



CENTRE FOR EUROPEAN REFORM

annual report

2010





CENTRE FOR EUROPEAN REFORM

about the CER

The CER is a think-tank devoted to improving the quality of the debate on the future of the European Union. It is a forum for people from Britain and across the continent to discuss ideas on how to meet Europe's political, economic and social challenges.

The CER works with similar bodies in other European countries, North America and elsewhere in the world. It is pro-European but not uncritical. It regards European integration as largely beneficial but recognises that in many respects the Union does not work well, and can be improved. The CER therefore aims to promote new ideas and policies for reforming the EU.

The CER makes a point of bringing together people from the world of politics and business. Most of our meetings and seminars are invitation-only events, to ensure a high level of debate. The conclusions of our research and seminars inform our publications, as well as the private papers and briefings that business people, senior officials, ministers and EU commissioners ask us to provide.

The CER is funded by donations from the private sector. It has never received core funding from governments or EU institutions.

The CER's work programme is centred on eight themes:

- ★ The euro, economic reform and financial regulation
- ★ Enlargement and the EU's neighbourhood
- ★ Reform of the EU's institutions and policies
- ★ European foreign and defence policy
- ★ Energy and environment
- ★ Transatlantic relations
- ★ Justice and home affairs
- ★ The EU's relations with Russia and China



From left to right, top to bottom: Katinka Barysch, Simon Tilford, Charles Grant, Tomas Valasek, Clara Marina O'Donnell, Stephen Tindale, Philip Whyte, Catherine Hoyer, Hugo Brady, Liliana Mulvany, Susannah Murray and Kate Mullineux

The CER in 2010



Charles Grant, director of the CER

In 2010 the eurozone descended into a crisis that is likely to continue for a long time. Despite the single currency's problems, I remain convinced that it is, in principle, a good idea. The euro reinforces the single market and enhances economic efficiency. It has succeeded in boosting trade, cross-border investment and the integration of capital markets within the eurozone. Handled in the right way, the euro will lead to more political cohesion among the member-states.

But with the benefit of hindsight it is only too evident that the euro has suffered from design flaws, and that European leaders have mismanaged the currency. Too many countries joined the euro before they were ready. Fiscal discipline has been too lax, though new rules will make it harder for governments to over-borrow. The difficulties that Greece, Ireland and Portugal have had in borrowing have highlighted the need for a bail-out mechanism and a procedure for ensuring the relatively orderly restructuring of sovereign debt (both are being built). The behaviour of many banks – and not only in Ireland and Spain – has shown that the tighter system of pan-European financial regulation now being put together is sorely

needed. Some eurozone governments did far too little to promote structural reform, and have therefore suffered from inflexible economies and poor productivity; in 2010, Greece, Portugal and Spain belatedly implemented some structural reforms.

But one of the most serious underlying problems is not being addressed. This is the growing gap in competitiveness between the eurozone's northern and southern states. This has led to large current account imbalances within the eurozone, and the southern countries struggling to grow and to pay back debts.

One reason to be gloomy about the euro is the intellectual rift that divides European leaders. It is as though the doctors examining the patient do not agree on the diagnosis or the medicine required. At the risk of some generalisation, leaders from Germanic and Nordic cultures believe that stricter fiscal discipline and structural reform will suffice to cure the patient. Those from Latin and Anglo-Saxon cultures think that such medicine is necessary but not sufficient: they also focus on the imbalances and the need for the core countries with external surpluses to generate demand in the eurozone.

It is certainly "far too soon to talk about economic and monetary union (EMU) being a success". Those words come from a remarkably prescient CER report, 'Will the eurozone crack?', published in September 2006. Simon Tilford, our chief economist and the report's author, wrote: "The core problem is that membership seems to have reduced pressure on governments to undertake the reforms needed to ensure the currency union is a success. Freed from the risk of a currency crisis and higher debt service costs, Italy [together with the other southern countries] has done little to strengthen public finances, make labour markets more flexible or introduce more competition. The result has been declining productivity, inflation above the eurozone average and a sharp decline in competitiveness relative to other members of the eurozone. Unable to devalue its currency, Italy now risks getting caught in a vicious circle of very slow economic growth and rising debt."

