

## I. EU: political crisis and monetary crisis

### European leaders try to look on the bright side

No sooner had the Brussels summit collapsed than European politicians were looking to paper over the cracks revealed by the failure to agree on the new European Constitution, the numerous disagreements over which were outlined in the last *Digest*. The French Foreign Minister, Dominique de Villepin, said shortly after the summit that the collapse of the negotiations over the Constitution meant that it was time “to found Europe anew”. He said that a new constitution would have to be developed which would “enable Europe to take its place in the world of tomorrow, and to share its convictions and values with all.” Villepin said that the Italian presidency had realised that there was no point pressing ahead with the negotiations, which would have led either to a half-baked solution or to a full-blown crisis between the different parties. “Europe can no longer function on the basis of watered-down texts which come out of difficult compromises, which are incomprehensible to citizens and whose sell-by date is written on them as soon as they are accepted.” He said that the Irish presidency would now consider what to do next, but that it would be wise to wait for a while. Judging by his remarks, it looks as if nothing will happen for a year or so. Villepin did say that France and Germany were willing to work together in “ever closer partnership”, although he stressed that the Franco-German partnership was in no way exclusive. [*Frankfurter Allgemeine Zeitung*, 20<sup>th</sup> December 2003]

### Schröder sets deadline

The German Chancellor has tried to set a deadline for a final decision on the failed European constitution. “By the end of 2004 at the latest, it has to become clear whether we will reach a decision on this basis,” he told *Der Spiegel*. Schröder said that he could not rule out some countries leaving others behind in the integration process if no agreement could be reached. In answer to a question about whether he favoured a two-speed Europe, Schröder said, “That is not what I wish for, but I have to be prepared for the fact that this is the direction in which things might move.” In moving to set a deadline for a decision, Schröder has distanced himself from other EU politicians like Valéry Giscard d’Estaing, the Chairman of the European

Convention, and the commissar for EU enlargement, Günter Verheugen, who have called for a long pause for reflection following the collapse of the negotiations over the summit. The German President, Johannes Rau, also called for a pause for thought, in an interview with *Die Welt am Sonntag*. Schröder said he was prepared to negotiate on individual aspects of the old Constitution, but not on the issue of the number of votes which each country enjoys in the Council of Ministers, which he said was not up for discussion. It was principally because of disagreement on this issue that the talks collapsed in December. [*Handelsblatt*, 4<sup>th</sup> January 2004]

### CSU attacks “executive dictatorship”

Two leading officials in the Christian Social Union (the Bavarian branch of the Christian Democrats) have declared the EU Constitution “obsolete”. The spokesmen for Europe and the economy said that the text was not fit for Europe’s future development and that a new beginning “in another direction” was needed. Gert Müller, the spokesman for European affairs, said that the CSU wanted de-centralisation, not centralisation, and that citizens should decide, not bureaucrats. “We have in Europe an executive dictatorship, in which officials decide,” he said. Johannes Singhammer, the economics spokesman, said that the Gaullist vision of a “Europe of nations” had gone out of fashion and that instead Europe was becoming “an ugly centralised state”. He said that this was the opposite of what was necessary in the light of EU enlargement. For this reason, he said that “a completely new beginning” was needed. The two CSU politicians attacked the German Government for betraying essential German interests by agreeing to the draft Constitution. They said that the issue was not the number of votes each country had in the Council of Ministers, but instead the fact that the Government had agreed to transferring essential powers to Brussels, e.g. over immigration. This they described as “a vital German interest”. They also said that the Constitution would have given Brussels bureaucrats the right to decide how many kindergarten places there would be in Germany, and how much bus tickets would cost. All in all, they claimed, 30 new policy areas were transferred from national parliaments to EU level and, worse, they were not taken over by the European Parliament but

by the Commission. It was for this reason that it was right to speak of “a dictatorship of officials”, they said, which had to be opposed. Both Members of the Bundestag also said that EU enlargement would lead to massive new burdens on contributor states, Germany in first place. They said that EU enlargement would be to the disadvantage of certain German regions and that regions in the East, bordering on Germany, would get massive investment aid: an investor putting € 2 million into one of these regions would get € 1 million from Brussels. But German taxpayers would pay for these subsidies. They also attacked the fact that the EU would forbid the German Government from compensating the cuts in structural aid to underdeveloped German regions with national regional aid programmes. But the problem did not concern only regions on the border with the new member states: Singhammer spoke of a factory in Lindau, in the South of Bavaria, which was closing at a loss of 150 jobs because the owner could find cheaper labour in the Czech republic. Müller said he was opposed to the admission of Turkey and of the “Western Balkan” states, i.e. Croatia and Serbia. He also said that he was firmly opposed to a “two-speed Europe” as Dominique de Villepin had suggested. [Frankfurter Allgemeine Zeitung, 30<sup>th</sup> December 2003]

