

I. Germany

“A republic of accountants”

The negotiations to establish a grand coalition between the Social Democrats and the Christian Democrats in Germany are not proving easy. The new SPD leader, Matthias Platzeck, however, says that he is optimistic that, between them, the two major German parties have developed “good solutions” for all the major questions facing the country. The woman who is to be Chancellor, Angela Merkel, also says that the talks are going well. But some commentators are pessimistic. According to two commentators writing in *Die Welt*, the coalition agreement is little but means by which the German state will extract money from the German economy. There is a €35 billion shortfall in the budget and the two parties seem to be mainly discussing spending cuts and tax hikes in an attempt to bridge it. Naturally, the proposed tax hikes are causing industry representatives to complain very loudly, since they fear that Germany’s status as a good place for investment will, they claim, be seriously threatened. The President of Germany’s Chamber of Industry and Commerce, Ludwig Georg Braun, has said that the proposed tax increases mean that any improvement in Germany as an industrial centre is out of the question. The €35 billion shortfall is predicated on tax revenues if the economy grows at 1.8 per cent as predicted by some. The “five wise men” who advise the German Government on economic policy, however, say they expect German growth to be only about 1 per cent. If growth is dampened, for instance by the planned increase in VAT, then of course the gap in the budget will get even worse. The commentators fear that the tax hikes will be introduced and that various state handouts will be cut, both of which will mean that there is less money in the economy. If consumers have less money, they will spend less and the economy will suffer. The authors say that Germany should allow investors to write off more against tax, and they complain that German corporate tax is the highest in the world at 39 per cent. They complain that the two coalition parties have effectively no solution for the biggest problem facing the German economy, namely mass unemployment. They say that the Christian Democrats have effectively abandoned their plans to liberalise the labour market, even though such reforms would not cost the state anything. They point out that unqualified people have

effectively no way of working legally, since the state imposes costs which make their labour too expensive, and that for many long-term unemployed people, especially for those with children, it simply does not make economic sense to take a low-paid job. [Dorothea Siems & Cornelia Wolber, *Die Welt*, 9th November 2005]

News reports confirm that the principal point of discussion between the two parties has indeed been the budget. The pace, in other words, is being dictated principally by the requirements of the EU’s Stability and Growth Pact, which Germany has broken now for several years running. In addition to the hike in VAT, the SPD is demanding that the upper rate of income tax be raised to 45 per cent for those who earn more than €250,000 a year. The new Government is expected to take office on 22 November, providing that the negotiations continue according to plan. [*Le Monde*, 22nd November 2005]

The high-profile Prime Minister of Bavaria, Edmund Stoiber, who ran for the Chancellorship in 2002 and lost, has refused to be a member of Angela Merkel’s Government. He has decided to remain in Munich instead. He justified his refusal by saying that the SPD has changed its leader and that the withdrawal of Franz Müntefering in favour of Platzeck had changed the political situation completely. It had been expected that Stoiber would become a “super-minister” in the new Government, but his ambitious plans encountered opposition from both Social Democrat and Christian Democrat future ministers. [*Handelsblatt*, 8th November 2005]

One of the issues on which agreement was quickly reached was Turkish membership of the EU. The two parties had campaigned strongly against each other on this during the election. Put simply, the Christian Democrats have abandoned their opposition to Turkey joining, although they have dressed their volte-face up by saying that they demand that Turkey fulfil all Europe’s demands before it is admitted. The agreement makes no mention of the concept of a “privileged partnership” which the Christian Democrats had said they would put forward as an alternative to full membership. [Various news agencies, 7th November 2005]

II. European Union

Brussels promises transparency

In an attempt to win confidence among ordinary Europeans, the European Commission has said that it wants to establish maximum financial transparency. The President of the Commission, José Manuel Barroso, was apparently shocked when a Eurobarometer poll found that 70 per cent of Europeans said they knew little or nothing about what the EU does. Trust in the EU institutions, according to the EU's own surveys, fell in 2005 and is now lower than it has been since 2001. A new information policy is to be adopted during press conferences, and spokesmen have been instructed to be freer with the information they give out. Moreover, all internal EU correspondence is to be made public on an Internet register. In particular, the recipients of all EU monies are to be made public – CAP, structural fund and cohesion fund. [*Die Welt*, 9th November 2005]

