000.

Foundations can enhance higher education reform and research by stimulating private means and initiatives, with long-term public benefit. The Wellcome Trust UK, which spends about €626.7m each year, funds some 5,000 researchers in 40 countries. It cooperates with the US-based Howard Hughes Medical Institute (HHMI) and allows its research fellows to work in new environments by offering them a chance to take part in HHMI's exchange programmes.

Foundations are also working to redress the under-representation of women in European research. The Robert Bosch Stiftung, for example, funds studies which explore the role of women in research, and recommends ways their numbers could be boosted.

Europe's foundations can nurture new developments, encourage front-runners in institutional reform and devise creative models to replace outdated institutional practices. Take for example, the TT Venture,

a new Italian fund for technology transfer set up by Fondazione Cariplo in early 2008. In addition to spending €30m each year on scientific research, this new fund is based on a mission-related investment strategy. The fund invests in initiatives pooling private capital, entrepreneurs and university research and boosts research-oriented investments in biomedicine, materials science, agro-food and energy, environmental technology and innovative cross-sector projects. Since its launch, the fund has raised €60m from other foundations and from the Milan Chamber of Commerce.

While foundations are adept at providing the ideas, dexterity, and seed financing for launching potentially high-impact projects, the long-term value of these efforts is constrained if they are not scaled up with government cash

But while foundations are adept at providing the ideas, dexterity, and seed financing for launching potentially high-impact projects, the long-term value of these efforts is constrained if they are not scaled up with government cash. EU please note: European foundations

are showing increased interest in setting up public-private partnerships to consolidate their work. Foundations want to collaborate with other sectors, not just in research but also in health care, the environment, education and the other areas where they are active. The EU should take advantage of this. Advances made in related policies might have the serendipitous potential to fuel the broader European research agenda.

Yet legal barriers still prevent Europe's foundations from doing more. If they are fully to support the EU's goals in research and all policy areas, foundations need better legal

"I'M ALL IN FAVOUR OF AMBITIOUS VEHICLE EMISSION GOALS, BUT THEY HAVE TO BE ACHIEVABLE"

Jorgo Chatzimarkakis MEP in the Alliance of Liberals and Democrats for Europe Group and member of the European Parliament's Committee on Industry, Research and Energy



The European Commission has proposed fining carmakers if they fail to lower vehicle emissions to 120g/km by 2012. Do you think this is fair?

It's in line with very ambitious climate change goals. But the proposal for cars is not very balanced because, compared to prices for CO₂ emissions traded on carbon exchanges, the penalties for carmakers would mean that CO₂ would cost the car industry 24 times more than any other sector. This is unbalanced because cars only account for 12% of CO₂ emissions in the EU. Europe is striving for the Lisbon agenda of growth and innovation. We dominate certain parts of the world market in cars with over 80% of the world market for premium cars. So why destroy this dominance by imposing penalties that will only cause problems for our industry? For example, take a volume carmaker like Ford or GM. Their cars, in the best case scenario, will be €3,800 more expensive and in the worst case €7,000 more expensive. This is for a small car like Fiesta.

How should the proposal be changed?

There should be a first phase between 2012 and 2015, where we should start with obligatory measures such as gear shift indicators or other eco-innovations. We should extend the list of eco-innovations (the Commission included four

and define which ones should be obligatory from 2012. For 2012-2015 there should also be naming and shaming. But we shouldn't impose penalties. We could also define which parts of the fleet which should be covered. Volkswagen could pool Porsche with Skoda. From 2015 a percentage of the fleet would have to meet the target. Penalties should only be phased in and the money from them should be put into research on carbon-free mobility. It should be kept in the mobility sector.

Some critics would say you are simply defending the German car industry against having to face up to its responsibility for reducing CO₂ emissions.

Who is the German car industry? Is it VW and Audi or is it Bosch (the parts maker also delivering parts to French, Italian and Japanese car makers). The latter tell me that ambitious goals are achievable. In any case the German car industry isn't always supporting what I am doing. When I was looking for zero per cent emissions in 2050 in a report I drafted for the Parliament, some people told me this was rubbish. As a politician you have to have a long-term vision. When I spoke about this in the plenary I was attacked as a German car lobbyist. So I quoted the German Sociologist Max Weber who said as a politician you have to have patience, passion and a balanced view, a balanced approach. You have to make the targets workable. I'm in favour of ambitious goals, but they have to be achievable. If you turn the screw too hard it breaks. What I propose will lead to total change for the industry but it must be done step by step.

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backing, particularly with a growing number of them engaging in cross-border activities. Late last year, the Commission began work on a feasibility study on a European foundation statute which, if realised, would allow European foundations to carry out public-benefit activities across the EU without the undue legal and administrative burdens that at present hinder them. Completion of the EU's internal market, its competition rules and reviews of state aid should not impede foundations from achieving the Lisbon objectives – from supporting excellence in research, knowledge and innovation, to helping include socially and economically disadvantaged people. A European statute would enhance these efforts.

It is ironic that given foundations' track record of supporting and encouraging research, the sector is virtually having to plead to be taken more seriously with the adoption of a European foundation statute. Initiatives like the European Forum on Philanthropy and Research Funding undoubtedly show that as a sector, we are keen to capitalise on our capabilities. But until significant steps are taken at EU level, the full potential of foundations' efforts to strengthen European research and innovation may not be realised. □

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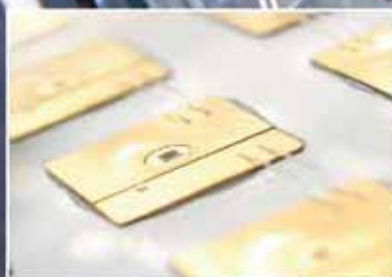
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SUSTAINABLE EUROPE

The case for climate change optimism



Finding grounds for optimism in the global warming debate isn't easy. But **Angus McCrone** points out that investment in clean renewable energy sources is rising much more quickly than human CO₂ emissions. And game theory suggests that nations will eventually take unilateral steps to curb their carbon emissions

Put a panda in a room with a bald eagle, a bear, a kangaroo, a tiger, a Dachshund, a bulldog, a cockerel and a green pheasant and what do you get? The answer is a lot of noise, violence, feathers and fur – and very little harmony. Much the same can be said of international talks on climate change. Put the representatives of the countries symbolised by these animals in the same room and the results tend to be noise, division and recrimination.

The issue of how the world will curb its carbon emissions has, over recent years, certainly caused a huge amount of bickering. Everyone has insisted that others need to make much more painful sacrifices than they themselves have committed to.

Meanwhile, human CO₂ emissions have gone on climbing – according to the International Energy Agency (IEA) world emissions are likely to rise from 26.6bn tonnes in 2005 to 41.9bn tonnes in 2030, unless current policies are changed.

Against this backdrop, a mood of pessimism over climate change has become entrenched; no wonder, with Asian giants, the US and western Europe all calling each other names while failing to stem the construction of coal-fired power stations, the logging of rain forests or the spread of low cost airlines.

But it can be dangerous to bank too heavily on the pessimistic view simply

because it is so widespread. Arguing the more optimistic side of the climate change debate can be lonely past time, but there are two good reasons for doing just that.

The first concerns the dynamics of how international negotiations are likely to play out over the long-term – and not just at international summits or high-profile conferences. Applying a branch of economics called game theory raises a number of

unexpectedly optimistic possibilities. The second reason reflects the fact that the carbon emissions chart is not the only one with an upward sloping line. There is another chart, concerning investment growth in renewable energy, that's much steeper. More about that later.

But first, let's deal with the apparent intractability of international climate change negotiations. Attempting to view

MATTERS OF OPINION

"Do as I say, not as I do"

Europeans generally believe they are individually responsible for protecting the environment, but it looks as if words speak louder than actions.

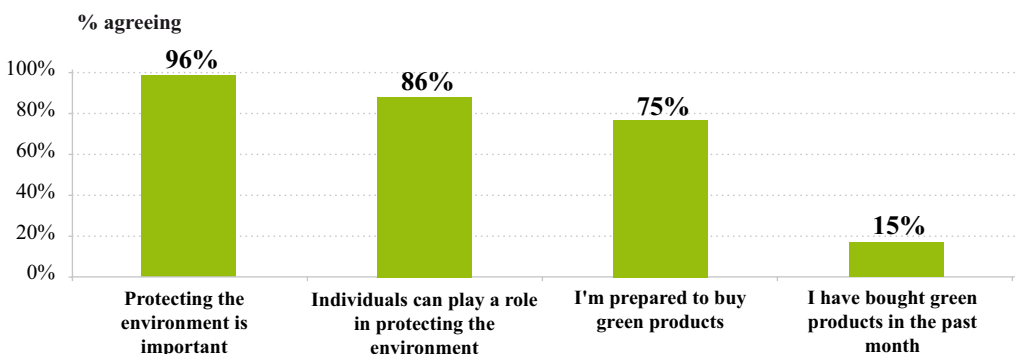
In a March 2008 Eurobarometer survey, 96% of all EU citizens said that protecting the environment was important to them personally, and 86% said that individual actions were important. But when presented with examples of possible actions, fewer than one in five (15%) said they had purchased "green" products in the month preceding the survey. Three-quarters of respondents nevertheless said

they were prepared to buy environmentally-friendly products even if they were a bit more expensive.

When asked what they thought other people should do to protect the environment, 38% responded that others should "use more public transport", while only 28% said they had recently done so themselves.

Although only 1% of those polled said that other people should not do anything to protect the environment, 9% admitted that they had done anything themselves.

THE WIDE GULF BETWEEN WORDS AND ACTIONS



Source: Eurobarometer 2008

the negotiating positions of Europe, the US and the developing world through the prism of the "Prisoner's Dilemma" – a game theory scenario first described in 1950 – yields some interesting insights. Applying the Prisoner's Dilemma admittedly suggests that we can expect selfish short-term behaviour from the negotiating partners. This reflects the likelihood that, in theory, two prisoners will probably rat on each other under interrogation to avoid the worst outcome. That outcome being a long sentence made worse through refusing to talk and also finding out later that the second prisoner has, in any case, spilled the beans.

That kind of behaviour is clear enough to spot in climate change negotiations. The US and the developing world have each been avoiding a deal on curbing emissions. Each fears that signing up would open up a risk that the other side would refuse to sign, and would therefore gain economic advantage.

The good news about the Prisoner's Dilemma, however, is that this cynical calculation does not work well when repeated over the medium-term. If both the US and the developing world avoid cutting emissions, then both lose out because climate change intensifies. The breakthrough should come when the players begin to fully appreciate this.

Such potential catalysts appear to be growing more numerous. The Stern Review in November 2006, for example, reported on the potential cost if no one curbs emissions – at 5% to 20% of GDP, far higher than the 1% of annual GDP cost of tackling climate change if the main parties work

together. Then, in November 2007, the Intergovernmental Panel on Climate Change warned: "Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level." Future effects, it said, would include increased disease, "water stress" and loss of bio-diversity in parts of every continent on Earth.

The greater the scientific consensus about the causes of climate change, and the greater the incidence of freak and threatening weather, the stronger will be the pressure on all the parties to take unilateral action. There is already evidence of this. In March 2007, for instance, the European Union targeted a 20% share of renewables by 2020 in its total energy use. Last September, China announced a \$265bn investment plan for lifting renewable energy use to 15% of its total, also by 2020. And a whole string of US states have announced "renewable portfolio standards" to force electricity utilities to buy clean rather than dirty energy.

Apart from taking unilateral steps, countries will also find that it achieves good results in the long-term if they adopt an approach that is "retaliatory, forgiving and clear". In other words, when another country takes a negative step, be prepared to retaliate with trade policy or another sanction. When an erring country returns to the fold, countries should be forgiving and welcome it back. And the policies adopted to tackle climate change should be clear, so that others do not misinterpret the intention.

It could well be that this process never results in a formal international treaty, setting out precise actions for everyone. Diplomatic complexity and local political pressures may make that impossible. But this need not worry those who are concerned about climate change as the self-interest of each economic bloc will always be best served by eventually taking action and in seeing that its peers do the same.

Perhaps, then, the United Nations should take this on board and spend less time trying to negotiate an all-encompassing treaty that may well prove impossible to obtain. Instead it should encourage each bloc to take the right negotiating positions that will encourage others to make unilateral curbs

in emissions. Advancing towards a global solution to the greenhouse gas problem through a long series of small steps, in both individual countries and trading blocs, may prove far more effective.

But, as briefly mentioned earlier, there is a second reason for optimism. While the IEA forecasts that energy related CO₂ emissions will rise by 1.8% per year for many years ahead, another trend is also underway and the gradient of its line is far steeper than that. This trend reflects investment growth in clean energy.

New investment in renewable energy and energy efficiency was estimated to be \$33.4bn in 2004. This figure includes venture

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capital and private equity investment in newly formed clean energy companies, money raised by quoted companies from stock market investors, debt and equity finance raised for clean energy projects, research and development funded either by governments or by large companies (such as the oil majors and the utilities), and small scale projects – such as warehouses placing solar panels on their roofs, or farms building a micro-wind turbine.

From that modest base, investment in clean energy has been accelerating fast. Research suggests that this investment figure rose by 76% to \$58.7bn in 2005, by 58% to \$92.6bn in 2006, and is estimated to have ended up at \$148.4bn in 2007 – up 60% on the previous year.

If policies such as obligations on electricity providers and tariff incentives for non-CO₂ emitting power, are put in place by governments to enable those hefty growth rates to continue, then it shouldn't take too many years before clean energy generation reaches a scale where it begins to eat meaningfully into the IEA's carbon emission forecasts.

There are other factors at work that can further encourage this process. Renewable energy and efficiency technologies are improving very fast, as entrepreneurs and aggressive larger companies compete for dominance in markets which are expected to boom in the years ahead. The result should be much lower prices for clean energy hardware, making it easier for utilities and other buyers to choose the non-fossil fuel option in the next decade.

Supply and demand issues should also aid several of the key renewable technologies, and hit that key fossil fuel – oil. The cost of wind and solar power is at the moment being held up by shortages of hardware like turbines and such materials as silicon. Once production rises to meet these shortages, their cost competitiveness will improve. Meanwhile, global oil demand is growing, while supply from existing and new fields is likely by 2015 to be under pressure. The IEA admits that “a supply crunch” by then cannot be ruled out, boosting demand for sources of alternative energy.

So, against the backdrop of pessimistic media reports on climate change, there is a case for optimism. Although it's important to remain realistic – there is a high likelihood that, despite growing global efforts to curb greenhouse gas emissions in the next few years, there will still be substantial damage to the environment. It now looks almost certain that there will be a loss of plant and wildlife species, the degradation of many natural habitats and changing weather patterns that could hit vulnerable human communities hard. But there are also grounds for tempering today's almost universal mood of pessimism. □

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EREF

The Renewable Energy
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European Energy Policy for Renewables - the expressway towards a sustainable energy future or a dead end?

Changing our behaviour in energy consumption and production is probably the only way to meet with the negative effects of climate change, to ensure long-term security of energy supply and to strengthen the competitiveness of European Industry for the future.

Therefore EREF strongly supports the 20 % targets set by the European heads of state on decreasing green-house gas emissions and increasing energy efficiency as well as the share of renewable energies (RES) in Europe's energy consumption by 2020. If the EU wants to have a fair chance to reach these challenging targets, it is of utmost importance to set the right legal framework.

However, the directive proposal rather seems to put the whole renewable energy sector at risk in Europe, not to mention the failure in achieving the 20% target, instead of promoting further renewable energy development. The current wording of the directive proposal, introduces a new, harmonised specific trading scheme for RES certificates for the EU 27. This will, for legal reasons, render all existing national RES support schemes becoming a barrier to trade and thus very likely being illegal.