Simon wrongly predicted that Italy would be the weak link in the euro chain, but his other forecasts have turned out correct. He said that the markets' inability to distinguish between the debts of different eurozone countries would lead to a damaging lack of fiscal discipline. He also pointed out that Germany's "de facto competitive devaluation", through low wage growth, would exacerbate eurozone imbalances. "While this has massively boosted the country's competitiveness and its exports, it has depressed consumption and investment, causing the country's current account surplus to balloon. An economy as big as Germany's cannot depend indefinitely on exports to drive real GDP growth, without imposing intolerable pressures on other members of EMU." On the other hand, "a German economy growing under its own steam would boost demand across the eurozone, cushioning the impact of structural reforms and, crucially, make it easier for other member-states to restore their competitiveness without forcing their economies into a prolonged recession."

The statesmen who designed the euro have been criticised for putting politics ahead of economics: motivated by the desire to promote European unification, they ignored the economics – or assumed that once the project got underway, the necessary rules for economic governance would somehow fall into place. There is some truth in that criticism, but many people have forgotten that economics did play a role in the birth of the euro.

In 1987, Tommaso Padoa-Schioppa, an eminent economist and central banker, wrote a report explaining that the exchange rate mechanism (ERM) – which limited fluctuations among many European currencies – could not survive the removal of exchange controls that was agreed in that year. He wrote: “The complete liberalisation of capital movements is inconsistent with the present combination of exchange rate stability and the considerable national autonomy in the conduct of monetary policy.” He also argued that the end of the ERM and the return of currency instability would endanger the single market.

This report convinced Jacques Delors, the then president of the European Commission, and other leaders that they needed to plan an economic and monetary union (EMU). So in 1988, EU leaders tasked a committee – which had Delors as its chairman and Padoa-Schioppa as its joint rapporteur – with drawing up a blueprint for EMU. Most of the Delors committee’s report ended up in the Maastricht treaty in 1991. The ERM would not have survived the currency crises of 1992 and 1993 – when the capital markets nearly tore it apart – without the momentum towards monetary union.

In 2000, when on the executive board of the European Central Bank (ECB), Padoa-Schioppa wrote a memorable CER essay, ‘Europe’s new economic policy constitution’. He complained about the weakness of the arrangements for co-ordinating national fiscal policies, arguing that if the eurozone could develop its own fiscal stance, the ECB could better manage monetary policy and more easily keep down interest rates. He also warned that the eurozone would not work well unless governments made labour markets more flexible; doing so would allow economies to grow without fuelling inflation and thus improve the fiscal position of governments.

Padoa-Schioppa’s death in December 2010 deprived Europe of a courteous public servant who was utterly committed to European unity. Many of his insights have long-lasting relevance, and not only for labour markets. The EU’s new procedure for a ‘European semester’, involving peer review of national budgets, is a step towards the fiscal co-ordination he called for. Above all, Padoa-Schioppa understood the relevance of the euro to the single market. If the euro disappeared, giving way to competitive devaluations and wild currency swings, there is a serious risk that member-states would either impose tariffs on each other’s goods or resort to hidden forms of protectionism. Alternatives to the euro would not look pretty.



Commission President José Manuel Barroso speaking at the launch of ‘The Lisbon Scorecard X: The road to 2020’, Brussels

The euro crisis has had ramifications that stretch far beyond economics. Senior figures in places such as Beijing, Moscow and New Delhi have become more dismissive of the EU. The crisis has also highlighted the relative weakness of EU institutions. The ECB, under the leadership of Jean-Claude Trichet, remains a respected and independent voice, despite much criticism from governments. Both the European Commission and Herman Van Rompuy, the new president of the European Council, have been closely involved in drafting the new procedures on eurozone governance. But on many key decisions they have followed rather than led the member-states. Often the agenda has been set by France and Germany, or indeed just Germany. For the past several years, senior people in Paris and Berlin have tended to speak contemptuously of the Commission. That is alarming for those who wish the single market well: if the Commission fails to police the rules strictly and to resist the protectionist tendencies of the big member-states, nobody else will.

