

## I. German elections, EU budget

### Early elections in Germany

The presidium of the German Social Democratic Party (SPD) has voted unanimously to call early elections, this autumn. This is a highly unusual procedure in Germany, which has fixed term parliaments. Chancellor Schröder has said that he will call a vote in the Bundestag on the matter by 1<sup>st</sup> July at the latest. The SPD wants Schröder to be the candidate for Chancellor (in Germany, the party leader is not necessarily the candidate for the top job) and it intends to campaign strongly on keeping Angela Merkel, the most likely CDU candidate for Chancellor, and leader of her party, out of office. The other campaign issues will be “social progress” and German foreign policy. Schröder intends to go into the campaign without reshuffling the current government. There are tensions within the SPD, however, and some party dignitaries have called on the malcontents to rally around their current leader and Chancellor, and to concentrate on attacking the CDU. [*Die Welt*, 23<sup>rd</sup> May 2005]

Opposition is also growing within the SPD to continuing the coalition with the Green party. Some right-wing Social Democrats are urging the party not to issue a statement about future alliances during the campaign. Such people think that a Grand Coalition should not be ruled out, i.e. a government composed of SPD and CDU. These various tensions within the SPD are doubtless one of the reasons why the elections have been brought forward – in order to forestall them. The Christian Democrats seem to have a clearer idea of what they want to do in government: Angela Merkel has said that the Free Democrats are the only possible coalition partner for the CDU. The FDP liberals have reciprocated, saying that for them a coalition with the Christian Democrats is the only alternative to the current red-green administration. Their chairman, Guido Westerwelle, has been mandated by the party to conduct negotiations with Angela Merkel and Edmund Stoiber. [*Handelsblatt*, 24<sup>th</sup> May 2005]

The Christian Social Union – the Bavarian wing of the Christian Democrats – is already counting its chickens. Its leader, the Bavarian Prime Minister, Edmund Stoiber, lost the previous elections as Chancellor-candidate but he is slated to become a “super-minister” in a future Merkel government. Alternatively, he might become Foreign Minister. CSU members are already trying to decide who will

replace him as Minister President of Bavaria. Stoiber has been trying to keep all options open, no doubt in order that he is not seen as trying to usurp the CDU leader’s prerogatives. [*Handelsblatt*, 24<sup>th</sup> May 2005]

Although many Christian Democrats seem to be convinced that power will be theirs this autumn, the polls are less convincing. Only 31% of German citizens think that a CDU/CSU government can solve the country’s problems better than the current lot. 63% said a right-wing government would be no better. 80% of those polled said they approved Schröder’s decisions to hold an early poll, which follows heavy SPD losses in regional elections. 66% say that Schröder is the right Chancellor-candidate for the SPD; Angela Merkel gets only 34% support, less than the Prime Minister of Saxony, Christian Wulff (37% support). Only 13% say Stoiber should be the Chancellor candidate. But CDU voters prefer Merkel to Wulff (42% to 35%, with 19% for Stoiber). [*Handelsblatt*, 24<sup>th</sup> May 2005]

### Lafontaine leaves SPD

The former leader of the German Social Democratic Party and onetime Minister of Finance, Oskar Lafontaine, has stunned Germany by announcing that he is leaving the party to set up a rival left-wing group. He has said that he will contest the forthcoming elections as part of a new alliance with the PDS, the former Communist party. It is expected that several leading SPD figures, including some deputies, will follow him. Lafontaine had always said that he would leave the SPD if the party continued with its various free-market and anti-socialist reforms, which it has done. [*Die Welt*, 25<sup>th</sup> May 2005]

### German elections will affect EU budget deal

In the EU, people say that the early German electoral campaign will make agreement on the EU budget even more difficult than before. The spokeswoman for the European Commission, Françoise Le Bail said that “under no circumstances” would the negotiations now be any easier. The current Chairman of the EU’s Council of Foreign Ministers, the Luxembourg Foreign Minister, Jean Asselborn, agreed. “Although the dissolution of the Bundestag will make our task even more difficult, it is not going to fail for this reason alone.” Asselborn said that there were sufficient numbers of sensible people in the German government and opposition to allow the

EU negotiations to advance. Le Bail said that agreement on spending in the years 2007-2013 was "extremely important". The Commission hopes that agreement can be reached by the middle of June. The German government is key to any solution, because it is insisting that EU spending be capped at 1% of total EU GDP. The Commission and some net recipients of EU money want the total budget to rise above this percentage. [*Handelsblatt*, 23<sup>rd</sup> May 2005]