Indeed, the CSU and the CDU seem to have opposite policies now on the Constitution. A policy paper on the European Constitution has put the CSU on a collision course with the CDU leader, Angela Merkel, and with the leader of the parliamentary party, Wolfgang Schäuble. Merkel has said recently that the constitution should be signed and ratified come what may, and Schäuble has also spoken in favour of it. But the CSU says in its paper that, “No constitutional treaty is better than a bad constitutional treaty.” The CSU does not seem to think that there will be a constitutional treaty after all. “The project, started with so many expectations, and which was to bring closeness to the citizens, transparency and more democracy to Europe, seems finished.” But if there are to be new attempts to sign it, the CSU says it has demands. One of these is that the preamble must contain a reference to God. Another is that there be no EU powers over economic policy, social policy or employment policy. Immigration must remain the preserve of member states. The CSU also demands that the independence of the central bank be anchored in the constitution, as well as the goal of price stability. If these demands are not met, the CSU will work to see that the treaty is not signed. The CSU says that the EU can function well enough with the structures created by the Nice treaty. According to an agreement between the two sister

parties, neither one can agree to a constitutional change if the other does not support it. The CSU can therefore easily scupper a new treaty. [Hans-Jürgen Leersch, *Die Welt*, 7<sup>th</sup> January 2004]

The CSU officials also alleged that the German Government had even been prepared to bargain away the independence of the European Central Bank at the last minute, in a failed attempt to secure a deal. They said this was incompatible with the terms under which Germany agreed to monetary union in the first place. [FAZ, 29<sup>th</sup> December 2003] The *Digest* is making enquiries into this and hopes to report more on it in the next issue.

### **Euro takes off - industry feels pain**

The euro has been heading towards \$1.30. The days seem long past when it fell well below \$1. Experts say there is no explanation for this sudden rise, and that it was a self-generating snowball effect. Hans-Werner Sinn, the president of the Ifo Institute in Munich, an economics think-tank, warned that any further rise in the value of the euro could damage any economic upturn. A survey of businesses had shown that \$1.30 was the level at which real damage would be done, Sinn told the *Berliner Zeitung*. Any higher rate and exports would suffer considerably. This in turn would mean that the growth predictions of 2% this year could not be met. Companies which export to the United States will suffer the most. But within the eurozone, German exporters were feeling the competition from cheaper American imports. Most economists are at a loss to explain the euro’s sharp rise in terms of economic fundamentals: they say that it is an irrational currency movement. Some say that speculation has driven the euro up, and that this could then develop its own dynamic. Some hope that the G7 meeting in February will address the dollar’s weakness. [*Süddeutsche Zeitung*, 6<sup>th</sup> January 2004]

The German Institute for Economics (DIW) has added its voice to those calling on politicians to do something about the euro’s dramatic rise. The chief economist of the DIW, Adolf Horn, has said that the euro’s rise is threatening the German economy. “The principal motor for any upturn in the European economy comes from the world economy,” said Horn, “and this will be weakened by the appreciation of the euro. “If vigorous measures are not taken in economic policy, there can be no self-generated upturn.” [*Handelsblatt*, 5<sup>th</sup> January 2004] He said that the rise of the euro was all the more dangerous because neither the European Central Bank nor the politicians had taken sufficient measures to stimulate domestic demand.

But, after weeks of silence, politicians have started to make public statements about the euro’s

sudden rude health. At the end of December, Silvio Berlusconi, the Italian prime minister, had said that he was worried about the euro's rise. But French and German leaders tried to calm things down: Thomas Steg, the spokesman of the German government, said that Germany's export industry was extremely competitive. "There are no reasons to worry," Steg said. On 6<sup>th</sup> January, the French minister for Europe, Noëlle Lenoir, said that the advantages of the high euro easily outweighed the disadvantages. Despite this, various scenarios are now being considered, including a euro at \$1.35, \$1.40 and even \$1.50. Having risen by 22%, the European currency reached a new height of \$1.28 on Tuesday. As *Le Monde* says, Europe finished 2003 with a political crisis – the collapse of the talks about the constitution – only to start 2004 with what appears to be a monetary crisis. The chief economist of the OECD, Jean-Philippe Cotis, said at the end of December that the euro had entered "a dangerous zone" which would damage exports and growth. Experts reckon that a 10% rise in the value of the currency takes 1% of the growth rate of the eurozone.