But as long as there is no level playing field in the European energy market and market distortions continue because prices for conventional produced energy do not reflect its real costs due to the lack of internalisation of external costs, RES need adequate, well designed and efficient market access tools such as national feed-in tariffs with guaranteed premiums, broad technology approach and investment security.

For reaching a 20% share of RES by 2020, it is essential

- Safeguard the existing national support tool of feed-in tariffs that cover the whole richness of natural resources
- To allow member states to join forces for common national target fulfilment without endangering national support schemes
- to abandon the idea of introducing a completely and therefore inflexible harmonised virtual Res certificate trade scheme

The European Renewable Energies Federation (EREF) ASBL is a non profit organisation representing independent producers of electricity, heat and fuel from all sustainable renewable energy sources except large hydro with an overall installed capacity in Europe of around 11000 MW. Since its foundation in 2000 EREF is advocating for a level playing field and fair market conditions in the European energy market.

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Global economic “architecture” is no longer fit for purpose



In an era of rapid population growth, global society can only prosper if economic growth increases welfare and well-being on a sustainable and inclusive basis, says **Herman Mulder**. For this to work, the world needs governments, business and civil society to collaborate in new institutions which are “fit for purpose”

Up to 9bn people are forecast to be alive in 40 years time and they can all be expected to want a fair share of economic wealth and social welfare. This will put the “global commons” under increasing strain. Ecosystems will suffer from more and more pollution, lost biodiversity and climate change and competition for natural resources will accelerate. In such precarious circumstances, broad-based economic growth will only continue if we all subscribe to equitable and sustainable policies. It remains to be seen whether the foundations for such share objectives can be laid down during tough economic times. But it will certainly require the combined north and south expertise of business, civil society and governments to find solutions to these colossal problems.

The scale of the task ahead raises some basic questions about whether the current players in the world economy are up to the challenge, and whether the current

connections between the public and private sectors are adequate for the job. Do we need to create new local and international institutions? And can we judge if either the players or our institutions are “fit for purpose” until we define their roles in the 21st century? A good starting point to answer these questions is to identify the core elements of “inclusive growth” which could create the conditions for sustainable wealth creation. There are three dimensions to consider: people, the planet and profit.

Social justice demands that economic growth should benefit all the people of the world, so we have a duty to close the extreme gaps between rich and poor. This also means that “equal access to opportunity” must be recognised as a fundamental human right. People are entirely dependent on nature, so economic growth will not be sustainable if it causes irreparable damage to the planet’s ecosystems and natural resources. Therefore, inclusive growth must also

recognise the precautionary approach and “internalise” all the costs to nature of man’s economic activities. Third, the free market and capitalistic profit-motives are essential drivers of efficient and effective investment; they lay a solid foundation for further growth and future commercial initiatives.

The implications of inclusive growth are, inevitably, profound. New south-south trade flows show that shifts in the worldwide division of labour are already underway. Globalisation and growing “connectivity” are increasing economic, commercial and political interdependence. But global citizens live in different parts of the world, experience different levels of development and have different roles to play. So the world economy is becoming increasingly multi-polar, with multiple stakeholders pursuing diverse purposes. This makes international cooperation by governments and business all the more complex and important. The challenge now is to bring more order into the way the world deals with diversity and to find a common, consistent and coherent global economic mission.

How is the business community responding to these new circumstances? More and more companies are recognising the importance of the people-planet-profit approach. They realise that while commercial operations can prosper when governments fall, they cannot survive when societies fail. Hence the phrase: no people, no planet, no profit. But corporate profit-making cannot be viewed in isolation. Companies depend on the approval of a range of stakeholders – clients, staff, partners, government and civil society – to earn the right to make profits. So damage inflicted on the plant

by business may not only result in future liabilities, but also the loss of their “license to operate”.

The changing perceptions about the role of business in tackling global challenges are already evident in certain international forums. Business was noticeable by its absence at the 1992 United Nation’s conference on sustainable development in Rio de Janeiro. Commerce and industry were very much seen at the time as major problems for the environment. Since then, business has woken up to the need to be part of the solution and was an active participant at the UN’s 2002 earth summit in Johannesburg. By the time the post-2012 Kyoto Protocol negotiations were underway in earnest in Bali last December, it was generally accepted that no solution to the climate challenge could be achieved without policy input, finance and action by business. The UN Framework Convention on Climate Change, for example, estimated that as much as 80% of the required funding for world climate plans may come from business. If the Copenhagen climate summit next year produces a “long, loud, legal” accord, or at least a strong price signal on cutting CO₂ emissions, that finance may be forthcoming. However, it is still far from clear whether the world can reach a fair, effective and efficient framework at Copenhagen. Despite clear scientific evidence and initial optimism about the Bali Action Plan, the jury is still very much out on the outcome for climate change.

Meanwhile, business is playing a more active part over other issues on the new global agenda. Since the 1990s there has been a rapid increase in the number of business platforms addressing – and even taking collective action – on sustainable development. The World

Business Council for Sustainable Development (WBCSD) has been prominent in government forums, as has the UN Global Compact. Both have extensive national networks. The number of sustainability reports by businesses has increased significantly and collaboration with non-governmental organisations is on the rise. For instance, a landmark study was conducted in 2004/5 by OXFAM-NOVIB and Unilever, on the long-term economic and social impact of the company's operations in Indonesia. The verdict was mildly positive.

Many top corporations are developing responsible and sustainable "value chains" and social and environmental certification of products and processes is gaining prominence. In the financial sector, the voluntary Equator Principles code of conduct for project finance is now supported by 60 banks worldwide. Leading long-term financial investment funds have agreed the Principles for Responsible Investment. Micro-finance for small, sustainable commercial businesses has also attracted interest from local and international banks in Asia, Latin America and Africa. And a new generation of social venture capital funds is emerging which allows strategic investors to put their money into, say, small-scale projects and micro-finance institutions. They expect only a modest financial return plus a Social Return on Investment.

In other words, companies are becoming more pro-active about corporate responsibility for people's welfare and

the environment. They are evolving value-creating business propositions based on explicit principles and values. And sustainable development is being recognised as part of sound strategic thinking and action, even by some small and medium enterprises. Thus more ethical strategies are moving into the commercial mainstream, hastened by NGO, media and peer pressure.

Mandatory reporting on the sustainability of private and public sector developments could, while possibly contentious, be a very useful mechanism to ensure market-based solutions were sustainable

These developments have implications for the core role of business and its relationship with government and civil society. Traditionally, the main business of business has been to do well in terms of creating profits and market value for shareholders and other stakeholders. Business fulfils this role by mobilising resources such as talent and finance; it also innovates,

takes risks and operates in a cost-efficient and targeted manner. Sustainable development and inclusive growth add a new dimension to these basic functions: business must now also do good for communities and nature.

Governments have a complementary role to play in relation to business in many respects. They serve as catalysts for important innovations through, say, funding for early research and development. They must act when markets become dysfunctional, as in the case of financial markets today, but should resist the temptation to meddle when the private sector is working well. Of course, business associations already talk to governments about policy issues, but this is mostly informal and ad hoc. They

now need to work more closely together to define the challenges ahead, draft long term policies and find practical solutions to the world's social, economic and environmental problems.

The relationship between business, government and civil society is more complex, given the diverse nature of civil society organisations (CSOs). Community service organisations, pressure groups, foundations, academic research centres et al. have a critical role to play in society. They challenge, complement and even fulfil functions which neither governments nor business accomplish. CSO knowledge centres also have great potential to pull together multiple stakeholders in the new

global economy. However, parts of civil society are suspicious of self-serving business motives. However, in the age of information technology, there is no where for companies to hide when things go wrong, and incidents – both real and imaginary – affect public perceptions, corporate reputations and brand-value.

What the world economy needs now is for business, government and civil society to find new ways to collaborate. This would allow them to capitalise on their individual strengths in order to develop complementary strategies. In simplified terms, this should combine policy input and official aid from governments, practical outputs and entrepreneurship from business and a raft of services from CSOs, including advocacy, education, capacity building, grants and impact assessments. For such collaboration to work, all three parties must share a clear, practical purpose and set SMART objectives. These are targets that are Specific, Measurable, Agreed, Realistic and Time-bound. The three partners must also make sure their roles are complementary not competitive and, above all, show respect and mutual trust in one another.

So what practical forms could such new tripartite ventures take? One example would be a multi-stakeholder sustainable development advisory council for governments or international organisations. The new standing council could focus on policy issues, including climate change and national or international development cooperation. Members could include business and foundation representatives, NGOs and academics. In developing

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countries, such an advisory council might draft an inclusive national development strategy, for example.

A new international grievance procedure could be built upon the recently created Dutch National Contact Point for OECD guidelines for companies operating internationally. This multi-stakeholder forum took over the role of mediator from the government of the Netherlands. More major non-OECD countries should now join in and accept these corporate guidelines, including China, India, South Africa and Russia.

A new and entrepreneurial Joint Development Initiative could bring together business investment and official development aid. Qualifying companies and financial institutions could be allowed to bid competitively for these government funds. The new JDI would have to be run on a strictly "additional" basis to make sure that only bids that critically depended upon official support could win the auction. Of course, the proper governance of this new instrument would be crucial.

A system of mandatory reporting on the sustainability of both private and public sector developments could also be introduced. While possibly contentious, it would be a very useful mechanism to ensure market-based solutions were sustainable. It should be open to all stakeholders and be overseen by a multi-stakeholder body. An independent panel could also be established to inspect and assess the sustainability of projects that got government aid. While it could be run along the lines of the World Bank current panel, the new system would

have to represent multiple stakeholders. We also need to learn the lessons of the 1990s and ensure that local capital markets are able to finance large infrastructure projects in developing countries. These are still necessary to overcome economic bottlenecks through investment in transport, energy, water, sanitation and communications.

The serious problems facing our planet and its people are setting a new global agenda. It will need a great effort by everyone, north and south, business, government and civil society to address these complex issues. Ultimate political responsibility will still rest with governments, but business and civil society must have a clear role in bridging the gaps between the public and private sectors. Pro-active engagement with non-traditional partners is needed to create new, or reform existing multi-stakeholder institutions which are "fit for purpose". These institutions should be given co-responsibility for delivering policies and action. In essence, we need collective, action-oriented initiatives and investments, delivered by modern institutions that represent all participants. It amounts to a new "architecture" for national and international development for the 21st century, one that is designed to deliver sustainable growth, social well-being and equitable wealth distribution for all. The climate challenge may well be the driver to bring this about. □

Herman Mulder is an independent advisor and former Head Group Risk at ABN AMRO Bank. mrhermanmulder@gmail.com



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Europe needs to change its whole approach to sustainability



The EU's preoccupation with its global competitiveness is more than cancelling out its measures to protect the environment, says Friends of the Earth's **Tony Juniper**. He calls for a radical reassessment of sustainability policies in Europe

Europe's greens have mixed feelings about the EU, and have had for more than two decades. Some greens are horrified by its consumerist culture and growth-obsessed single market. Others are impressed by its efforts to safeguard the environment. Both are right, for the European Union has many layers and operates on many fronts. Its policies simultaneously provoke very different outcomes depending on which part of the world we're talking about. And when it comes to sustainability, there are so many varied aspects to consider.

Sustainability, it is generally agreed, involves the integration of environmental, economic and social priorities. This must reconcile economic development to progress with protecting the ecosystem on which human welfare ultimately depends. In other words, sustainability is a process that improves human welfare but limits environmental change to levels that our societies can cope with.

The EU's most obvious contribution to sustainability is all the environmental protection legislation it has racked up over many years through agreements between EU countries. In some member states, the vast majority of environmental rules and laws are directly down to EU directives, with only a small proportion derived from purely national action. In the UK, the proportion that comes from Europe is about 85%.

The issues affected by EU-level environmental legislation are very wide, and range from the protection of natural habitats, to energy efficiency standards and the regulation of chemicals. Some of the environmental standards set by Europe have a global influence. Chemicals companies in Asia and North America have to take account of EU rules to gain access to EU markets.

Pulling in the opposite direction is the unsustainable use of energy and resources needed to reinforce Europe's single

market. Policies that directly impact on the environment include the EU's backing for roads, ports and other infrastructures designed to promote ever greater economic integration. These are often carbon-intensive projects that many argue are fundamentally unsustainable.

Another major area that affects the state of the environment is agriculture. Over several decades, the EU's Common Agricultural Policy has caused profound changes to the environment, to wildlife populations and to the appearance of rural areas, and it has impinged on the lives of millions of country dwellers. The quest for efficiency, competitiveness and cheap food has transformed the farming economies of almost every corner of the EU, and while some modest resources have been diverted towards the protection of various aspects of the rural environment, the bulk of the EU's farm budget has been ploughed into production subsidies. These have famously resulted in a whole host of unwanted side-effects, ranging from butter mountains and milk lakes to the socially damaging practice of "dumping" surpluses in developing countries. Subsidies have wrecked the economics of farming the world over, and all these consequences make it hard to see the overall effect of EU farm policy as in any way "sustainable".

During the 1980s and 1990s, sustainability had a high profile in EU agricultural policy, and it remains a huge challenge. But now, the sustainability issue is being linked to dealing with climate change. EU member states and their leaders are wrestling with the implications of the scientists' latest

COMMENTARY

By **Duncan Liefferink**

We should expect much from the EU, but it's national policies that really matter

The basic message in Tony Juniper's stimulating article is that the EU should do more to tackle today's most pressing environmental problems. Sustainability and competitiveness should be treated as two sides of the same coin. In essence, that view appears sound but, while we should expect much from the EU we shouldn't expect too much.

It is claimed that the driving force behind no less than 85% of all environmental rules and laws in the UK is the EU. Similar percentages circulate in other member states. Recent research in the Netherlands suggests that between 60% and 70% of Dutch environmental legislation has been influenced by Europe in one way or another. But after taking into account the actual importance and material impact of this influence, the figure is likely to be no more than about 20%.

This looks like a fairly healthy state of affairs as there are at least two good reasons for leaving member states considerable room to manoeuvre in this area. First, it's a way – quite possibly the only way – to cope with national diversity. Given the large economic, social, cultural, political and legal-institutional differences between the member states, it is crucial to strike the right balance between

predictions. The stated aim of the European Union is to take such action that will keep the increase in the average global temperature to below 2 degrees centigrade. If the EU and the rest of the world really wants to realise this ambition, then large-scale cuts in emissions are urgently needed.

If we are to stand a reasonable chance of stabilising warming at this level, says the Intergovernmental Panel on Climate Change, industrialised countries will have to reduce CO₂ emissions by between 25% and 40% by 2020. The EU is presently committed to a mere 20% cut, and the policies needed to implement even this are not yet in place. The EU must get these going, and commit to at least a 30%

reduction in greenhouse gas emissions in Europe by 2020, and 90% by 2050. Right across Europe, Friends of the Earth groups are asking their governments to introduce legally binding annual cuts in emissions, and are pressing the European Union to reach agreement requiring member states to cut emissions year-on-year. By making each national government accountable within its term in office, cuts are much more likely to be made.

If the EU goes as far as some of its leaders are trying to push it, it could truly become a global leader on climate change. But countering this is the determined automobile lobby that is now campaigning against tougher standards on vehicle emissions. At the same time, a number of some member states are building new coal-fired power stations, and we are all seeing a rapid expansion of civil aviation right across the EU. So at the moment it doesn't look terribly likely that European countries will achieve what is needed.