The twenty-five Finance Ministers met in Brussels to prepare the summit (European Council) on 16<sup>th</sup> and 17<sup>th</sup> June. But the prospects of an agreement seem slim, given the domestic weakness of the German government (which will therefore harden its position in the EU negotiations) and given the refusal of the British government to contemplate any removal of the British rebate. The Luxembourg Prime Minister is to receive his colleagues one by one in the Grand Duchy from 30<sup>th</sup> May onwards, in the hope of finding a compromise solution. Many countries feel that the circumstances have changed radically since the British rebate was negotiated in 1984. Most diplomats think that agreement is possible in all areas except the British rebate. [*Le Monde*, *Agence France Presse*, 23<sup>rd</sup> May 2005]

The decision to hold early elections caused great surprise and has been criticised by one of Germany's leading constitutional lawyers, Josef Isensee. He points out that the constitution requires the Bundestag to respect the fixed term. Isensee admitted in an interview with the *Frankfurter Allgemeine Zeitung* that there are two precedents for early elections (1972 under Willy Brandt and 1983 under Helmut Kohl) but he said that the Federal Constitutional Court has agreed to the early poll only through gritted teeth. He added that Schröder's decision differed from those precedents because it was intended purely to create an effect of surprise. The previous early dissolutions of parliament had, he said, been better justified because the government's majority was about to disappear. [*Frankfurter Allgemeine Zeitung*, 24<sup>th</sup> May 2005]

### **Italy and Portugal to be subject to excessive deficit procedure**

The European Commission is intending to initiate an excessive deficit procedure against Italy, following the announcement by the statistical office, Eurostat, that Rome violated the terms of the Stability Pact in 2003 and 2004. Amelia Torres, the spokeswoman for the economics commissar, Joaquin Almunia, said that the Commission was obliged to submit a report whenever the budget deficit of a country exceeded 3% of GDP. This was the case with Italy, she said. The text of the report will have to be approved by the Commission, probably on 7<sup>th</sup> June. It will then be

submitted to the Council of Economics Ministers, which meets on 7<sup>th</sup> July. The report itself does not prejudge what the Council might decide to do: for instance, the Commission and the Council might decide to take account of the fact that the Italian economy is in recession. The Italian Prime Minister, Silvio Berlusconi, has categorically ruled out any chance that the excess deficit procedure will actually be applied, since he says that the new rules mean that it kicks in only when the deficit is 3.5%. Eurostat estimates that Italy's total debt is just over 106% of GDP, which makes it one of the heaviest state debts in the whole euro zone. Eurostat has said that it may even revise its figures on the deficit upwards for the period 2001 to 2004, since it evidently still does not totally believe the Italian national accounts. Whatever the truth, there seems little chance that the deficit will improve in 2005, since the Italian economy is in recession.

The likelihood of an excessive deficit is only the last in a series of bad developments for the Italian economy. On 20<sup>th</sup> May, the Institute of Economic Studies and Analysis, which is part of the Italian Treasury, revised downwards its predictions for 2005, to only 0.2%. In February, its prediction had been 1.8%. This came just after the announcement that the Italian economy had entered recession in the first quarter of 2005, GDP contracting by 0.5%. This followed a contraction of 0.4% in the previous quarter. Many economists think that the negative trend will continue in the coming months. According to an OECD study, everything in Italy is going wrong: growth, productivity and competitiveness are all below the euro zone average, while inflation is higher. It is for these reasons that the deficit is expected to reach 3.9% in 2005. [Jean-Jacques Bozonnet, *Le Monde*, 22<sup>nd</sup> May 2005]

Meanwhile, Portugal, which in 2002 was the first country against which an excessive deficit procedure was opened, will be the subject of it again this year. The Commission is due to receive Lisbon's "Stability Programme" soon but the Portuguese deficit is in danger of reaching 6.83% of GDP in 2005, which of course is twice the permitted level. These figures come from a report published by the Bank of Portugal on Monday. The Commission wants to understand what has gone so wrong, since it was expecting the Portuguese deficit to be "only" 4.9% this year, after having been 2.9% last year. But the Bank of Portugal's report has demonstrated that last year's low figure was due only to one-off tax receipts, without which it would have been 5.2%. The new Socialist government has said that it will bring down the deficit to below 3% by 2008 without having recourse to any extraordinary measures. [*Le Monde*, 23<sup>rd</sup> May 2005]