But European leaders know that their room for manoeuvre is limited. Article 111 of Maastricht

allows the Council of Ministers to take measures, but always on the condition that price stability is not affected, and after due consultation with the Commission and the ECB. After the ECB meeting on 8<sup>th</sup> January, finance ministers are due to meet on 13<sup>th</sup> and 14<sup>th</sup> January and the ministers of the eurozone a few days later, on 19<sup>th</sup> January. But it is the G7 meeting in Florida on 6<sup>th</sup> and 7<sup>th</sup> February which will be decisive because Washington needs to be party to any statement about currency movements for it to be effective. But the slide in the value of the dollar is supposed to be good for the American economy – and it is election year. [Arnaud Leparmentier, Pierre-Antoine Delhommis, *Le Monde*, 8<sup>th</sup> January 2004]

### **Eurozone inflation is 2.1%**

Despite all the talk about low inflation, the eurzone finished 2003 with inflation just above the upper limit of 2% set by the European Central Bank. This high rate will make it very difficult for the ECB to cut rates, as it might otherwise do to stem the rise of the euro on the foreign exchange markets – even more so since the ECB's own prediction is already that inflation will be 1.8% in 2004. [*Les Echos*, 5<sup>th</sup> January 2004]

## **II. Other European News**

### **Georgian election results fiddled**

The Central Electoral Commission of Georgia has attributed Soviet-style scores to the victorious candidate in the presidential elections held on 4<sup>th</sup> January. On 5<sup>th</sup> January its website gave Mikheil Saakashvili 97.01% of the vote, but the figure is now down to a more modest 95.83%. The reports in the Western media on the poll have been little other than pure propaganda in favour of the winning candidate, who in any case had moved immediately into the presidential palace following the resignation of Edward Shevardnadze on 22<sup>nd</sup> November. [This is confirmed in the interview Saakashvili gave to Natalie Nougayrède of *Le Monde*, 5<sup>th</sup> January 2004] *Le Monde* was typical of Western papers when it wrote, "The queue outside Polling Station Number 7 in Tbilisi testified to the passion for these elections and the huge hopes born in the 'revolution'. In this symbolic location ... which was, in Soviet times, the Palace of Pioneers, a woman voter sighed, 'We are putting ourselves in Saakashvili's hands. He is young and honest. The people hopes so much from him!'" [*Le Monde*, 5<sup>th</sup> January 2004; the same tone was used by Julius Strauss in his report of 5<sup>th</sup> January 2004 in *The Daily Telegraph*]. Western journalists evidently wandered around a few showcase polling stations in the capital and wrote

down the sort of sloganeering which would not have been out of place in the 1930s. Indeed, as if to emphasise the link, Saakashvili had started his "revolution" in November with a rally in front of the statue of Stalin in the Soviet dictator's birthplace, Gori. But no one seemed to mind.

Saakashvili's success is to be explained partly by the fact that the other candidates were mere token candidates, so that he would not be the only candidate, as Shevardnadze himself had been in 1992 (another election which the West welcomed). The contenders were from things like the "David the Builder" party and the "Georgian league for the Disabled." All real oppositionists withdrew from the poll in advance denouncing either the poll as illegitimate in itself or the procedures as flawed. But none of this was reported in the Western media, which just gushed about how young and thrusting Saakashvili is. Aslan Abashidze, the main opposition leader, an opponent of Shevardnadze as much as of his former Justice Minister, now President Saakashvili, announced that his party, Revival, would not contest or participate in the poll. "Revival cannot participate in processes that violate the constitution," said Abashidze. [*Rosbalt*, Russia, 3<sup>rd</sup> January 2004] Zurab Kelekhsashvili, leader of the Mdzleveli political

movement, also withdrew, calling the conditions for the election “unfair”. “I have no intention in participating in a parade of immorality,” he said. [*Novosti*, 3<sup>rd</sup> January 2004] The chairman of the Labour Party, Shalva Nateslashvili, said that he does not recognise the election as valid, and says he will contest it before an international court. Also unreported were the accusations made by a former minister, Igor Georgadze, who had been prevented from standing in the election, that Saakashvili had attempted to assassinate him. [*Jang*, Pakistan, 1<sup>st</sup> January 2004] Georgadze said he would challenge the result in the Georgian and European courts.