Why are Europe's leaders talking a good talk about the environment and sustainability, but making such slow progress, and even going in the wrong direction? Some may talk of the need for a low carbon, resource-efficient economy, but many in national ministries and the European Commission are trying to stimulate competitiveness and to expand economic growth. Both are policy aims that could be made compatible with a more sustainable economy, but the manner in which they are being pursued at the moment makes that unlikely. EU trade ministers have been negotiating to further liberalise international

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trade, notably through the launch of the Global Europe trade policy adopted by the European Council in 2006. This centres on creating a new generation of bi-lateral free trade agreements that will give European corporations access to the markets and natural resources of developing countries. It has also led to pressure on countries to limit environmental and sustainability policies lest they be deemed trade barriers. The lesson yet to be learned here is that our sustainability and economic growth policy agendas must be made coherent and not contradictory.

Some African countries have already been pushed into signing-up to interim deals that will accelerate environmental degradation, while also undermining their infant industries and the livelihoods of small-scale farmers. Inside the EU, the Global Europe policy wants to ensure that new Europe-wide environmental, social and labour standards do not undermine European corporations' global competitiveness. The influence of corporate lobbyists and industry associations has done much to ensure that international competitiveness has now become an overriding EU policy priority, even though it generally does little to accommodate sustainability concepts.

Even where industry is responding to climate change legislation, the responses being advocated by most industry bodies bring serious sustainability challenges of their own. Recent calls for expanded biofuel production has been a case in point. The EU currently plans for 10% of all transport fuel to be made up of biofuels by 2010. But a growing number of academic

COMMENTARY

Duncan Liefferink

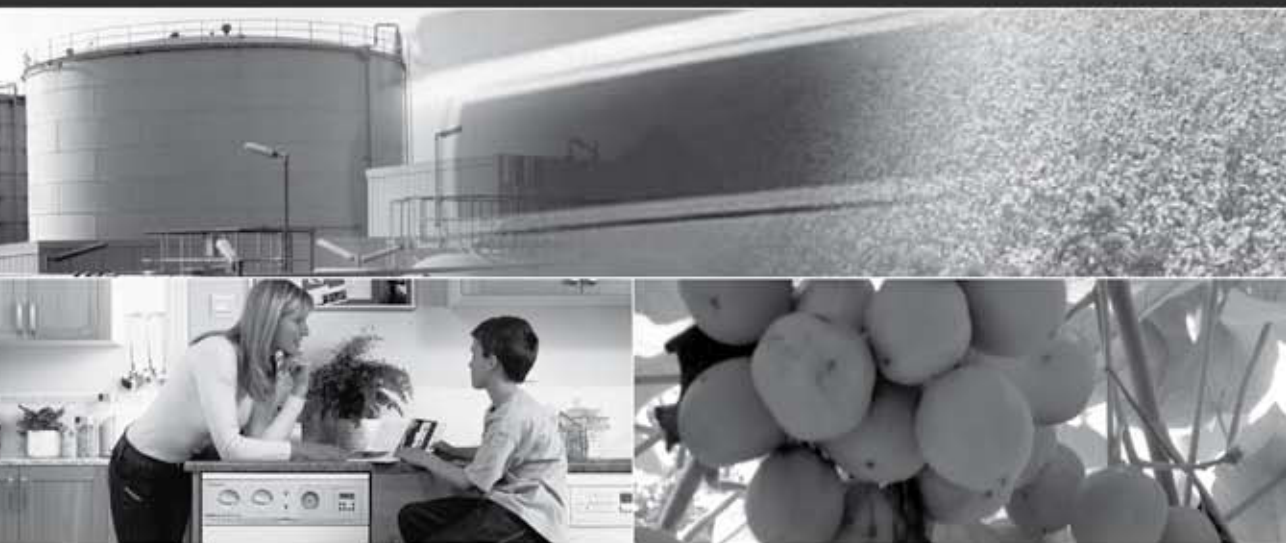
uniformity and fairness on the one hand and national circumstances on the other. Second, member states often serve as testing grounds for new policies. As a matter of fact, the majority of the EU's environmental policies originate from national initiatives which, by various mechanisms ranging from careful lobbying to blunt provocation, have become elevated to the EU level.

National policies remain at the heart of the EU's quest for sustainability. This approach looks even more relevant given the full range of measures that will be required for dealing with such complex problems as climate change. Mr. Juniper mainly focuses on reducing emissions in production. However, the necessary reduction of greenhouse gas emissions by up to 90% within the next few decades can hardly be attained by industrial energy saving and clean technologies alone. Without arguing for a return to the stone-age, changes in consumer behaviour and life styles are inevitable – that, for instance, will cover such matters as the energy consumption of cars and their use. This in turn involves a consideration of policies relating to such areas as infrastructure and housing – similar points can be made with regards to food, clothing or holidays.

The EU's authority in such matters is limited – and rightly so! Not many Europeans would be keen for Brussels to interfere so directly with such important aspects of their private lives. These difficult areas can be much more effectively debated, weighed and fine-tuned at the national level – such an approach will more effectively take into account local cultural and socio-economic issues. This, of course, doesn't exclude the possibility that especially successful

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experts, institutions and non-governmental organisations are concerned that biofuels may do more harm to the climate than good. Recent studies have shown that the carbon savings from biofuels are often negligible or even negative, and that the expansion of biofuel production is leading to rainforest destruction, rising food prices and human rights violations.

To address the environmental challenges of the 21st century, Europe needs to change its approach. In the decades ahead, competitiveness will be shaped by the efficient use of energy and the early adoption of cutting edge sustainable technologies. That is where the markets and industries of the future will succeed.

There is no immediate prospect of the EU's simultaneously achieving its environmental, economic and social goals. European corporations are among the largest and most influential in the world, and Europe's share of greenhouse gas emissions and its consumption of natural resources are far outside any reasonable calculation of sustainability. Despite some useful environmental laws, Europe is thus not yet in any position to claim leadership in the fight against climate change. □

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COMMENTARY

Duncan Liefferink

elements of such policies can be broadened to the EU level at a later stage.

The EU should certainly continue to strengthen its efforts in the environmental field while seeking a better match between economic development and sustainability. But this needs to be achieved in a way which does not undermine the contribution that individual member states can and must make. □

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CATALONIA'S POLICY ON CLIMATE CHANGE

The autonomous community of Catalonia, in northern Spain, is tackling the problem of climate change with characteristic vigour and imagination. In its determination to give the strongest backing to Spain's commitment to the Kyoto Protocol to reduce carbon emissions, Catalonia has gained enthusiastic support from all sections of its society.

Climate change is a global problem; therefore, a global, long-term strategy must be defined with the cooperation of all the states and under the coordination of the United Nations. However, any global strategy also requires local actions, otherwise the effectiveness of the measures will be lacking. Catalonia is fully immersed in this international context, which is setting the goals to be achieved. Its government has set out to provide a steadfast impetus to Catalan public policies that will enable it to fulfil the most imminent commitments derived from the Kyoto Protocol and to define the actions for the coming decades.

In late 2006, the government of Catalonia was furnished with two instruments to define the actions to be undertaken to deal with climate change, to embark on transversal policies and to integrate sustainability criteria into its industrial policies. These two instruments are the Catalan Office on Climate Change and the Interdepartmental Commission on Climate Change.

Catalonia's commitment to comply with the Kyoto Protocol

As part of its policies aimed at countering climate change, the government of Catalonia

has developed the 2008-12 Catalan Plan to Mitigate Climate Change. The goal of this plan is for Catalonia to contribute responsibly, proportionately and effectively to Spain's commitment to comply with the Kyoto Protocol. This is the first step towards setting future policies, in which the results of the post-Kyoto negotiations must be included in Catalonia's strategies while simultaneously taking into account Europe's current and future commitments.

The three strategic goals of the 2008-12 Catalan Plan to Mitigate Climate Change are:

- For the sectors not covered in the European Union Emissions Trading Directive: To ensure and promote the deployment of measures aimed at limiting the rise in emissions to 37% compared to the base year. According to forecasts, this goal means preventing the emission of 5.33m tonnes of CO₂, equivalent to the yearly average in the Kyoto Protocol period, even in the sectors not included in the emissions market. In exercising its responsibility, Catalonia has voluntarily set this goal for itself. As is well known, the rise in emissions from so-called "diffuse sources" is very difficult

to limit in both Catalonia and the rest of Spain. At the same time, the government of Catalonia has sweeping competences to work on the measures to combat climate change in diffuse sectors such as mobility, waste, agriculture, the residential sector, retail, construction and industry and energy, which are not included in the EU's Emissions Trading Directive. For this reason, the focal point of this plan's efforts is mitigating emissions from these sectors.

- For the sectors that are covered by the directive: The goal is to drive the reduction in emissions through actions aimed at improving energy efficiency and savings and at fostering participation in the flexible mechanisms of the Kyoto Protocol.
- To increase knowledge of the phenomenon of climate change, and to drive transversal actions via research, awareness-raising, training and participation.

It is worth noting that the working methodology used in the Catalan plan, which differentiates between diffuse sectors (not included in the directive) and the sectors covered by the directive, is the same as the one used by the European Commission's proposal in the January 2008 Energy and Climate Package for the post-Kyoto period.

The 2008-12 Catalan Plan to Mitigate Climate Change, as well as the subsequent addition of a Catalan strategy for the post-Kyoto period, require us to continue to pursue the policies already underway in Catalonia, and it probably new fronts of action will have to be opened up as well. These public policies will not be enough unless they are developed within a framework of broad, integral agreement with the citizenry, and unless synergetic actions

are promoted between the government of Catalonia, local governments, business and social enterprise, social stakeholders and even the habits of the people of Catalonia.

The government of Catalonia deemed that it was necessary for the development of the plan to open up a process of dialogue, consensus and exchange with Catalan society. To this end, citizens were invited to take part in the Catalan Convention on Climate Change, a participatory process parallel to the government's internal planning efforts, aimed at gathering opinions and contributions from all the stakeholders in organised civil society. This process was novel in terms of both the scope of the subject being addressed and the participatory methodology used, and it has generated a great deal of interest throughout Spain and in many European institutions.

The Catalan Convention on Climate Change

The participatory process of the Catalan Convention on Climate Change was organised by the Catalan Office on Climate Change in conjunction with the Sub-Directorate General of Environmental Information and Education, with the support of the Directorate General of Citizen Participation.

The convention was held in different phases. It began with informative sessions held in July 2007, and continued with the opening conference and working and debate sessions. It ended with the closing conference held on February 14 2008, where the preliminary draft of the Catalan Plan to Mitigate Climate Change was officially unveiled.

Participation in the process was quite high, demonstrating that Catalan society is highly motivated to learn of and contribute ideas

VIEW FROM CATALONIA

related to climate change. This is partly a result of the sweeping social debate that is currently underway in the media, and partly because citizens are beginning to observe – and at times suffer from – the effects of climate change.

All told, more than 800 people and 417 different entities participated, including companies, associations, foundations, universities, professional associations, trade unions, agricultural entities, town halls, county councils and provincial councils.

Society's contribution has been evaluated as highly positive. During the entire participatory process of the Catalan Convention on Climate Change, proposals were gathered from the different participation mechanisms. Prominent scientists in the field of climate change in Catalonia made contributions as well. During the process, around 1,000 proposals were received, many of them highly developed and very well structured.

When the drafting of the Catalan Plan to Mitigate Climate Change began, the government of Catalonia chose not to propose any initial text, rather it chose to pursue an open process in which all the participants could suggest measures and actions aimed at mitigating greenhouse gases. Nevertheless, in order to spur the debate, at the start of the process the Catalan Office on Climate Change did provide a document that contains a set of 1,000 measures and actions aimed at mitigating climate change that were the outcome of a detailed analysis of 33 prominent documents on countering climate change from around the world. This document was given to all the participants at the opening conference of

the convention, and it was loaded on to the website created for the process.

However, it should be pointed out that in addition to enriching the Mitigation Plan itself, the participatory process has made major inroads in raising awareness and educating the public. It has provided a structured view of the types of measures that might be undertaken in Catalonia to mitigate climate change and has generated an organised, constructive debate on these measures.

Likewise, the government itself has also worked intensely on the plan in conjunction with the technical and political heads of the different departments that are involved in the issue, including: Environment and Housing; Economy and Finances; Territorial Policy and Public Works; Agriculture, Food and Rural Action; Health; Interior, Institutional Relations and Participation; Innovation, Universities and Enterprise; and Education.

The interdepartmental efforts within the government have been aimed at incorporating the proposals received and evaluating and providing what the current forecasts and plans for the period contribute to reducing emissions in Catalonia.

2008-12 Catalan Plan to Mitigate Climate Change

The result of the participatory process not only deepened the knowledge of everyone involved, but it also helped to identify measures for the 2008-12 Catalan Plan to Mitigate Climate Change. This plan, which is still in its draft form, clearly identifies the policies to be applied in each of the spheres of work defined in the European Union Emissions Trading

Directive. The plan includes a programme for the sectors covered in the directive, which account for 34% of the total emissions in Catalonia, as well as a programme for the sectors not covered, which contribute 65% of the emissions.

The plan also includes a programme of actions aimed at driving research, awareness-raising and participation.

There is a series of especially noteworthy proposals within the emissions reduction programme for sectors not covered by the directive. They include express buses, the anaerobic digestion of liquid manure, pursuing and augmenting the capture of methane from dumpsites to be used for energy, and creating a registry-certification of companies and entities that lower additional emissions. The sum of all the sector-specific actions of the programme and other mechanisms, such as voluntary agreements and domestic offset projects (a mechanism designed to stimulate the internal reduction of greenhouse gases in sectors not covered by the European Union Emissions Trading Directive); all these achieve an average yearly CO₂ reduction equivalent to 3.55m tonnes in the Kyoto period, in fulfilment of one of the goals of this Catalan Plan to Mitigate Climate Change.

The plan is coherent with the international and European framework of the Kyoto Protocol. Yet it is also coherent with the Bali roadmap for the post-Kyoto agreements and is fully coherent with the Energy and Climate Package. It is also worth mentioning that the Catalan plan aims to fulfil the Kyoto Protocol while also putting Catalonia on the right track to achieve the goals for 2020, the year by which

the EU is aiming for a 10% reduction in diffuse emissions compared to the 2005 rates.

The plan also contains the key elements for initiating the process of adapting to climate change, although according to the EU and the international community this front of action to counter climate change must be addressed immediately and parallel to the mitigation policies. For example, in view of the need to grapple with the effects of climate change in the Delta de l'Ebre region, one of our most vulnerable coastal areas, the government of Catalonia is studying possible effects as well as measures aimed at prevention and adaptation.

Catalonia's position on future climate change policies

The 2008-12 Catalan Plan to Mitigate Climate Change clearly demonstrates Catalonia's position on climate change by deploying measures aimed at implementing the government of Catalonia's current policies for countering climate change. It also lays the foundations that aim to guide future policies in the short, middle and long term such as adaptation to climate change and the challenges of the post-Kyoto negotiations. European agreements to reduce emissions by 20% or even 30% by 2020, depending on the success of the post-Kyoto negotiations, must be included into our country's strategies.

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Why the private sector holds the key to better development aid



American private sector capital flows to the developing world are, at \$130bn annually, more than six times greater than official aid from the US. **Henrietta Fore**, the Administrator of USAID, says this underscores the importance of a wider trend towards public-private partnerships, and details some of the “lessons learned” that could interest European aid organisations

During my travels in Asia, Africa and Latin America, I have been struck by the tremendous power that can be unleashed through successful public-private partnerships. These networks have already become the catalyst for development in many areas including providing credit to rural entrepreneurs, promoting information technology and expanding health services.