Belgium, by contrast, which has been at the bottom of the class for many years, is now claiming to have engineered a rapid improvement in its economic performance. Its budget was in slight surplus for 2004 (+ 0.1% of GDP) at a time when the euro zone's net budget deficit was 2.7%. Belgian growth (2.7%) was above the euro zone average. Above all, the overall state debt is said to have fallen substantially, from 140% in the middle of the 1990s to 95% of GDP today. The Finance Minister, Didier Reynders, has promised that the total debt will be reduced to 84% in 2008, which is less than the average for the euro zone. Total state debt in the euro zone is in fact rising inexorably, in flagrant contradiction of the rules of the Stability Pact, and will soon reach 80%. [Jean-Pierre Stroobants, *Le Monde*, 22<sup>nd</sup> May 2005]

### **OECD says Europe growth still cruelly missing**

The OECD's publication, *Economic Perspectives*, published on 24<sup>th</sup> May, gives a gloomy outlook for the European economy. The chief economist of the organisation, Jean-Philippe Cotis, has said, "In contrast to expectations, the scenario of a general economic upturn has not been realised." There is some good news from the US and Japan but in Europe any signs of an economic upturn are completely absent. Cotis said, "With the benefit of the long view, it is becoming ever clearer that the circumstantial excuses given – the war in Iraq, a rise in the price of oil, exchange rate movements – are not sufficient to explain the repeated aborted upturns in Europe." [Babette Stern, 25<sup>th</sup> May 2005]

## **II. European constitution – dead in the water?**

### **'No' remains ahead in France**

Three opinion polls have confirmed that the No has a small lead in the French referendum campaign on the European constitution. Published on Monday, two of them show 53% of French people intending to vote No and one shows 54%. These polls are the 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> consecutive polls which have put the No ahead. The tendency is towards a strengthening of the No's lead. The polls confirm that the No is especially strong on the Left, 60% of whose supporters intend to vote against a constitution which is being promoted by a right-wing government and a right-wing president. Conversely, the Yes is especially strong on the Right, 73% of whose supporters intend to vote in favour of the constitution. [*Le Monde*, 23<sup>rd</sup> May 2005]

The French Prime Minister, Jean-Pierre Raffarin, and the leader of the majority UMP party, Nicolas Sarkozy, shared a platform on Monday to continue their campaign in favour of a Yes vote. They used their speeches to attack the most prominent campaigner on the No side, the former Socialist Prime Minister, Laurent Fabius. The two men insisted that there was no plan B and that a defeat for the constitution would disorientate Europe badly. They accused Fabius of personal ambition and lack of consistency. Sarkozy has had to fight off rumours that he is "tired" because of personal problems. [*Le Monde*, 23<sup>rd</sup> May 2005]

### **Dutch seem certain to vote No**

With a week to go to the Dutch vote on the European constitution, the polls show a massive lead for the No vote – far bigger than in France. The current figures are 63% No and only 37% Yes. Another poll puts the figures at 60% against and 40%

in favour. Thomas Rupp, the London-based but German leader of the European No Campaign, said that he and his colleagues have been amazed by the enthusiasm with which their leaflets against the constitution have been received in The Netherlands. This popular hostility to the constitution contrasts with the nearly unanimous support it has in the political class: 85% of Dutch deputies support the new treaty. Opposition to it is limited to a few fringe figures on Left and Right. The referendum, which is to be held on 1<sup>st</sup> June, is the first national referendum in Dutch history: according to commentators, it will provide the Dutch electorate with its first opportunity to put a stop to a European process which is perceived as going too fast. Commentators say that, in contrast to France, it is not fear of a too liberal Europe which drives the Dutch opposition but instead concerns about sovereignty and possible restrictions of liberal Dutch laws. The euro is also especially unpopular, especially after revelations that the old national currency, the guilder, had been undervalued in relation to the Deutschmark at the time of conversion to the euro. 55.8% of opponents of the constitution say that the euro is one of the reasons for their choice. Fear of Turkey is also a factor, as is the government's own campaign, which 59% of Dutch people polled say is counter-productive. [*Le Monde*, 21<sup>st</sup> May 2005]