Commission says enlargement should continue

In a report which is to be accepted this week, the European Commission has expressed its satisfaction at the opening of accession negotiations with Turkey and Croatia, as well as at the progress which has been made with respect to Bosnia and Serbia. Other reports due soon will recommend that enlargement continue. The reports all conclude that the accession process has been highly positive for the candidate countries (Turkey, Croatia, Macedonia, Serbia-Montenegro, Bosnia-Herzegovina and Albania). The reports fail to mention the fact that the EU cannot agree its budget, or that the Constitution has been rejected in two referendums: neither of these, apparently, is an obstacle to further enlargement. Paris regards this omission as egregious, because the French Government says that both the Constitution and an agreement on the budget are essential for Europe to be able to function with twenty-five and more Member States. Far from stopping the European construction, Brussels seems to have simply decided to ignore the EU's own internal crises. The Commissar for Enlargement, Olli Rehn, has said, "It would be irresponsible to interrupt such a serious process which helps to put in place stable and efficient partners in the most unstable parts of Europe." [Alexandrine Bouilhet, *Le Figaro*, 7th November 2005]

At the same time, the European Union has demanded further decisive political reforms from Turkey if it wants to become an EU Member State in ten years' time. EU diplomats have said they want to see the abolition of torture, a guarantee of religious

freedom for non-Muslims and civil control of the military. These issues have been at the heart of discussions between Brussels and Ankara for ages and Turkey has been trying to do everything it can to satisfy Europe's demands. Negotiations on membership are expected to start next year. By the end of 2008, Turkey will be required to show not only that torture is illegal but also that the ban is properly enforced. Not only will the Turkish army have to be put under the control of the Turkish Parliament – in the past, it has been the other way around – but also the trial and sentencing of civilians by military courts will have to stop. Turkey is also required to help solve the Cyprus question. Croatia, which is joining along with Turkey, is required to liberalise its capital markets, introduce free trade in goods, and make changes in its environmental legislation. [*Die Welt*, 9th November 2005]

Mandelson tries to force through WTO accord

The Commissar for International Commerce, Peter Mandelson, has said that France does not have the right to veto the Commission's proposals in the negotiations currently taking place at the World Trade Organisation. On 7 November, Mandelson said, "The French Government does not have a veto over the Commission's proposals, nor on my negotiating strategy." He was speaking after the French Minister for Industry, Christine Lagarde, had said that, "The threat of a French veto is real if we have gone beyond what is acceptable. But I hope that we will have not have to use that weapon." Mr Mandelson's staff are accusing France of adopting a reactionary attitude to the trade negotiations which, they say, will greatly increase activity in the world economy. Mandelson was obviously rattled by the fact that the French public nature of the French Government's opposition to the Commission's negotiating strategy. He said that it would undermine the Commission if individual pressure groups expressed their dissatisfaction in public. [*Le Monde*, 7th November 2005]

Franco-British rift continues

The disagreement between the British Trade Commissar and Paris reflects a wider set of differences between Britain and France over EU policy and strategy at the moment. Although President Jacques Chirac and Tony Blair had tried to demonstrate their "harmony" at the EU summit at Hampton Court, all pretence vanished when disagreements on the budget proved insuperable. Jack Straw, the British Foreign Secretary, has said that he thinks it will be "difficult" to find a compromise.