By their very nature, partnerships – what we at USAID refer to as “global development alliances” – take many forms. There is no such thing as a “typical” partnership, but

some of the best ones include the community outreach assets of a non-governmental organisation (NGO), the management savvy of a private company and the strategic vision of an international donor agency. When working in ways that complement each other, the public and private sector can together become a tremendous force for elevating aid effectiveness to a new level.

Over the past seven years, the United States Agency for International Development (USAID) has launched hundreds of Global Development Alliances, learning important

lessons along the way. Many of these “lessons learned” can be useful to other donors as they seek to promote more effective development programmes and work together to achieve the Millennium Development Goals (MDGs).

The face of international development has changed dramatically in recent years. The stark divisions between “developed” and “undeveloped” or “first world” and “third world” have become blurred. In this new era of globalisation, official development assistance – while continuing to grow – has been overtaken by private investments of all types. Although traditional donor institutions remain important, we are now entering a period of great excitement and momentum with a profusion of new actors on the development stage who are bringing with them a wealth of new ideas and solutions.

Take the case of the United States. In recent years, the US has significantly increased its development assistance levels and now provides over \$20bn in official aid each year. Despite this expansion, private capital flows from the United States to the developing world far overshadow those of the public sector, weighing in at more than \$130bn.

This dramatic increase in capital originates from many sources, including corporations, private foundations, NGOs, universities and colleges and religious institutions. A significant portion also comes in the form of the remittances that private citizens send back to their home countries. Taken together, funds from these private sources now represent more than four-fifths of the

total flow of capital from the United States to the developing world.

This trend is not unique to the United States. Across the world, capital flows from private sources to the developing world dwarf those of the public sector, even as the number and diversity of non-traditional development actors continue to increase. While official development institutions retain an important role, their success – and the success of the entire global community in working toward meeting the MDGs – hinges to a significant degree on the extent to which technical know-how and capital flows from many sources can be used to advance a common set of development objectives.

In this evolving aid environment, traditional donors must move forward and advance to meet new opportunities. As the global economy matures, the web of economic networks will become even more complex. Donor coordination has always been a challenge. Now it is even more daunting, requiring continued dialogue and consultation with an increasing number of new development actors both inside and outside government.

One USAID response to this challenge has been to launch the Global Development Alliance (GDA) initiative. To borrow a phrase from former Secretary of State Colin Powell who established the GDA, this represents a “fundamental reorientation” of how the United States shapes its development programmes and relates to its partners.

By linking US foreign assistance to the resources, networks, expertise and

creativity of private sector organisations that are investing in developing countries, the GDA model enables partners to bring their strongest assets to bear in addressing jointly defined development challenges. Through this multi-stakeholder approach, it is possible to address issues and achieve solutions that no single actor could hope to tackle alone.

Since adopting this model and approach in 2001, USAID has had significant success in creating partnerships. To date, USAID has cultivated over 680 public-private partnerships with 1,700 different partners, leveraging over \$9bn in partner resources. Across every industry and every sector, USAID is working with corporations both global and local to increase the effectiveness of development assistance.

Of course, public-private partnerships are not completely new. Over the years, there have been a number of examples of joint projects where government agencies and individual companies team up to support educational initiatives, deliver healthcare or address environmental concerns. But what makes for real development progress is sustainability and scalability. Against this backdrop, what makes the Global Development Alliance partnership model particularly successful is our focus on these two specific concerns.

For example, USAID worked with Dutch Royal Ahold, the world's largest food sales company, to improve farming techniques and output among pineapple growers in Ghana. By using its purchasing power as an incentive, Royal Ahold, along with USAID and a group

of NGOs, was able to encourage small and medium-sized exporters of pineapples and other products to introduce new varieties and improve the quality and packaging needed to export to the European Union. As a result, more than 450 growers will earn more money, small and medium exporters will process more pineapples and Royal Ahold will benefit from a steady supply of premium quality fruit.

Similarly, USAID and Unilever are partnering with the Bill and Melinda Gates Foundation and UNICEF to promote hand washing with soap in Uganda, Kenya, Tanzania, Senegal and Benin. This in turn helps eliminate viruses that cause diarrhoea and respiratory infections, two of the biggest causes of death among children in Africa. For Unilever, the partnership draws on community mobilisation and promotes new approaches to marketing. From a broader development perspective, it provides a new tool for introducing a cost-effective approach to saving lives while also creating opportunities for small-goods sellers.

Last year USAID and the Alliance for a Green Revolution in Africa partnered in a five-year \$61m alliance to develop a commercial seed industry in West Africa. The partners, including the Rockefeller Foundation, the Bill and Melinda Gates Foundation, Pioneer Hi-bred, Monsanto, Kemseed, and the African Trade Association, are seeking to establish a network of over 800 agri-dealers. The alliance provides access to seeds and planting materials for more than 500,000 farmers in five countries. By stabilising income from agro-business dealers and farmers across West Africa, the alliance is

creating a more inviting environment for business investment and growth.

Shortages of information technology (IT) professionals are crippling the ability of developing countries to tap into the new global IT infrastructure. USAID is working with Cisco to train IT workers in these countries, and to date 10,000 students in 47 countries, including many in the Middle East and Africa, have graduated from the scheme. Cisco is bringing its technology, its certification systems and resources, and USAID its on the ground networks and its development expertise.

As these examples suggest, each partner needs to share a common interest and have a significant stake in the final outcome. While early alliances were more likely to emphasise philanthropy and corporate social responsibility, "lessons learned" suggest that the most sustainable and durable ones include a strong connection to the core business mission around which any successful private company is built.

Our experience with GDA has shaped the current business model into one that relies on market-based solutions to advance broader development objectives. When successful, the resulting alliances are both sustainable and have greater impact. By linking the assets of companies, foundations and NGOs with our own resources, we can together improve lives, provide employment and expand opportunity.

Seven years after this model was first adopted by USAID, partnerships are now evolving to the next stage. Under this

new model of cooperation called Global Frameworks, USAID is cooperating with key partners in every region of the world, including companies from not only the United States but also Europe and various parts of the developing world. The range of partners already includes such companies as Cisco Systems, Starbucks, Intel, Rotary International, Seaboard, Microsoft and Coca-Cola.

To better meet the needs of the developing world, donors have to look to where the largest resource flows originate – the private sector. By working together, we can accomplish more and have greater impact on the communities that so desperately need our help.

Official development agencies have much to learn from each other. In recent years, we have watched with interest as different donors have responded to the changing development environment and the explosion of new actors, ideas and resources. Collectively, we are striving to make our development assistance efforts as effective as possible. The 2005 Paris Declaration by over 100 governments on aid effectiveness, the recent Potomac Statement setting out a USAID-Nordic agreement to advance aid effectiveness and the upcoming Accra meeting in September on aid effectiveness represent part of the response to this continuum of change.

In addition, we at USAID recognise and appreciate Europe's increasingly active role on the international development scene. We have followed with interest the European Commission's efforts to ensure that various



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bi-lateral European donors coordinate and work more closely together. We have also noted the ongoing trend toward multi-year funding as well as more decentralised approaches to programme management.

For our part, we believe that the GDA experience offers some useful models and “lessons learned” that will also be of interest to the wider European development community. As we work together to deliver more effective development, the private sector dimension of that development needs to receive greater attention.

Official development assistance remains a vital part of the ongoing effort to achieve

the Millennium Development Goals. But as the development landscape becomes ever-more complex, official agencies also have to adapt and change. The Global Development Alliance model for partnership is a proven success and an essential instrument in USAID’s development toolbox. Moving toward stronger and deeper alliances that involve the private sector should also represent an essential part of the broader donor community’s response. □

Henrietta H. Fore is the Administrator of the United States Agency for International Development (USAID) and the Director of United States Foreign Assistance with the rank of Deputy Secretary of State. longstrehtml@state.gov - dboyer@usaid.gov

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The case for cash aid to Africans - not to their governments



The European Union is committed to scaling-up its aid to Africa. But traditional aid delivery methods like direct budget support are often unpopular in both donor and host countries. **Göran Holmqvist** argues for a new approach, and suggests that direct cash payments to Africa's poorest citizens could be the answer

Europe has made an ambitious commitment to scale-up its aid to Africa, and Africa's challenges certainly call that greater engagement. But boosting aid to countries that are already aid dependent requires clearer aid delivery mechanisms and a degree of budgetary predictability that goes well beyond today's political realities. Something new on the aid menu is called for, and cash transfers directly to poorer people could be just such an alternative – but only as a part of a longer-term vision of partner countries' welfare systems.

The European Union has committed itself and its member states to increased aid flows that should reach 0.56% of gross national income by 2010 and 0.7% by 2015 – with a significant focus on Africa. The combined aid commitments of OECD Development Assistance Committee member countries would mean a doubling of ODA (official

development assistance) to Africa between 2004 and 2010 – if honoured. It is, after all, fair to question whether donor countries will actually stick to these commitments and, indeed, whether conditions in partner countries will permit them to do so. But a theoretical doubling of African aid by 2010 – with the possibility of even more after that – offers a huge opportunity for combating world poverty. So tackling any obstacles that could potentially inhibit the effective application of these additional resources is a major priority.

Progress in sub-Saharan Africa over the last 10-15 years, although far from linear or uniform, should certainly be given due recognition. That includes improved governance, fewer wars, respectable economic growth rates and improved social indicators, combined with a renewed and promising regionalism. That said, Africa remains the continent where efforts to attain the Millennium Development Goals

face the greatest challenges. In addition to existing obstacles to development two further issues looks set to become an increasing burden over the coming decades – the socio-economic consequences of HIV and climate change.

Regarding the impact of climate change on sub-Saharan Africa there are still many unknowns, but two things are clear. First, the price will be high, and paid primarily by the most vulnerable – especially African farmers who depend on rain-fed agriculture for survival. Second, those most severely affected will be those least to blame for global warming. An increasingly heated global discussion – justified morally as well as scientifically – on the inequalities of how the burdens fall when adapting to climate change, is unavoidable. This suggests that the political price for failing to deliver on European commitments to Africa will rise as time passes.

HIV has been around for more than 20 years, but the full socio-economic price will be paid over the coming decades. In fact, it's likely that the world has only seen the start of the African death toll from HIV. Children are the key to the future but the number of orphans in Africa is exploding. There are some 43m orphans in Africa, which means that 12% of all children aged up to 17 years have lost one or both parents. About a third of them have been orphaned by AIDS, a share that's bound to increase rapidly.

In the most HIV-stricken countries of southern Africa the figures are even more alarming. Africans' extended family structures are making tremendous efforts to

COMMENTARY

By Jochen Oppenheimer

It's not new, and it doesn't get to the root of the problem

Aid-financed cash transfers to the poor is a generous idea, but not a new one. It was already advocated by academics back in the early 1990s, and Germany's GTZ has already implemented it in a number of countries. Mozambique's GAPVU (Gabinete de Apoio aos Grupos Vulneráveis) scheme, for example, developed along these lines long before the poverty reduction strategy papers (PRSP) became the most recent conventional development wisdom.

Generous as such initiatives seem, they often try to tackle problems left over, amplified or created by previous donor-driven exercises in social engineering. How it is possible that we need yet another "new" proposal after 25 years of promises made by structural adjustment programmes – initially without, and later with "a human face", the Social Dimensions of Adjustment (SDA) initiative, the Highly Indebted Poor Country (HIPC) initiative, and the PRSP-framework. In short, is this not just more of the same?

Although Europe (the Commission and individual EU member states) is the world's biggest aid donor, actual aid delivery levels have always lagged behind previous commitments, however generous – even in emergency and war situations. Why should this recent commitment to scale-up aid to Africa differ from this track record? Budget constraints – particularly in

care for orphans and a heavy burden often falls on grandparents. But in the worst hit communities these support structures have already been stretched beyond breaking point. There is an exceptionally strong argument in favour of supporting right now those who are taking responsibility for raising the next generation of children in the worst affected countries.

While Africa's needs are clear enough, there are challenges in scaling-up aid to effectively tackle those needs. This reflects such problems as macro-economic management, aid dependency syndromes, absorption capacity, transaction costs and – related to all of it – the risk of decreasing returns as aid levels rise. Given the current

aid to GDP ratios in sub-Saharan Africa – with approximately half of countries yielding ratios of above 10% even before future increases in aid are taken into account – these challenges must be taken seriously.

Donors and their partners have agreed on a way forward that, in theory, could tackle these challenges. The agreement is contained in the so called Paris Agenda, which defines principles of ownership, alignment and harmonisation. It calls for the improved predictability of aid flows, with budget support and programme-based aid as the preferred means of delivering support. It is an agenda for improved partnerships, reduced transaction costs and increased efficiency.



MATTERS OF OPINION

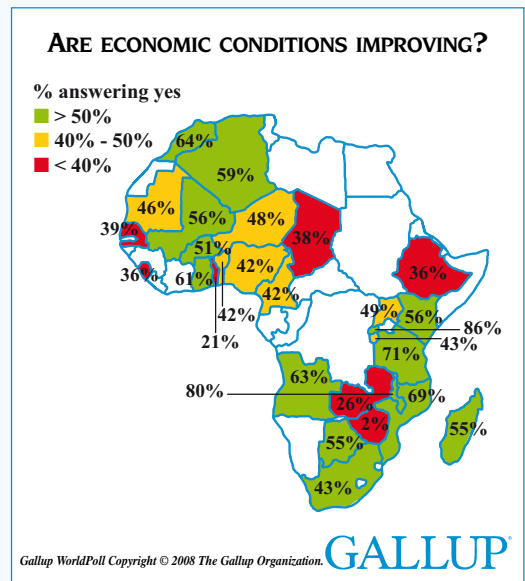
Things can only get better, say sub-Saharan Africans

One in four sub-Saharan Africans are increasingly hopeful that their lives will improve in the next five years, according to Gallup surveys in 25 African states.

The countries surveyed are all members of Regional Economic Communities, trade blocs set up between groups of African nations to strengthen economic, political and social cooperation with the aim of creating a continent-wide economic union by 2027.

When presented with a ladder scale where rung “0” represents the worst possible life and “10” the best possible life, at least a quarter of people in each of five regional groupings said they expected to stand on rungs 8, 9 or 10 within the next five years. Respondents in the West African bloc were the most optimistic of all, with almost half (47%) expressing this view compared to just 2% saying they were in this position today.

Averages for the five regions showed fewer than one in 10 people rating their past or their present situation on steps 8, 9 or 10.



It is when the Paris Agenda leaves theory and confronts reality that problems quickly emerge. Budget support suffers from low credibility, not only amongst northern taxpayers but also amongst citizens of the south. As a mechanism it assumes the predictability of financial flows, but such predictability can be spurious. After all, neither donor countries nor their partners are exempt from such problems as corruption, political crises, armed conflicts, human rights abuses, vested interests, or international power politics. On that basis, placing so many eggs in the same basket leaves the business of aid provision looking increasingly risky. Furthermore, budget support that's linked to national poverty reduction strategies also rests on the assumption that the political economy of the partner countries somehow works to the benefit of the poorest – this is an assumption that some political economists would question.

Politics on the donor side are no less complicated, with growing aid budgets being often viewed by taxpayers as excessive at a time when the anti-aid lobby is becoming more vocal. And when donors finance 50% or more of a country's national budget, they may sometimes find intervention unavoidable – donors certainly have the power to intervene. That could mean more conditions being placed on aid, not fewer – even if the rhetoric appears to sometimes suggest the opposite.

In the Autumn 2007 issue of *Europe's World*, Mick Foster of the UK's Department for International Development discussed this dilemma and proposed an international aid guarantee facility that would protect

times of slow growth or recession – along with other more pressing priorities, often win out over aid commitments. It's also worth pointing out that the pro-aid constituency amongst European voters has not been at its strongest in recent years.