Meanwhile, the Chairman of the Union of Traditionalists of Georgia, Akaki Asatiani, alleged that the election results had been simply falsified. He claimed that the turnout was under 50%, instead of the 83% claimed by the Central Electoral Commission. (A 50% turnout is required for the vote to be valid.) Asatiani said he suspects local election officials deliberately overstated the number of ballots cast. [*Radio Free Europe Newsline*, 7<sup>th</sup> January 2004] This is certainly the view of the British Helsinki Human Rights Group, which issued a preliminary report on the poll on 5<sup>th</sup> January. This small independent organisation has observed every poll in Georgia since 1992 and it suspects that the turnout figures were inflated. BHHRG said that the poll was procedurally far worse than the one conducted on 2<sup>nd</sup> November 2003, which had represented an improvement over similar votes in Georgia. That election had produced a strong showing for opposition groups other than the faction led by Saakashvili, who in any case is Shevardnadze’s former Justice Minister and, as such, very much a man of the old regime anyway. [<http://www.oscewatch.org/CountryReport.asp?CountryID=10&ReportID=209>] On the other hand, the Organisation for Security and Cooperation in Europe, whose “observations” are invariably tailored to meet the political needs of the states which control it, especially the USA, reported no problems and declared the poll fair – just as it had declared “fair” the election of Shevardnadze himself in 1992, when he was the only candidate.

The new president Saakashvili, has already been invited to the White House. President Bush has already promised huge amounts of aid, and it is clear that the US wants to install permanent military bases in Georgia and see the removal of the remaining Russian ones. In an interview, Mihkeil Saakashvili said that Georgia’s “velvet revolution”, by which he meant that the president was ousted in a mainly non-violent coup d’état, was the first of its kind in the former Soviet Union and that it was “important to

create a precedent for the whole region. Western help is essential for that.” [*Le Monde*, 6<sup>th</sup> January 2004]

### **Lindh murderer admits he did it**

The 25 year-old Serb man charged with stabbing to death the Swedish foreign minister, Anna Lindh, in a Stockholm department store on 10<sup>th</sup> September 2003, Mihailo Mihailovic, has admitted through his lawyer that he did it. DNA evidence of his guilt is said already to exist. Although the lawyer gave no motives for the murder in his statement, Stockholm newspapers have said that Mihailovic killed Lindh in revenge for her support for the Nato attacks on Yugoslavia in 1999. [*Die Welt*, 7<sup>th</sup> January 2004]

### **Défense de fumer?**

Is smoking about to become illegal in the EU? On 1<sup>st</sup> February, Ireland is to ban smoking at work, in restaurants and pubs. The penalty will be a fine or prison. France is raising its taxes on tobacco, and the French health minister has said his desire is “that there be no more smokers in France”. The Commission is trying to convince member states to harmonise their taxes on tobacco. In Britain, the *Lancet* called on the Government to ban tobacco completely and to make smoking illegal. Faced with all these various attacks on smoking, the European Commission is now drawing up a directive which would ban smoking in all public places, including cafés and restaurants. Such bans are already in place in the USA (e.g. Boston and New York). [Matthieu Ecoiffier, *Libération*, 5<sup>th</sup> January 2004]

### **D-Day for Gerhard Schröder**

President Chirac has invited the German Chancellor, Gerhard Schröder, to attend the ceremonies to mark the anniversary of the Normandy landings this year. This is the first time that a German leader has been invited to the D-day celebrations. Schröder has accepted the invitation and has said that he is conscious of its “enormous symbolic importance”. The invitation is yet another sign of the increasing closeness between France and Germany following the two countries’ joint opposition to the invasion of Iraq. Helmut Kohl never received an invitation to Normandy, even though it was clear that he wanted to receive one to the 50<sup>th</sup> anniversary celebrations in 1994. But it is obvious that Chirac and Schröder want to imitate the symbolic reconciliation between France and Germany which François Mitterrand and Helmut Kohl carried out at Verdun in 1984, when they both held hands in front of a coffin. [Martin Wieggers, *Die Welt*, 3<sup>rd</sup> January 2004]

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