France is continuing to defend the Common Agricultural Policy tooth and nail, even though this is at the very heart of what is currently being discussed at the World Trade Organisation. [Philippe Ricard, *Le Monde*, 9th November 2005]

Euro weakens

For the first time in two years, the euro has fallen below \$1.18. Following its initial fall to well below \$1 after its launch in 1999, the euro has been relatively strong against the dollar. This tendency seems to be changing at the moment. The main explanation is that the yields on bonds and short-term loans are higher in the US than in the eurozone. [Cécile Prudhomme, *Le Monde*, 9th November 2005]

The six-year truce between eurozone ministers and the permanent executives at the European Central Bank seems to have ended. At their meeting in Brussels, EU Finance Ministers took the highly unusual step of issuing a public warning about the economic effects of raising interest rates. "Such a step would endanger any economic upturn," said the German Finance Minister, Hans Eichel. Eichel said that there were some signs that the German economy was improving, but that this would be put in jeopardy if rates were to rise. The current chairman of the euro group, the Luxembourg Prime Minister, Jean-Claude Juncker, warned the European Central Bank in the presence of its President, Jean-Claude Trichet, that it should not take any "hasty decisions". Juncker said that the EU ministers did not see any danger of a "domino effect" as a result of the recent rise in the oil price. The central bankers have been letting it known that they think that the inflationary pressures generated by the rise in oil prices may necessitate a rise in interest rates. Experts are expecting a rise in December. The proposed rise in VAT in Germany is only sharpening the conflict. Eichel has told the European Central Bank that it should not use the inflation generated by this as an excuse for raising rates either. Some experts reckon that the 2 per cent VAT rise in Germany will push inflation up in the whole eurozone by 0.4 per cent. The coalition partners in Berlin are considering raising VAT, currently at 16 per cent, by as much as 4 per cent (i.e. to 20 per cent). Unlike the Bank of England, which does not include the cost of indirect taxation in its inflation calculations, the European Central Bank (quite rightly) considers that tax is part of the cost of living. A VAT rise will therefore feed directly into the inflation figures, which the ECB is committed to keep under control. The bank has warned repeatedly in recent months that any increases in indirect taxation will represent a danger for inflation. The ECB made no public statement following the Finance Ministers' declaration. It has

refused to say exactly how it will react to a VAT rise in Germany, but the German Bundesbank (whose Governor of course sits on the ECB board) has made it clear that it is very opposed to any hike. It has been supported in this by the council of "five wise men" who advise the German Government on economics. The ECB has set itself the task of keeping inflation just below 2 per cent, a goal it has failed to meet for seven years in succession, i.e. ever since the euro was introduced. It is because the euro inflation rate is now 2.5 per cent that people expect a hike in rates in December. [*Handelsblatt*, 9th November 2005]

180 French companies attacked over Iraq

Renault and Peugeot are among 180 French companies which the Volcker Commission in the United States has accused of knowingly or unknowingly paid tens of millions of dollars in bribes to the regime of Saddam Hussein in Iraq, thus violating the international embargo which was imposed on Iraq until the invasion of 2003. Renault Trucks, which now belongs to Volvo, is alone accused of paying \$6.5 million worth of bribes to pre-war Iraq, while Peugeot is accused of paying nearly \$7 million. The abuses are believed to have occurred within the framework of the "oil for food" programme which was supposed to limit the effect of the UN sanctions. It is alleged that the Iraqi Government imposed a tax on the companies which exported to the country, which was supposed to pay for transport from the Gulf port of Um Qasr. In 2000, it also put an "after sales service tax" of 10 per cent on its contracts, which was often paid in or into accounts in Jordan or Lebanon. The Volcker Commission says that Renault VI won thirty-nine contracts for a total value of some \$167 million. These contracts were for industrial vehicles, refrigerator trucks, fire engines, sewerage trucks and other equipment. More than half of these contracts are said to have entailed illicit payments totalling some \$7 million. The Commission says that it has proof that these monies were paid, which it claims to have obtained from the Iraqi Finance Ministry. Peugeot is said to have won some fourteen contracts, totalling \$169 million, for ambulances, cars, minibuses and other equipment. Of these, contracts worth \$77 million are said to have entailed bribes of some \$7 million. The Commission admits that it has no proof that the companies in question approved these illicit payments or even that they knew about them. The companies have been contacted by the Commission and invited to respond to the allegations. [Philippe Bolopion, *Le Monde*, 6th November 2005]