Even significant growth in real aid flows to Africa is likely to see its poverty reduction effectiveness undermined by the tendency of former colonial powers to favour their old colonies. This is admittedly not the case when it comes to aid flows from Sweden and the other Scandinavian countries, that can boast high aid to gross national income ratios. Yet there remains an over-arching tendency to subordinate the EU's development agenda to Europe's own security, migration and environmental needs.

Finally there is the important aid and trade link. Since the first of the Lomé conventions, aid and trade were seen as two inseparable elements of European development policy. Development aid was accompanied by a unilateral free trade arrangement between Europe and the African, Caribbean and Pacific (ACP) countries – Europe opened its markets to these countries but partner countries retained their right to levy import duties. This approach was an implicit endorsement of 19th century German-born economist Friedrich List's view that free trade is nothing more than a form of protectionism practiced by a stronger nation.

In fact, history suggests that such selective protectionism has been a key factor in explaining how most formerly underdeveloped countries have managed to catch-up with their economic forerunners – and that includes

aid flows from short-termism and reduce unpredictability. But such a facility would still rest on the assumption that partner countries will spend the money well, and that donors are ready to finance a mechanism that sustains financial flows even in the event of a governance crisis or mismanagement.

Such drawbacks do not mean that predictable long-term budget support should be rejected. In many cases it is still likely to be the preferred means of channelling aid, as a return to the traditional form of project bombardment from an uncoordinated donor community just isn't an option in countries with 50% ratios of aid to public expenditure. But alertness to the political

realities of the situation is also essential. There are therefore strong arguments in favour of considering complementary and innovative aid modalities – mechanisms that effectively reach the poorest, do not suffer from short-termism, and yet are compatible with political realities.

One option involves cash transfers directly to the poorest. Experimental schemes have been implemented in Latin America with child allowances conditional on school attendance and vaccination. Cash aid has sometimes replaced food aid in humanitarian crisis situations, and there has been targeted social protection schemes in Zambia as well as incipient welfare schemes for the elderly in India, South Africa and

The advertisement features a solid orange background. At the top, the title "Europe's World" is written in a large, bold, white sans-serif font. Below it, in a smaller white font, is the subtitle "THE ONLY EUROPE-WIDE POLICY JOURNAL". In the lower-left quadrant, the text "Visit our blog on Blogactiv!" is written in a white, italicized sans-serif font. Below this, the URL "http://europesworld.blogactiv.eu" is displayed in a smaller white font. On the right side, there is a large, stylized graphic of a green arrow curving upwards and to the right, pointing towards a white circular area. Inside this circle, the "Blogactiv" logo is shown, consisting of the word "Blogactiv" in green and a small blue circle with a white plus sign and the letters "eu" in blue. Below the logo, the text "Europeans Challenge Europe" is written in a small green font.

Lesotho. These and other pilot schemes are being carefully evaluated and their development effects ascertained. But to summarise the findings simplistically – they seem to work!

Poor people spend money reasonably effectively on investment as well as on consumption. Food and other basic goods are bought that benefit the local economy, nutrition improves and kids attend school for longer. A carefully studied unconditional child grant scheme in South Africa – with mothers as receivers – even demonstrated the impact in centimetres because the height-for-age index amongst children improved in relation to control groups. To this one may add the historical European experience of introducing similar welfare schemes and their effect on poverty, social cohesion and the empowerment of women.

Whether cash transfer schemes are right for low-income African countries, their affordability and the administrative practicalities involved are all issues that need careful thought. But such obstacles should not be exaggerated. Scaling-up schemes would allow investment in finding radical new solutions for identifying beneficiaries and for developing the required technologies to transfer the cash. Universal schemes, rather than sophisticated attempts to target specific beneficiaries would further simplify administration.

Affordability doesn't look like such a big hurdle, either. Assume, for example, that a \$50 a year universal child grant is given to all children below 10 years of age in Mozambique, Malawi and Zambia – covering

COMMENTARY

Jochen Oppenheimer

today's free trade champions.

Within the new framework of global trade liberalisation, the EU is now offering its ACP partners new European Partnership Agreements (EPA). Against that backdrop it's worth asking how the potential to tackle poverty through cash transfer schemes will be affected. There are many issues here, but two in particular seem worth mentioning. First, such an approach would hit the budget raising capabilities of ACP countries which is presently significantly reliant on levying duties on European imports. And it's also worth remembering that the weakness of local tax collection systems has since colonial times left budgets considerably dependent on foreign trade border levies. Second, unprotected local production would suffer under the weight of foreign competition – that's likely to mean more local unemployment and an increase in the informal sector. So it's not surprising that many ACP countries opposed the EPA initiative at last December's Euro-African summit in Lisbon.

In other words, effective strategies for tackling global poverty should focus on paradigm change and on a comprehensive overhaul of European policies, rather than the pursuit of fragmentary remedies. □

Jochen Oppenheimer is a member of the advisory board of Concord, the European NGO confederation for relief and development, and was formerly a professor at the Instituto Superior de Economia e Gestão (ISEG) – Lisbon Technical University (UTL).

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roughly 10m children. These are three low-income countries with HIV prevalence rates in the order of 15%. Further assuming a relatively generous 20% administration overhead, then the total cost of the child grant scheme would be approximately \$600m. That's equivalent to a fifth of the reported aid flow to these countries in 2004 and to 3.5-4% of their combined GDP. It would certainly be costly, but not completely out of reach in a scenario where African aid is doubled.

Issues such as sustainability and ownership appear to be bigger problems. For cash transfer schemes to work they must be regular, predictable and long-term. But while donors and their tax payers might be willing

to make long-term commitments for such a purpose, there is likely to be rather less appetite for making commitments which would seem to be never-ending. A formula for burden-sharing would be needed that gradually increases domestic financing. But under no circumstances should these schemes be established as purely donor-driven constructions that by-pass local budgets and institutions. Partner countries must be ready to invest in their institutions and develop their own vision of how they want to organise their welfare systems as they progress as nations.

Would African partners want this? Would they see advantage in terms of reaching the needy more directly, reducing their dependency on fragile budget support relationships with interventionist-minded donors, while mobilising additional funding and speeding-up their move towards a future welfare state of their own making? Maybe. In any case, the cash transfer debate is no longer limited to those in northern development circles and has now reached the agenda of some African governments and the African Union.

It is not Europe's job to set Africa's priorities. But if asked to embark on a long-term partnership with an HIV-stricken African country that proposed a co-financing for some kind of cash transfer scheme, then Europe needs to be ready with a well thought through response that sends the right signals. □

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The EU heads of state and foreign ministers pose for a group picture at the European Union summit in Lisbon, Portugal, October 22, 2007 (left to right: EU leaders celebrated a deal updating the 27-member bloc's operating rules, the first such update since the 1992 Maastricht Treaty was signed on the shores of the European Parliament. Page 9

CROATIA

Zagreb wins UN Security Council seat



Prime Minister Ivo Sanader

PM Ivo Sanader hails international recognition of Croatia

Page 10



Bulgaria's problems are Europe's problems

Interview with Margarita Grigorovich

Page 2

EU ministers sanction Myanmar

Card and visa dilemma in play

Page 8

Fly the friendly skies of the EU

A scramble at airports

Page 7

NOTEBOOK:

Stable equilibrium in world markets?

The current economic turmoil world-wide continues to demonstrate that the world has not changed its basic structure in the 21st century. It is still a world of free trade, free markets, and free competition. It is still a world of free trade, free markets, and free competition. It is still a world of free trade, free markets, and free competition.

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IRAN'S NUCLEAR NEGOTIATOR QUILTS

On the eve of talks with the European Union's High Representative for Foreign Affairs and Security Policy, Catherine Ashton, the Iranian nuclear negotiator has quit.

Larbi's resignation has been accepted by President Mahmoud Ahmadinejad and officials were waiting to replace the minister. The Iranian nuclear negotiator has quit.

ANOTHER SHOWDOWN PUSHED BACK

Another showdown is pushed off the air and replaced by a meeting in London. The EU's top negotiator, Peter Smit, will be in Washington to meet with the US Secretary of State, Condoleezza Rice.

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Putin wants Iran and Caspian in his pocket

Russia is too busy to resolve Caspian status

Page 11



Arts and Culture

Russia's Accessible Art Fair 2007

Page 17



A law rattles foreign energy investors

Letter warns against Kazakhstan reform bill

Page 46

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SOFIA**Bulgaria seethes over the ECB's response to its "evro" hopes****By Roumen Avramov of the Centre for Liberal Strategies**

Bulgaria's January 2007 membership of the EU ushered in a period of adjustment with the European institutions. The political class was eager to demonstrate its self-confidence, and one of the most publicised outcomes was Bulgaria's decision that the official spelling of the European currency was to be evro (the Bulgarian-Cyrillic form) rather than the ECB-promoted euro.

This symbolic "breakthrough" hides the much more important issue of Bulgaria's eventual adoption of the euro. The procedure is that before joining the eurozone a candidate country has to spend at least two

years in the exchange rate mechanism (ERM II). As a country that has successfully been running a currency board since 1997, Bulgaria – along with Estonia, Latvia and Lithuania that were in a similar position – seemed well along the path to the single currency. Operating a currency board based on the euro is equivalent to surrendering monetary sovereignty to the ECB, and is therefore akin to eurozone membership in even though there remains a hypothetical risk of devaluation.

Bulgaria's fast track membership schedule has, however, been postponed *sine die*. It is still outside ERM II and the ECB is clearly hostile to the move. It is a deadlock that reveals a conceptual and legal vacuum in the Maastricht treaty's framework. Unlike the adoption of the euro, the entry into the European monetary mechanism is not subject to formal criteria, so no legal grounds exist

for opposing a country's application to join ERM II. The negotiation process is extremely opaque, and the ECB's reluctance is tacitly based on its assessment of Bulgaria's economic outlook. The bank is particularly concerned about the current account deficit that stood at 21% of GDP for last year, as well as by signs of credit overheating and foreign direct investment that consists of one-third real estate. The ECB perceives the situation as fragile and a threat to the stability of the currency board i.e. as a potential risk of devaluation. Bulgaria's counter-arguments stress robust economic growth that averaged 6% over the last three years, the continuous increase of foreign reserves, and the fact that the current account deficit is covered by a steady inflow of FDI. In brief, a healthy catching up, not a consumption excess.

Sofia's major argument is that sticking to fiscal

orthodoxy over a decade, along with its ex-ante fulfillment of four of the five Maastricht criteria (except inflation) should be rewarded and not penalised. A suspicion arises that the ECB's stance vis-à-vis the eurozone candidates is based on prejudice and perhaps on a deliberate cultural divide.

The risks associated with admitting Bulgaria into ERM II would in any case seem to have been overstated. The officially-agreed

The ECB's attitude is seen as fostering double standards, in line with the "soft treatment" of those countries that have apparently been able to infringe the rules of the Stability and Growth Pact with impunity

status of currency board countries in ERM II rules out ECB intervention in support of their currencies. And if a devaluation danger really does arise, the most reasonable step would be to counter it by accelerating that country's adoption of the euro rather than to make matters worse by keeping it out of the eurozone. On top of all this, the size of the Bulgarian economy is so

comparatively small as to in no way affect the stability of the whole system.

The ECB's attitude is seen as fostering double standards, in line with the "soft treatment" of those countries that have apparently been able to infringe the rules of the Stability and Growth Pact with impunity, and the nationalisation of private risks (Northern Rock, Bear Stearns). The problem is anyway thought in Sofia not to be a strictly Bulgarian one; the country's banking system is almost entirely European-owned, and these banks respond to the stimuli of world markets. They have simply followed the signals being given by the loose policies of the ECB and, in the US, the Fed by channelling the unleashed liquidity to best-performing opportunities in emerging markets. Bulgaria's current account deficit, it is said, is a textbook side-effect of this pattern. Meanwhile, the question that hangs over the situation is what the ECB's response could be if Bulgaria were to table a formal claim to join ERM II? □

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HELSINKI

Finland's power struggles result in mixed signals on foreign policy

By Michael Kull and Henri Vogt of the Network for European Studies at the University of Helsinki

When Finland's government changed from a centre-left to a centre-right coalition in Spring 2007, the make-up of the new cabinet introduced a significant shake-up in Finnish foreign policy. For 12 years, the social democrats had dominated policymaking, controlling both the presidency and the foreign ministry, so now for the first time since the 1930s Finland had a conservative foreign minister, Ilkka Kanerva, while retaining a social-democratic president. The conservatives also gained the post of defence minister and the chairmanship of parliament's foreign affairs committee.

The country's changed policy stance has been particularly noticeable

vis-à-vis the United States and Russia. Until recently, Finland, like “Old Europe”, was lukewarm and critical towards George W. Bush’s administration. Since 2000 there has been no state visit to the White House for Finland’s president, Tarja Halonen. Perhaps to demonstrate that change is in the air, the new government’s prime minister Matti Vanhanen, who is from the Centre Party, and his foreign minister have been intensively engaged in building bridges with US politicians and policymakers. Whether these bridges will have any lasting effect remains to be seen.

As to Russia, the new cabinet adopted a more outspoken policy line than its predecessors. Shortly after the change of government, ethnic Russians in the Estonian capital Tallinn rioted over the city’s removal to a new site of a World War II memorial to the Red Army’s dead. Foreign minister Kanerva was quick to condemn them, and further controversy over Russia was stirred when defence minister Jyri Häkämies used

a US visit last September to explicitly name Russia as the key security challenge facing Finland. The impact of this speech was only slightly blunted when President Halonen stated that “she would have expressed herself differently”.

This year, Finland holds the presidency of the Organisation for Security and Cooperation in Europe (OSCE), the organisation that in Finnish folklore is the baby of Urho Kekkonen, legendary Finnish President from 1956 to 1981, and the prime architect of Finland’s formerly close post-war relationship with the Soviet Union. Helsinki’s OSCE presidency may yet bring a new dimension to Finnish-Russian relations; during the first months of its presidency, Ilkka Kanerva repeatedly called on Russia to act in accordance with the European institutions. He wanted to send OSCE observers to Russia’s presidential elections, but the Kremlin refused to let them in. Russia’s attitude over Kosovo, where the OSCE also plays an important part, may well present fresh problems for the Finnish presidency.

The story told here essentially shows how Finland has moved into an era of “mixed foreign policymaking”. The president personifies the social-democratic tradition, with a strong emphasis on global governance and equality, while the new conservative line favours a stronger focus on security structures, both in Europe and in the transatlantic framework. Both these lines are now competing to define Finland’s role and position in the world.

This political wrestling may further intensify as a result of the newest scandal of Finnish politics: Mr Kanerva was forced to resign in early April, following a media uproar over his 200 more or less indecent text messages to an exotic dancer. He has been replaced by Alexander Stubb, a relatively young MEP and former advisor to Romano Prodi when he was Commission President. Stubb is an outspoken Europeanist and atlanticist, and although in his first comments he emphasised the team nature of foreign affairs policymaking, it nevertheless seems likely that the tensions will remain.

A NEW HOPE FOR CYPRUS

By Stefanos Stefanou, Government Spokesman of the Republic of Cyprus



There is no doubt that Demetris Christofias' election as President of the Republic of Cyprus has given a great boost to the cause of finding a solution to the Cyprus problem. In a very short period of time, the initiatives taken by the Cypriot President have led to the opening of the Ledras street crossing and to a meeting between the leaders of the two communities. The outcome of the meeting was an agreement for the resumption of dialogue between the two communities at the level of working groups and technical committees. The working groups will discuss questions relating to the substance of the Cyprus issue and the technical committees will discuss day to day questions.