### **Belgian parliament approves constitution**

The Belgian Parliament has approved the new European constitution by 118 to 18 votes and 1 abstention. Only deputies from the Vlaams Belang, the former Vlaams Blok (which was banned last year), voted against the constitution. The Belgian Prime Minister, Guy Verhofstadt, said that it was "a careful

balance between small and large, new and old, progressive and conservative member states". The regional parliaments now have to vote on the text as well – there are five of these in Belgium (Brussels region, Flanders, Wallonia, and the parliaments of the German and French communities). This vote brings to seven the number of states who have completely ratified the constitution. Lithuania was first, on 11<sup>th</sup> November 2004, followed by Hungary, Slovenia, Italy, Greece, Slovakia and Spain (which is the only country to have held a referendum). In Germany, the Bundestag voted in favour by 569 votes on 12<sup>th</sup> May, and the Bundesrat now has to vote as well, which it does on 27<sup>th</sup> May. [Katja Riddersbusch, *Die Welt*, 21<sup>st</sup> May 2005]

### **German unemployment 'falls'**

The total number of people out of work in Germany is now 4.78 million. This is 190,000 fewer than in April but 485,000 higher than this time last year. The slightly improved headline figure is said to be due to the good spring weather and to a take-up of low-paid seasonal jobs: these so-called "one Euro jobs" have been concocted as part of the so-called Hartz reforms, to which Oskar Lafontaine so strongly objects, according to which people who are out of work are offered temporary work for one or two euros per hour: it is a sort of workfare, except that the money is paid in addition to the dole. [*Die Welt*, 26<sup>th</sup> May 2005]

## **III. Other News**

### **No agreement on UN reform**

A meeting at the UN attended by the General Secretary, Kofi Annan, has failed to reach agreement on how to reform the institution. The German ambassador to the UN, Gunter Pleuger, said that Germany, Brazil, Japan and India, who want permanent seats on an expanded Security Council, are now hoping that a vote in the General Assembly in the middle of June will support their case if no compromise is reached by then. Some countries oppose the plan to increase the number of permanent members, notably Italy and Pakistan who say that the number of non-permanent members should be increased. Both plans foresee the number of Security Council members rising from 15 to 25. Currently there are five permanent members and the other ten members rotate every two years. [*Handelsblatt*, 24<sup>th</sup> May 2005]

### **Commission wants Europe-wide speed limit**

The desire to impose a single EU-wide speed limit of 90km/hour (56 MPH) seems to be growing in popularity in the EU. The environment commissar, Stavros Dimas, said that the International Energy Agency's proposal was "a good idea". The IEA had suggested the speed limit in view of rising oil prices. But Simas said that it was up to the member states to decide on whether to impose an EU-wide limit; he also admitted that the bulk of energy is used in urban traffic. Energy commissar Andris Piebalgs said that he also welcomed the IEA's suggestion, but he admitted that he had no competence as energy commissar to make a proposal on the matter. The

Germans, however, have reacted against the idea. The Federal Transport Minister, Manfred Stolpe, said he thought that the idea "did not make much sense". Germany is the only EU country in which there is no speed limit. [Martin Halusa, *Die Welt*, 21<sup>st</sup> May 2005]

### **Diplomats expelled in Poland and Belarus**

Poland decided on 18<sup>th</sup> May to expel the Number Two in the Belarusian embassy in response to the decision taken by the Belarusian authorities to expel the Number Two in the Polish embassy in Minsk. Marek Bucko was expelled for allegedly trying to destabilise Belarus: he was in charge of relations with "non-governmental organisations" and the opposition. The mutual expulsions come after a period of increasing acrimony between Warsaw and Minsk, with both sides accusing the other of behaving illegally. [Christophe Châtelot, *Le Monde*, 21<sup>st</sup> May 2005]

### **Turks appoint Europe negotiator**

The Turkish Minister for Economics, Ali Babacan, 38, the youngest member of the Turkish cabinet, has been appointed to lead the negotiations on Turkey's accession to the EU. The talks are to start on 3<sup>rd</sup> October. Meanwhile the Turkish Prime Minister, Recep Tayyip Erdogan, has brushed aside fears that a change of government in Germany could scupper Turkey's plans to join the EU: the opposition Christian Democrats in Germany are strongly opposed to Turkish accession. [*Le Monde*, 24<sup>th</sup> May 2005]