Holocaust denial on trial

The trial has started in Mannheim of the veteran Holocaust denier, Ernst Zündel. The presiding judge has already dismissed his lawyer, Sylvia Stolz, because she had wanted to engage Horst Mahler as her assistant: Horst Mahler is a former member of the Baader-Meinhof gang who has now become an extreme right-winger. Mahler is forbidden from exercising any profession, as a result of his previous convictions. Zündel is accused of incitement to hatred and of insulting the memory of deceased people. According to the prosecution, he has

systematically denied the Nazi Holocaust in his writings on the Internet. He is also accused of inciting anti-Semitism. Zündel has lived in Canada and the US since 1958, from where he runs his web site. He was arrested in the US on 5 February 2003 for violation of American immigration law and expelled to Canada, from whence he was deported to Germany in March 2005. [*Handelsblatt*, 8th November 2005]

III. Former Soviet Union

“Orange Revolution” in Azerbaijan?

As expected, the Organisation for Security and Cooperation in Europe (OSCE) has roundly attacked Sunday’s parliamentary elections in Azerbaijan, saying that the poll fell far short of democratic standards. The OSCE is notorious for tailoring its observation reports according to political imperatives, and in fact the elections were noteworthy for the very low turnout rather than for evidence of fraud: fewer than 50 per cent of Azeris voted, which suggests disenchantment with the political class rather any need to indulge in vote-rigging. Nonetheless, a rerun will be organised in two constituencies: no doubt the Azeri Government is trying to placate the OSCE which represents the powerful governments of Western Europe and the United States. The reruns are to be held in constituencies where prominent opposition leaders failed to get elected to Parliament. [*Le Monde*, 8th November 2005]

The American Government issued a sharp condemnation of the Azeri poll on Monday, saying that it had been marred by “significant irregularities and fraud”. Adam Ereli, a State Department spokesman, called on the Azeri Government to launch an enquiry immediately into the fraud. [*Le Monde*, 7th November 2005]

Opposition supporters demonstrated in central Baku on Wednesday, claiming that the vote was rigged and demanding that it be annulled. The opposition has pledged to continue the demonstrations until its demands are met. [*Radio Free Europe/Radio Liberty*, 9th November 2005]

Putin says he wants to spend on sovereignty

The Russian President, Vladimir Putin, has told senior military officers that significant spending on Russia’s armed forces is tantamount to investing in a guarantee on national sovereignty. “Our military construction policies fully match the country’s

economic potential. The armed forces are a basic attribute of statehood. They should be prepared any minute to ensure global stability and defend Russia from any attempts at causing military or political pressure or blackmail. Deplorably, such methods of conducting foreign policies are still a reality in the world.” [*Itar-Tass*, 9th November 2005]

New law on NGOs in Russia

The Russian Parliament, the State Duma, is taking steps to ensure that all non-governmental organisations register with the authorities before the forthcoming national elections. Fears have been expressed that some NGOs, especially those which are political pressure groups like Human Rights Watch and Mikhail Khodorkovsky’s Open Russia Foundation, might be forced to close. The bill stands a good chance of becoming law, since it is supported by the major political parties in Parliament. A member of the far-right Liberal Democratic Party has praised the bill, saying that it would enable the Government to prevent NGOs from receiving foreign funding and using that money for political purposes, as happened during the “Orange Revolution” in Ukraine last year. In a meeting with human rights activists on 20 July, President Putin had said that he would not tolerate foreign money being used to fund the political activities of NGOs. Russian Government officials have repeatedly accused Western countries of helping bankroll Ukraine’s Orange Revolution last year and Georgia’s Rose Revolution in 2003 through NGOs, and the Kremlin is worried that Duma elections in 2007 and the presidential vote in 2008 could trigger a similar popular uprising. The US House of Representatives approved a budget bill last Friday that would provide \$4 million for the development of political parties in Russia. [Anatoly Medetsky, *Moscow Times*, 9th November 2005]