This process aims at preparing the ground and bridging the differences which admittedly separate the two communities on questions of substance, so that the two leaders, if the dialogue in the working groups produces satisfactory results, may start comprehensive negotiations for a solution by the end of June. This is what the 21st March agreement between the two leaders envisages. It is imperative to

prepare the ground so that the two communities will have a real prospect of reaching a solution. Otherwise, if the two leaders attempt to start full-fledged negotiations without prior convergence, the most likely scenario will be that the talks will be led to a deadlock and failure. And a new failure in the negotiations for a solution will be a real disaster.

We aim at reaching a mutually acceptable solution that will serve first and foremost the best interests of the entire people of Cyprus, Greek Cypriots and Turkish Cypriots. President Christofias' position is that the two communities must work together with the political will and goodwill to reach an accommodation. The solution must be found in Cyprus by the Cypriots themselves. If the two communities prove that they can reach an agreement in the dialogue that is starting soon, then the international community will be encouraged to support the efforts for a solution.

The road to a solution is long and difficult because the Cyprus problem is a difficult and complex problem. A lot needs to be done. The opening of crossing points to facilitate communication between the free and the occupied areas and the adoption of further confidence building measures, while being important developments, do not by themselves lead to a solution of the Cyprus issue. Speaking of confidence-building measures, it must be recalled that the Republic of Cyprus has implemented since 2003 a series of measures for the benefit of Turkish Cypriots and has submitted a number of proposals aiming at facilitating trade between the Turkish Cypriots and the EU, through the lawful airports and seaports of the Republic.

A solution to the Cyprus problem calls for an agreement on the substance of the problem. It requires a common perception between the two communities on the basis and the content of a solution. A solution must reunite the people, the territory, the institutions and the economy of the country. This can be achieved in the framework of a bizonal, bicomunal federation, on which the two communities have agreed since 1977 with the Makarios-Denktaş agreement, and which was reaffirmed two years later in 1979 with the Kyprianou-Denktaş agreement, as well as the 8th July 2006 agreement. The bizonal, bicomunal federation has been adopted by the international community and is mentioned in a host of U.N. Security Council resolutions. The bizonal, bicomunal federation, in the context of which there will be political equality as described in the relevant resolutions of the Security Council is the agreed basis on which historically the two sides have converged and on which they have to base their efforts.

In addition to the agreement on the basis and form of a solution, there is need for common understanding about the content and the goals of the solution. The content should be such as to ensure that the solution will be viable and workable and that it will be supported by the people. The goal of the solution should be the restoration of human rights and fundamental freedoms of all the people of Cyprus. It should envisage the withdrawal of all foreign troops from the island, demilitarize the Republic of Cyprus and should put an end to colonization.

The united federal state, into which the unitary state of Cyprus would evolve after the solution, should have a single sovereignty, a single citizenship and a single international personality.

The parameters for such a solution are laid down in the U.N. Security Council Resolutions and the principles of international and European law. These resolutions and principles should

support and guide everybody's efforts for a solution.

A decisive factor is Turkey which since 1974 has occupied about 37% of the territory of the Republic of Cyprus. Its stand so far has not allowed finding a solution that is to the benefit first and foremost of the Cyprus people. Turkey should realize that a solution to the Cyprus problem is in its own best interests too. As the President of the EU Commission Mr. Jose Manuel Barroso pointed out in his speech before the Turkish Grand National Assembly on April 10 Turkey must put its weight behind a solution that respects the rights of all citizens on the island, starting from its contractual obligation under the Ankara agreement: the full implementation of the Additional Protocol. The search for a settlement in Cyprus is a historical and political obligation, Mr. Barroso said and added: "A settlement in Cyprus would generate tangible benefits for Turkey's accession process."

Unfortunately, Turkey has not yet fulfilled as it should its obligations towards the Republic of Cyprus, which is a European Union member country. It has not opened its airports and seaports to aircraft and vessels flying the Cyprus flag and does not recognize the Republic of Cyprus. The Republic of Cyprus supports Turkey's accession to the EU, provided that Turkey will honour its commitments and obligations towards the EU and its member states.

We are in absolute agreement with Mr. Barroso's position that the solution of the Cyprus problem is a historical and political obligation. President Christofias is ready to undertake this obligation and work hard for a solution based on principles, a solution that will open new prospects and give a new hope for Cyprus and its people.

*This section is sponsored by
the government of Cyprus.*

There is also a constitutional aspect to the situation. The latest constitutional reform in 2000 introduced a system where the president and the government in effect compete for the right to represent Finland internationally. Section 93 of the Constitution says that “the foreign policy of Finland is directed by the President of the Republic in co-operation with the government”. But the Constitution also says it is the government that is responsible for the “national preparation of the decisions to be made

in the European Union”. These formulations have contributed to much confusion over whether the president or the prime minister, or both, attend European Councils.

The latest constitutional reform in 2000 contributed to much confusion over whether the president or the prime minister, or both, attend European Councils

President Halonen insists that cooperation with the present coalition is running smoothly, but there is a passionate debate among the country’s political elite

on the president’s future role in dealing with both European and global partners. Many have proposed a reduction in the president’s powers, but it remains to be seen whether this will happen. There is, after all, a strong – and democratic – tradition that favours a directly-elected president with a degree of real power. □

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BERNE **Cliff-hanger vote will show the Swiss are not so detached over Europe**

By **René Schwok** of the European Institute and Department of Political Science at the University of Geneva

Switzerland is already a world champion at holding referendums on Europe

and now voters face the prospect of another cliff-hanger contest in 2009. This time it will be about the free movement of people from the European Union’s newest members, Bulgaria and Romania.

Berne decided to extend free entry to both countries’ nationals when they joined the EU at the start of last year. But the isolationist Swiss People’s Party (SPP) wants to block the change. The right-wing party has been emboldened

by winning nearly 30% of the vote in the last elections to the legislature, and will easily rustle up the 50,000 signatures needed for a plebiscite.

The main protagonists’ arguments are familiar, having been well rehearsed during referendums in 2005 and 2006. Those votes were about free entry for workers from the central and eastern European countries that joined the EU in 2004, plus a modest financial contribution towards European cohesion.

It is pretty well guaranteed this time around that the isolationists will invoke images of Switzerland being swamped by an invading horde of undesirables. Their rhetoric will probably degenerate into pure xenophobia and they also seem bound to stir up anti-Roma sentiment, dishonestly tarring all Romanians with the same brush.

In the opposing corner, a broad coalition will favour upholding Switzerland's international commitments and its tradition of openness. This camp will include parties from both the right and left of the political spectrum, plus bosses and trades unionists, intellectuals and journalists. Their main argument will be to remind voters that, if they vote against the free movement of labour, the EU would be perfectly within its legal rights to rescind bilateral agreements with Switzerland. Then the country's entire European policy would crumble.

The result of the vote is hard to predict. On the strength of previous

outcomes, the pro-Europeans could be expected to win with a majority of around 55%. But there is a significant new factor that could upset this forecast. SPP leader Christoph Blocher was evicted from the Federal Council in December 2007, and has decided to make his former colleagues pay dearly for this humiliation. In 2005 and 2006 he refrained from adopting a clear stance, but this time around Blocher will not be inclined to hold back. Can he get 50% support in 2009? It seems there maybe a cliff-hanger referendum in prospect.

All this interest in Europe may seem odd to outsiders, given that the Swiss are generally regarded as uninterested in the topic of integration. But appearances are deceptive. The Swiss are fascinated by the "European question" and there is plenty of lively debate – albeit focussed on a peculiarly Swiss agenda.

Berne's suggestion of a free trade area in farm products is one item currently on this agenda. Some 50 years after the launch of the

EU's common agricultural policy and its open market, Berne wants to open up its own farm trade on its own terms. There would be no single external tariff, no common agricultural policy and no harmonisation of agricultural subsidies.

Unfortunately for the government, there appears to be no support for their plan from most Swiss agricultural lobby groups either. They are already agitating against the idea and threatening Swiss voters with yet another referendum. Brussels, too, seems to be unenthusiastic about a scheme that would allow higher subsidies for Swiss farmers than for those in the EU.

Also rather belatedly, Switzerland is finally adopting the "Cassis de Dijon" principle, which was applied in the EU nearly 30 years ago after a judgment in the European Court of Justice in Luxembourg. It means that Switzerland will accept any products that are already traded freely in the EU, in accordance with the principle of reciprocal recognition of standards. Berne's

“FRANCE IS TAKING ON THE EU PRESIDENCY AT A TURNING POINT FOR EUROPE”

Joseph Daul MEP, Chairman of the EPP-ED Group



Is business doing enough to tackle climate change?

In an ideal world, some business sectors such as energy producers, energy intensive industries or car manufacturers could be doing more to tackle the

problem. However, we should never forget that it is the market, i.e. our choices as consumers, which largely determine the behaviour of business.

This is where politics comes in. EU governments have to create the right legal framework to tackle the problem. The German EU presidency launched the process and the French presidency will strive to put the proposals into effect. The European Parliament will be co-legislator and we are determined to cooperate closely with the Council and the Commission to reach agreement on the climate change and energy package as quickly as possible.

Also, European environmental technology is currently a world leader. We have to encourage this development to help the environment and create more jobs and opportunities for Europeans.

Until recently climate and environmental policy has been dominated by the Green movement. But swallowing the green agenda can be dangerous, because it is a bureaucratic, inflexible top-down approach. It is based on scarcity and limitation. We must move from the politics of limitation to the politics of possibilities. The EPP-ED group will look for pragmatic ways to do this.

Should the EU be so concerned about the loss of manufacturing jobs to other parts of the world such as India and China?

With globalisation, certain manufacturing jobs have moved to the emerging economies of India and China. European manufacturers can

compete by moving up the value chain, making high end products which require specialised skills. This is already the case in a number of European industries.

European consumers are benefiting from falling prices thanks to cheap imports but price is not the only criteria. European consumers are sensitive to the quality of products and understand that quality comes at a premium.

We also have to ensure that free trade remains fair trade. Manufacturers from India or China should not be allowed to dump their products on the European market, so we must continue to use our trade defence instruments where necessary.

What are your hopes and fears for France's presidency?

France will take over the EU presidency at a turning point for Europe, and will have the difficult task of preparing the entry into force of the Lisbon treaty, with the deep institutional changes that it will bring.

The French presidency will also continue the negotiations on the energy and climate change package. We welcome the presidency's plan for a European Immigration Pact. Our group believes that this is a good response to the challenges Europe faces in the field of immigration.

The French government will have to work closely with the Council and the European Parliament. I have no doubt about France's willingness to stick to the rules of negotiation and compromise. I am very happy that the President of the Republic has met with leaders of all political groups in the Parliament to prepare the presidency.

Contrary to what has often been said, France proves in the way it is preparing its presidency that it is definitely deeply European, not only in its rhetoric, but also in its deeds.

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aim is to bring down Switzerland's notoriously high domestic prices by increasing competition. Plainly, Brussels has nothing to lose from a unilateral Swiss decision which will make it easier to export merchandise to Switzerland.

Some spectres never seem to fade away, however, and the subject of Swiss banking secrecy still hangs over relations between Switzerland and her neighbours. When Berlin began to investigate tax-evading German bank accounts hidden offshore in Liechtenstein, the Swiss "auto-immune" response instantly kicked in. The chairman of the venerable Swiss Bankers' Association compared German actions to those of the Gestapo and Swiss magazines predicted catastrophic scenarios and relentless EU pressure to change secrecy rules. Things only calmed down after Luxembourg's prime minister Jean-Claude Juncker reminded everyone that EU decisions on taxation have to be unanimous. From now on, Switzerland will be relying on Luxembourg's veto to

protect the 2005 agreement on income tax and savings.

The subject of corporate tax is also still a bone of contention. The EU will no longer tolerate certain Swiss cantons offering foreign companies lower tax rates than those applied to Swiss ones. The European Commission considers this practice to be "perverse discrimination" that runs counter to the 1972 Free Trade Agreement between the EU and Switzerland, while Berne rejects any such interpretation. Only a gradual reduction in the taxation of Swiss companies, and attendant increases for foreign companies, can end the stand-off. And only unilateral action by Switzerland will end the pressure from the Commission, without giving the impression that the Swiss caved in to Brussels. □

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OSLO

Euro-sceptic Norwegians quietly bow to Brussels' power

By **Erik O. Eriksen**,
Director at ARENA, the
University of Oslo's Centre
for European Studies

Norwegians' concern about their political autonomy and self-rule has long seemed a potent argument against joining the European Union. Their "No" vote in the 1994 referendum was a national vow never to be governed by foreign laws. The result has been that the supposedly temporary Agreement on the European Economic Area (EEA) is now the only formal mechanism that connects Norway and the EU.

In spite of the No campaigners' victory back then, some observers claim they have been losing ground ever since. What is certainly true is that it is democracy itself that has suffered. Norway has meticulously to follow the rules that the EU makes, even though it is outside the club. EU rulings are

approved by Norway's Stortinget national parliament, but very quietly, even stealthily, via its EEA Committee.

The EEA Agreement does not formally imply a delegation of decision-making competence to any supranational body, but on issues relating to competition policy, the Brussels-based EFTA Surveillance Authority has direct competence. Like it or not, this puts Norway and other EEA countries under the thumb of a supranational authority. There is a get-out clause in the form of a so-called "right of reservation", but Norway seems unlikely ever to risk using it.

When the Agreement was signed, Norway not only incorporated its relevant rulings, but had to agree to incorporate all future EU legislation for the areas covered, as well as related policy areas. The Agreement is not a conventional trading pact, but an unbalanced agreement between two very unequal parts. Even in economic terms the relationship is decidedly

lopsided. For example, 80% of Norwegian gas and oil exports goes to the EU, but only 15% of the gas and oil that the EU imports comes from Norway. In a power game, the bargaining chips for Norway are pretty slim.

From an EU perspective, Norway risks being perceived as a wealthy free rider. It has not been willing to take part in European integration, but still reaps

Norway's citizens face a situation in which more and more decisions are made behind closed doors. The EEA Agreement may be an example of realpolitik in action, but is a democratic disaster for Norway. When there is conflict with EU legislation, Norwegians are increasingly affected by EU rules

the benefits of the security that the EU provides.

Norway's political parties now appear to agree that the country must co-operate more closely with the EU despite the earlier "No" vote. By including such areas as Justice and Home

Affairs and even defence, successive Norwegian governments have been extending the EU's influence way beyond the Common Market.

This shortfall in Norway's democracy is supposedly redressed by the seconding of Norwegian national experts to more than 200 EU committees, but they remain barred from the most important ones. This leaves lobbying and minor committee membership as the only available channels of influence. When EU member states disagree, they have institutionalised procedures for settling their differences. Norway, though, has to rely on old-fashioned diplomacy.

The EU not only solves common problems, but also affects the identities and interests of its member states and citizens. While the latter are encouraged towards democratic participation and public debate, Norway's citizens face a situation in which more and more decisions are made behind closed doors.

The EEA Agreement may be an example of

realpolitik in action, but is a democratic disaster for Norway. When there is conflict with EU legislation, Norwegians are increasingly affected by EU rules which trump national ones. Economic and social gains are offset by losses in political rights. Norwegians have less say in making the rules that actually affect them. And if Norway today is actually ruled from Brussels, where is the popular mandate for this policy? □

THE HAGUE **Still selling the Lisbon treaty to the sceptical Dutch**

By Mendeltje van Keulen of the Netherlands Institute for International Relations "Clingendael"

The Dutch government faces the challenge to sell the Treaty of Lisbon to a critical populace. But early indications suggest that at least parliament can be persuaded to ratify the treaty without demanding a re-run of the 2005 referendum which famously stopped the EU's would-be constitution in its tracks.

For a while now, the main talking point about the Lisbon treaty has been the ways in which it differs from its predecessor. The Dutch rejection of the constitutional treaty gave the government leverage during the subsequent negotiations, which The Hague then used to demand substantial changes to the new treaty. They wanted it to be

clearer about which areas would remain national competences and which would be vested in the Union. They also wanted the treaty to include accession criteria for new member states and to be called something other than a "constitution".

It turned out to be a sound negotiating strategy. The Hague hailed the outcome of last June's political agreement on the treaty as a success and said Dutch diplomacy helped save Europe from becoming a "super state".

Early signs from the Dutch parliament indicate that the process of ratification could be relatively smooth this autumn, and that intricate coalition politicking could be enough to avoid another referendum.

Indeed, there are several elements of the Lisbon treaty which should please Dutch members of parliament. Hitherto they have been largely preoccupied by the topic of subsidiarity. But the new treaty offers plenty of scope for national parliaments to contribute to substantial

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political choices on new European policies. There is also the potential for more effective coalition-building with other national parliaments across Europe.

There are other innovations in the new treaty which might counteract the voters' euro-scepticism too. The EU's new foreign minister and its permanent president could give a more human face for Europe and help dispel its technocratic reputation. The fact that the new treaty puts an end to national vetoes on some areas and creates high hopes for collective action in others, including climate change and foreign policy, may also come as a pleasant surprise for some. Dutch industry could, for example, become a front runner in the EU's new carbon emission trading system.

The Dutch government cannot however afford to relax just yet. The Netherlands was initially reluctant towards a fixed European Council presidency and the new EU diplomatic service. With the practicalities of both of these initiatives now under

discussion, the Dutch delegation will have to keep a sharp eye on proceedings at the European level.

More work also needs to be done to improve the current European scheme for inter-parliamentary cooperation and to make the new "orange card" system work. Under this Lisbon treaty, legislation proposed by the Commission could be

The Dutch government still faces a yawning divide between the views of the political elites on European integration and those of the population at large. The electorate remains critical

struck down if a majority of national parliaments oppose it and national governments or members of the European Parliament agree. The Dutch parliament, meanwhile, needs to reconsider its consent procedure for draft justice and home affairs legislation now that EU decisions in this field will be governed by co-decision rules.

Back home, the Dutch government still faces a yawning divide between

the views of the political elites on European integration and those of the population at large. The electorate remains critical and holds national politicians to account for their actions in Europe.

As a medium-size member state of some 16m people, the Netherlands has limited diplomatic capacity and political clout in the EU. Its government deserves credit for its negotiating stance in the run up to the Lisbon treaty, and its success in achieving its demands without becoming isolated or ignored.

Future Dutch influence will require The Hague to target its efforts on a limited number of strategic interests. Setting these strategic priorities will be a politically volatile exercise as the country's political model of consensus and compromise is poorly suited to picking clear winners and losers. Right now, the first priority of the Dutch government is to steer the Lisbon treaty safely through the parliamentary waters. □

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Letters to the Editor

Europe's World's aim of stimulating debate on key issues draws many thoughtful reactions from leading policymakers. We feature here a selection of letters commenting on articles in our Spring 2008 issue

Why Turkey may turn its back on Europe By Mark Almond



**JOOST
LAGENDIJK
MEP,**
Chairman of
the European
Parliament's Delegation to
Turkey

Sir,

Mark Almond is right on many points regarding his analysis of Turkey's attitude towards Europe; doubts certainly have arisen over the EU's sincerity in its dealings with Turkey. The EU is sending mixed signals, and while relations between Turkey and both the EU and US have improved slightly after America's support for the Turkish incursion into northern Iraq, they are still in rough water.

Mr Almond also has a point when he contends that the AKP government is making an effort to build more cordial relations with its Islamic neighbours. In my view, the reasons for this

are twofold. First, the AKP has because of its Islamic roots a greater affinity with these countries than its secularist predecessors. Second, it is also a strategic choice – the government is raising the Turkish value for the EU. With the influence it has acquired in the Middle East, Turkey is cleverly emphasising how much the EU has to gain in geopolitical terms by accepting it as a member state.

I do not agree, however, with Mr Almond's interpretation of the implications arising from these points. In the final analysis, there is no real alternative for Turkey but the EU. Neither Russia nor the Turkic-speaking countries or the Middle East can replace the EU – at least not in an economic or a political sense. Politically, there is a broad consensus in Turkey that its orientation should be westwards, even if

there is criticism of Turkey's western partners. Since its foundation, the Turkish Republic has been looking to the west. To break this tradition would be inconceivable for a majority of the country's population, and for the elite. The EU is the only bloc in the region where freedom of religion is guaranteed, and this makes it an irreplaceable partner for the AKP, for which freedom of religion is one of its main ideological pillars.

The EU would also benefit from Turkish accession. It is in the union's interest to entrench Turkey as a stable democracy inside Europe, instead of allowing it to become a less stable country on its borders. The EU's ambition is to be a global player in energy, climate and foreign policy. Turkey is an important asset in all three of these. Turkish accession would underline the inclusive character

of the EU – a union in which Muslims have a place next to Christians, atheists and others. It could help to convince Muslims from all over the world that the EU is not anti-Islam.

Europe's political leaders should publicly admit it is in the interest of the EU to take in Turkey, and that is essential in the light of today's sceptical public opinion. The formula of 2003 and 2004, when Turkey

I do not agree with Mr Almond's interpretation of the implications arising from these points. In the final analysis, there is no real alternative for Turkey but the EU

and the EU were working harmoniously on the Turkish reform process, should be restored. This would clear the road for accession. Provided that major divisions in Turkish politics and Turkish society can be overcome without rocking the boat too much, Turkey can be expected to fulfil the Copenhagen criteria in not more than a decade. □

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GUNTHER KRICHBAUM,
Chairman
of the
Committee
on the Affairs of the
European Union in the
German Bundestag

Sir,
The EU opened official accession negotiations with Turkey on 3 October 2005. But this was just the beginning of a long and open-ended process that should seek to build trust on both sides. The EU has a significant track record spanning many decades of co-operation with Turkey – and Turkey also boasts the second largest army within NATO. But despite this it is worth remembering that the union is not a military alliance – rather, it is a political union based on common values.

The EU's negotiations with Turkey are being conducted in a fair and open manner, and this constructive approach has to be the right way to proceed. But this process should not lead automatically to Turkish membership. To begin with, current discussions are on hold for eight of the negotiating chapters. This doesn't in any way reflect some sort of hidden EU agenda to effectively torpedo the talks. Rather, it reflects the fact that Turkey has

until now been hesitant about applying the terms of the 1963 "Ankara Protocol" which deals with the matter of allowing open access to harbours and airports for ships and aircraft from Cyprus, which of course is now an EU member state. Turkey also has much work still to do on implementing European standards in areas like human rights, gender equality, the protection of religious minorities and civil control of the army. Progress remains outstanding, too, on measures to strengthen the independence of the judiciary and boost public confidence in it.

If Turkey complains of lack of progress in the accession negotiations, then the Turkish government must first ensure that the terms which it has already negotiated and freely committed itself to are being implemented. Turkey must also recognise that the promise of forthcoming reform is not enough in itself – after all, these measures are being pursued in the best interests of Turkey and the Turkish people.

Finally, and going beyond the Copenhagen criteria, the EU will have to consider carefully its capacity to integrate Turkey into the Union. The failure of any potential member state to properly integrate itself into the

EU could undermine acceptance of the Union amongst its own citizens.

Mark Almond rightly alluded to the close co-operation between Turkey, Russia and Iran on energy. Against that background, and as a European

politician, I feel compelled to draw attention to Europe's own interests regarding foreign energy policy – these reflect the need for a fairly diverse list of supplier countries and regions, as well as transportation routes. For Turkey to follow an energy supply policy that is sensitive to

the Union's need for energy supply security would be a good basis for collaboration based on trust. □

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Europe's chance to become a global climate champion

By Anders Fogh Rasmussen



PHIL WOOLAS,
UK Minister
of State
for the
Environment

Sir,

When the Kyoto Protocol was first negotiated, in 1997, climate change was viewed very differently to the way it is now. Then countries were hesitant about taking action because of uncertainty over the science and the long term impacts. Now, eleven years on, the existence, scale and danger of climate change is no longer in doubt and the global community has a responsibility to act. We have come a long way since the Protocol was signed, but the further we go the more obvious the scale of the task becomes.

The nature and impact of climate change means that

the only effective response to it must be global. The actions of individual states, however praiseworthy, will not be enough, we must work together, and for this reason I wholeheartedly welcome the view expressed in the article by Danish Premier Anders Fogh Rasmussen that Europe must take the lead internationally in acting to tackle climate change.

Europe has in many ways been at the forefront, so far, demonstrating that a low carbon economy can be synonymous with high economic growth, and setting itself ambitious targets that provide an example for others to follow. The Commission's 2020 climate change package provides the EU with a solid framework for combating climate change and provides impetus for the deployment of a wide range

of technologies, including renewables, sustainable biofuels, and carbon capture and storage. Here in the UK, this will present a significant challenge, because although we have a strong technical and engineering background, we have historically been dependent on fossil fuel power generation and therefore have a long way to go on increasing the amount of renewable energy we generate to meet our targets. However, we are ready and willing to step up to the challenge and show other countries, who will also have to adapt their energy sectors, that it can be done.

The UK has shown strong commitment to tackling both the causes and consequences of climate change and is leading the way in the shift to a low carbon economy with the introduction of a

“EDUCATION IS NOT AN EU RESPONSIBILITY, BUT WE NEED TO BE ABLE TO STUDY ANYWHERE IN EUROPE”

Doris Pack MEP in the EPP-ED Group and Chairwoman of the European Parliament's Delegation for relations with the countries of south-east Europe



Do you think the EU is doing enough for education and providing sufficient funds?

On the level of funding, definitely not. But it is already a big achievement that the EU understands that without

education we will achieve nothing. Lifelong learning is essential. There are a number of worthwhile initiatives at EU level. The COMENIUS programme is a great success. It's a chance for pupils from the age of nine years old to talk with pupils in other member states on the same subject and exchange views and experiences. There is a new programme for 2008 offering the opportunity of scholarships in secondary schools for one year. This is also a great achievement. My son went to the US when he was in secondary school, and I always thought "why can't we do that within the EU?"

The LEONARDO programme is also a great success: those who receive training in practical subjects can do part of their stages in another EU member state. You can't benefit from the single market if you don't have knowledge of languages and experience of working in other countries.

The oldest and best known education and mobility programme is ERASMUS, which since 1987 allows students to study in foreign universities and to include the results achieved in their university carrier.

There is also the GRUNDTVIG programme for adults. It creates new chances of coming together and understanding each other better in practicing languages. It allows a better integration in the civil society and in the changing world.

As part of the Lisbon process the EU has created a Mobility Charter to enable people to pursue

their education across the EU and identified key competences which should be acquired in school and compulsory education in all member states.

There is the Bologna process created by member states and universities. But it didn't go through any parliament. I have organised two hearings on this subject in the European Parliament. Those responsible for the Bologna process did not think it through before they went ahead with it. In some countries, such as Germany, a bachelor's degree is three years. But in nearly all of the new member states it's four years. Instead of helping mobility Bologna may even be preventing it, because of lack of time in the three year bachelor programme.

We don't have the right in the EU institutions to intervene in national educational and training policies. That remains the competence of the member states. We always feel the Damocles sword of subsidiarity hanging over us. It's crazy. Education should not be harmonised but everyone should be able to study and work where he or she wants to. Therefore the recognition of moduls and diplomas should be increasingly possible. You should have the possibility to earn credits which can be used everywhere. Therefore, I ask for a credit transfer system in the Bologna process at European level, not at member state level. You have 46 credit agencies from all the countries participating in the Bologna process. The awarding of credits should be done by all 46 participating countries in one body.

One of the key competences in Europe is learning how to learn instead of just giving students the possibility to learn. There's a lack of good teaching. It should therefore be a greater focus on teaching, not only on research. For example in Germany we have an excellence award for research in universities but not for teaching. We should have that for both aspects, so that teaching gets the attention it deserves.

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Climate Change Bill, making the reduction of emissions a statutory duty. Central to this vision for moving to a low carbon economy is a fully functioning global carbon market. The EU emissions trading system is the first of its kind in the world and is a truly groundbreaking climate change mitigation tool. Phase II of the scheme started this year and has already evolved extensively beyond the first Phase. The Commission is now in the process of reviewing the scheme to improve it's functioning in future phases, and the UK is supportive of proposals for greater auctioning of allowances, inclusion of more gases and linking to other systems outside of Europe. I am greatly encouraged to

see similar trading systems emerging around the world in Australia, New Zealand and some groups of US states as more and more countries recognise that to not act will mean being left behind.

Europe leads the way now, but the next few years will prove a test of that leadership

But leading by example is, of course, just the beginning. As Premier Rasmussen says, we must continue to push international negotiations forward, and the next couple of years will be critical. In December 2009 Copenhagen will see the negotiation of the next phase of the international community's response to climate change and Europe's unity, collaboration and vision

will be critical in achieving a framework that is effective, fair and far-reaching.

With the devastating effects of climate change beginning to be understood, and in many cases seen, across the globe, Europe, along with the rest of the world, cannot afford to be complacent. For us to be successful in tackling climate change we must all work together, and take the process begun by Kyoto to a new level. Europe leads the way now, but the next few years will prove a test of that leadership. □

This enlargement mess

By Armand Clesse



JANUSZ ONYSZKIEWICZ
MEP, Vice-Chairman of the European

Parliament's Foreign Affairs Committee

Sir,
Armand Clesse's article "This enlargement mess" appears to be trying to scare us with a vision

of a Europe in economic decline that also lacks direction – a Europe that he maintains is very different from the Europe of the 1960s and 1970s. The reason for Europe's woes, argues Clesse, is simple; enlargement.

It's worth reminding ourselves that the European project was never intended to be limited to the six original founding

members. From the very beginning it was assumed that all European countries (including, one day, those on the other side of the "Iron Curtain") could join. So it is misguided to see enlargement as a betrayal of the founding fathers' legacy.

Nostalgia for the 1960s and 70s appears to be nostalgia for a period of relative European

insignificance on the world stage. Some would even say that it's nostalgia for a time when the realities of the Cold War left much of Europe as little more than an American protectorate. When Mao Tse-Tung, China's communist leader at that time, was asked for his views on Europe, he replied that events on this insignificant peninsula were of no interest to him.

Without enlargement there would also have been a second European construction – one centred on the EFTA-embracing

countries of central and eastern Europe and Scandinavia.

Nostalgia for the 1960s and 70s appears to be nostalgia for a period of relative European insignificance on the world stage. Some would even say that it's nostalgia for a time when the realities of the Cold War left much of Europe as little more than an American protectorate

Instead enlargement helped the EU to become a major global economic power, capable of shaping the international

rules governing world trade, competition and investment. It is only through being able to speak with one voice that the enlarged EU is capable of protecting its members from unfair competition from emerging economies like China. The European single currency – now in the process of being adopted by many of the new member states – has arguably become the world's most stable and trusted currency.

It is worth adding that between 2003-2006 the cost of

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enlargement represented just 0.1% of the combined GDP of the EU's 15 member states, and also that enlargement has placed no additional burden on the EU's budget. There is plenty of research demonstrating that neither has enlargement disrupted EU business, and that the most controversial issues there have little or nothing to do with enlargement.

The EU is certainly far from perfect. But few would doubt that it is the world's greatest example of peaceful integration. Europe can point to over a half century without war and to a community based on the rule of law as well as common values. When it comes to a model for peaceful development based on compromise amongst nations the EU is often held up as an

example to the world. On top of that, the EU now boasts an international prestige that it ever enjoyed in the 1960s or 1970s. □

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A five-point strategy for EU-Russia relations

By Mark Leonard and Nicu Popescu



BORIS ZALA,
Chairman of
the Slovak
National
Parliament's
Foreign Affairs Committee

Sir,
Anyone trying to define a new EU relationship with Russia faces a fundamental dilemma. Should it be based upon pragmatic self-interest or should it reflect a European system of shared values? If all the politicians, experts, analysts and others who are trying to draft a new bi-lateral agreement could only decide on the best way forward, a sound EU policy towards Russia might have a considerable influence over the future direction of the Russian Federation itself.

It is important at this stage that Europe avoids spending too much time trying to label Russia as semi-democratic, centralist, authoritarian or whatever. After all, the French system is a mixture of democracy and Bonapartism, but human rights in France still fall well within the European norm. Russia's transition to a democratic and market-based system may have been accompanied by – shall we say – certain negative aspects. But should this process necessarily be regarded as anti-democratic?

What we need now is to reaffirm European standards through an agreement with Russia over economic benchmarks, including product standards, accounting practices, audit requirements

and financial regulations. These standards need to be incorporated both into trade agreements and the everyday business practices of Russian companies seeking access to western markets. Not only will this aid Russia's integration into a common European economic and social space, it will also help to consolidate Russia's internal economic and social reforms.

However, it must also be recognised that Russia regards with caution the idea of integration with western institutions. Moscow puts great emphasis on achieving equal status in such organisations as the G-8 and WTO, as well as the UN, and is still unwilling to hand

over parts of its sovereignty to supranational bodies. Russian worries and doubts about the west inevitably reduce trust in their relations with the EU and the US.

When discussing the basis of EU policy towards Russia, one must of course ask questions that go far deeper than the terms of bilateral trade. So when deciding whether Europe is motivated by shared values or self-interest, we must consider whether the EU is consistent in its demands that all former Soviet republics observe the equal human rights of their ethnic Russian populations. Has the EU ever criticised or rejected a US policy toward Russia because Washington was motivated exclusively by power politics? Has Russia's status as a world power been systematically weakened by American geo-politics, with silent approval from the EU? If so, has this forced Russia into a position where its strategic needs inevitably take precedence over the pursuit of shared European values?

The answers to these questions clearly have a direct bearing on the direction of European policy towards Russia. The "Europeanisation" of Russia can only continue if Moscow feels confident that the

forces of democracy aren't driven by a desire to weaken its power. So the EU cannot expect to promote greater democracy in Russia and at the same time pursue anti-

The "Europeanisation" of Russia can only continue if Moscow feels confident that the forces of democracy aren't driven by a desire to weaken its power. So the EU cannot expect to promote greater democracy in Russia and at the same time pursue anti-Russian geo-strategic goals

Russian geo-strategic goals. Since a democratic Russia is of greater importance than NATO expansion, it would be counter-productive to enlarge NATO to the point where it becomes a US-backed threat to Russian strategic interests.

Russia can in turn only be expected to support democratic change in neighbouring states if Moscow considers the process to be free of anti-Russian power politics. Would Russia support President Alexander Lukashenko of Belarus, for example, if Vladimir Putin felt certain that a more democratic Belarus would not turn against Russia? Attempts to use "democracy" to weaken Russia's geo-political standing will only feed the anti-

democratic forces in Belarus. Such is the iron logic of power.

I am therefore convinced that the European Union's relationship with Russia must be built upon a substantive new agreement, one that increases mutual trust and respects Russia's status as a power. The new partnership must be firmly rooted in a binding and comprehensive treaty, rather than some less formal agreement. It must enable Russia to become involved in the economic and social area that is ruled by EU standards and norms. It must also strengthen Russia's democratic institutions and make the policies of both partners more transparent.

Reaching such an accord is the most important task that the EU and Russia can undertake this decade. If done properly, it could become a positive influence for the century and create the conditions under which pragmatic interests and shared values will enhance, not conflict, with each other. □

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Bush's legacy will be NGOs with a truly global vision

By Jean-Paul Marthoz



**CORINA
CRETU MEP,**
member of
the European
Parliament's

Committee on
Development

Sir,

Jean-Paul Marthoz raises an important question when he asks whether the end of the Bush Administration will change the relationship between the US government and NGOs. The answer will, of course, depend in part on whether a Republican or a Democrat wins the presidential race. But either way, the outcome will have ramifications well beyond the borders of America.

Some of the anticipated changes will, no doubt, be specific to those items on the international agenda where large numbers of NGOs vehemently oppose Bush Administration policies. These include the American intervention in Iraq, Washington's overall position on the Kyoto Protocol, genetically modified organisms and stem cell research. But the new administration's relations with NGOs will also impact more widely on the on-going

reorganisation of civil society across the world.

I believe that we have witnessed an acceleration of the globalisation of civil society during this first decade of the 21st century, enhanced by the spread of new technologies such as the Internet and mobile telecommunications. NGOs have been influenced by the great social shifts of our time, both in post-industrial countries in the trans-Atlantic zone and in post-communist states undergoing a transition towards democracy. One early example of this global phenomenon occurred at the failed world trade negotiations in Seattle. Other NGOs have been used by the US government as agents of political and ideological change in eastern Europe since the fall of the Berlin Wall.

This aspect of US relations with NGOs is often overlooked, especially the way it affects the structure of civil society in eastern Europe. Here, NGOs are often quasi-political, with strong links to right-wing politics. Consequently, if the Democrats win the White House, the new president might discover that eastern European civil society

is rather hostile to American liberalism, which is perceived to be a form of post-communist ideology.

On a wider front, however, a Democrat Administration that promoted a progressive social agenda could have a strong influence on the globalised civil society movement.

Many tantalising queries about the next US administration's relations with NGOs and global civil society remain open, and we certainly need a more thorough analysis of what might occur if the White House remains Republican. Will it continue the Bush tactic of "exporting democracy" or will US policies become more nuanced, perhaps adopting some features of the Democrat agenda? Alternatively, could a Democrat victory open the way for Chinese and Russian NGOs to join the process of globalisation in civil society without triggering a hostile government reaction in these two countries? I hope Jean-Paul Marthoz will return to these fascinating topics in future. □

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Carla del Ponte,
former Chief Prosecutor International Criminal Tribunal
for the former Yugoslavia (ICTY)

Steve A. Ballmer,
Chief Executive Officer, Microsoft

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Jacques Delors,
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Kemal Dervis,
Administrator, United Nations Development
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Connie Hedegaard,
Minister for Climate and Energy, Denmark

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They all recently contributed to a *Friends of Europe* debate or report.

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founder and President, Islamic Relief Worldwide



Neelie Kroes,
EU Commissioner for Competition



Pascal Lamy,
Director General of the World Trade Organization (WTO)



Pedro Lichstein,
President, Europe, Pfizer Global Pharmaceuticals



Gerard Mestrallet,
Chief Executive Officer and Chairman, L'Oréal



John Monks,
Secretary General, European Trade
Union Confederation (ETUC)



Karl Auguste Offman,
Former President of Mauritius



Hans-Gert Pöttering,
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Jorgo Chytzarakakis MEP,
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Research and Energy



Chris Davies MEP,
Member of the EP Committee on the Environment, Public
Health and Food Safety



Jeroen van der Wee,
Chief Executive, Royal Dutch Shell plc



Günter Verheugen,
EU Commissioner for Enterprise and Industry

Taming the private equity fund “locusts”

By Poul Nyrup Rasmussen



SIMON WALKER,
Chief Executive of the British Private Equity and Venture Capital Association (BVCA)

Sir,

In just one generation, the venture capital and private equity industry has grown to become a dynamo for growth, innovation and enterprise. This has provoked a debate in which the two sides are now very clear.

On one side are those such as the President of the European Socialists, Poul Nyrup Rasmussen. In his article on private equity, Mr Rasmussen’s critique of private equity can basically be boiled down to “competition is a bad thing, free markets don’t work, and what we need is more regulation”. Although he tries to have it both ways, by accepting that private equity might invest in innovation, Mr Rasmussen clearly sees company take-overs as a “menace”.

I applaud Mr Rasmussen for taking such a clear position, but I regret that he appears to still be living in the 1970s,

when central planning and regulation were all the rage. He fails to understand some simple truths which most politicians – including those on the left – now accept.

First, when a private equity fund buys a company it is

I applaud Mr Rasmussen for taking such a clear position, but I regret that he appears to still be living in the 1970s, when central planning and regulation were all the rage

often because, that company is in difficulty. Were it not taken over it might well go bust and see all its workforce laid off – something Mr Rasmussen does not mention.

Second, studies of such companies show that, after an initial period of restructuring lasting two or three years, new jobs are created. The investment is for the long term – not for short term gains, as Mr Rasmussen contends.

Third, those companies often receive far more investment in innovation and R&D than other companies, boosting productivity, sales and exports.

Fourth, the returns on private equity boost pension funds – many of which support trade unionists when they retire, a fact Mr Rasmussen glosses over.

And fifth, companies backed by private equity have on the whole gone on to be profitable concerns which pay large sums of tax to help fund public services – again, something that does not fit with Mr Rasmussen’s world view.

Should there be more transparency in private equity? Yes. That is why in the UK the industry is implementing new guidelines to improve transparency. But the call for “more transparency” should not become a cloak to hide demands from Mr Rasmussen and others for excessive, heavy handed regulation that would damage an industry that is securing jobs, pensions and long-term prosperity – things that, until reading Mr Rasmussen’s article, I thought the Party of European Socialists wanted. □

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The EU must speed up its western Balkans enlargement

By Wolfgang Petritsch



HANNES SWOBODA
MEP, Vice-Chairman of the European

Parliament's Delegation for relations with the countries of south-east Europe

Sir,

Wolfgang Petritsch is absolutely right when he says that the European Union must speed up enlargement in the western Balkans. But I also think it is important to highlight the flip side of the coin. Integration can only succeed if these countries speed up their own national preparations and do their homework on what is required to be a member of the Union. This is not simply an internal exercise for individual states – although that is certainly necessary. It must also be undertaken in relation to their neighbours and in the region as a whole.

This is probably the most significant difference between the western Balkans and other countries with a troubled history prior to joining the Union, such as the example of Spain and Portugal mentioned by Petritsch. The Balkans experienced

enormous conflicts over the last century and were often misused and exploited by the great powers. They now nevertheless have an opportunity to recover from their past and develop viable policies towards minority populations. Some countries have already done this; Croatia has an exemplary minority law and Macedonia has the Ohrid Agreement. But much more is still to be done and by more countries.

Wolfgang Petritsch is also correct in saying that the EU must make additional efforts. In this respect, the Commission's recent communication is disappointing. Despite mention of many well-intentioned initiatives, it lacks a vision which could give new hope to the countries of the Balkans and new obligations to the EU member states.

In light of Slovenia's presidency and the special meeting of foreign ministers, some of us here in the European Parliament proposed a "Ljubljana Process" to enhance the economic and social development of the region. It was to take into account the special conditions and needs of the western Balkans, including

the requirement to extend and modernise material infrastructure, particularly transport and energy, and to enhance science, research and development. Development in the western Balkans should not be separated from the rest of the EU, so this regional initiative should be linked to the wider Lisbon Process. Stronger cooperation both within the region and with other EU member states would help all the countries of the western Balkans to take a big step forward. A sound economic base is always good for employment and social policy, but it is also a way to support reconciliation between neighbours. This is the best instrument to end nationalism and hatred.

The biggest obstacle to a comprehensive Balkan strategy at the moment is the self-isolation of Serbia. We have to show patience together with firmness to overcome this hurdle; Europe and its member states must not be blackmailed. However, we should leave the door open to renewed dialogue and Serbia's eventual participation in building a new Europe. □

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Forget politics: what Russia and the EU need is a shared economic space

by Igor Yurgens



**HANS-ULRICH
KLOSE**, Vice-
Chairman
of the
Bundestag
Foreign Affairs committee

Sir,
Creating a common economic space between Russia and the EU, according to Igor Yurgens, "can only be fruitful if supported by political consent". I agree, not just because I am a politician but because I know how much political motives really matter. Both politicians and the business community must clearly understand that to make economic and political progress we need each other.

European governments and parliaments (which I notice Yurgens did not mention) and the EU Commission have to work on a new general agreement of co-operation. This has been blocked for years by irritating meat trade squabbles between Poland and Russia, but with the new leadership in Poland that seems to be over, and there is also a greater readiness for consensus on the Russian side. But there are still reservations within the European Union

reflecting uneasiness over domestic developments in Russia and the government's use of bureaucratic "conditioning" for political reasons.

Europe's and Russia's security depends on co-operation, and so do both economies. Russia needs to re-shape its production base by using advanced European technology, and Europe needs Russian energy resources. Both sides also need expanded markets, so the present trend towards further alienation should be re-directed towards increasing economic and political

co-operation, and from there, as Yurgens himself puts it, "... to even closer integration".

Does this sound over-optimistic? Perhaps it does, especially since Russia's concept of a sovereign democracy turns out to be a long way from the EU's. But we politicians need optimism, so we must hope that Russia's new president, Dmitry Medvedev will put into practice everything he has been telling the world about freedom and the rule of law. □

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**RIA OOMEN-
RUIJTEN MEP**,
Chairwoman
of the
European
Parliament's Delegation
to the EU-Russia
Parliamentary Cooperation
Committee

Sir,
Perhaps it's not surprising that as a politician I should reject the idea that we can "forget politics" and focus on just economics, as the headline of Igor Yurgens' article suggests.

It would be simply impossible to ignore the political aspects of EU-Russian relations, and naïve to think that we can consider economic cooperation in isolation. A shared economic space will not be enough to improve mutual trust and resolve our outstanding issues. This will take genuine political will from both sides.

I agree with Igor Yurgens that EU-Russian relations as a whole are characterised by a paradox. On one hand, economic cooperation is developing

quickly, with Europeans clearly ahead of any other investors in terms of their foreign direct investment in Russia. On the other hand, we have a very difficult political dialogue.

I believe that Europe must respect the difficulties that Russian society and policymakers have faced over the last 20 years, and understand that the country is still undergoing a transition. However, while Europe should be realistic about what it asks of Russia, we cannot compromise on the final outcome of our dialogue. This must include the rule of law, fair competition between mature political parties and an active civil society. Ultimately, only this can guarantee genuine stability in Russia.

Economic growth in the past decade has been undeniably impressive, but Russian policymakers still need to pay more attention to the structural problems facing their country. The rule of law, an active civil society and the fight against corruption are all necessary for a good business climate, as well as being indispensable elements of a democratic society. Progress in this sphere would greatly benefit both Russian and European companies, and our shared economic space must be based on the rule of law.

Other issues have to be addressed too. Energy is, of course, one extremely important subject where it is difficult to distinguish politics from economics. It should be increasingly addressed within the framework of EU-Russian dialogue. (In this context, I would like to remind Igor Yurgens that internal market rules apply to both European and Russian companies alike.)

I also think it is absolutely necessary to start negotiations to update the 10-years old EU-Russia agreement on partnership and cooperation. Both Russia and the EU have undergone enormous changes in the intervening period and this should be reflected in a renewed partnership. Some people say it will be impossible for all 27 of the Union's member states to reach a comprehensive agreement with Russia and, therefore, we should limit ourselves to a short common declaration. I cannot accept this pessimistic conclusion. What we need to overcome the stagnation in Europe's relations with Russia is real political determination on both sides, not just some free-trading zone. □

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