Germany’s attitude to the EU has been evolving for a number of years. When Helmut Kohl was chancellor, most Germans assumed that what was good for the EU was good for Germany and vice versa. In an EU that has enlarged to 27 members, that is no longer self-evident to some Germans – who believe they have little in common with the political cultures and institutions of several new and existing member-states. Germany’s policy-makers think that on subjects such as energy or Russia, its interests may differ from those of the EU as a

whole. The financial and euro crises have reinforced these tendencies, showing the Germans that other Europeans need their money and help. The relative success of the German economy during the euro crisis has fuelled a new assertiveness. This worries some of Germany's partners, notably France. The French seem to have calculated that the best way to retain some influence on Germany is to stay close to it on many key policy questions. Thus when Germany has wanted to involve the IMF in rescue packages, make the bail-out mechanisms inter-governmental, change the EU treaties or impose losses on bond-holders, France has – with some reluctance – followed.

The CER and the euro

Inevitably, much of the CER's work in 2010 revolved around the eurozone crisis and Europe's economic problems. Throughout the year, Simon Tilford, Philip Whyte and Katinka Barysch were extremely busy commenting in the world's media on the euro.

In February we hired Ditchley Park in Oxfordshire for a seminar that brought together 50 of Europe's leading economists to discuss economic challenges facing the EU. Those taking part included Mario Monti, Adair Turner, Adam Posen, Bart van Ark, Greg Hands MP and Sharon Bowles MEP. The debate on the euro – which took place before the Greek debt crisis had reached a peak – was particularly gloomy; the analysis of the 'pro-euro' Jean Pisani-Ferry was very similar to that of the 'anti-euro' Martin Wolf. We also discussed whether the global financial crisis had discredited the Anglo-American model of capitalism. Some argued that the crisis had vindicated Europe's more regulated version of capitalism. Others pointed out that the US, despite the difficulties stemming from its high levels of debt, remained a more productive economy than most of its EU counterparts.



Mario Monti speaking at 'Lessons from the economic crisis', Ditchley Park

In June we teamed up with the European Council on Foreign Relations (ECFR) for a seminar on Britain and Europe, which included a lively panel on the euro. Joschka Fischer said the euro could not survive unless France and Germany agreed to establish an *avant-garde* for the eurozone, involving a 'transfer union' and the harmonisation of economic and social policy. George Soros, noting the lack of political will for such initiatives, thought

the euro crisis could lead to the break-up of the EU and 1930s-style political extremism. Another CER event in the same month featured a debate on the euro between Jürgen Stark of the ECB and Martin Wolf of the *Financial Times*. In a heated discussion, Stark put forward the view that stricter budgetary discipline would make the euro secure; Wolf feared that the imbalances in the eurozone could prove fatal and urged the EU to take steps to reduce them.

In September, Simon Tilford's essay 'How to save the euro' argued that the EU's efforts to stabilise the eurozone were inadequate. Poor economic growth prospects, rather than fiscal ill-discipline, lay at the root of the crisis. So long as EU leaders ignored this they risked condemning the eurozone to permanent crisis, with chronically weak growth across the bloc as a whole, and politically destabilising deflation in the struggling member-states. Simon concluded that a successful currency union required much closer political and economic integration.

In October, Philip Whyte's essay 'Why Germany is not a model for the eurozone' criticised those who argued that other member-states should become more Germanic. If everybody followed the German example they would be too reliant on external demand to grow at all. Philip thought it illusory to believe that the world economy could rebalance without some parallel rebalancing within the eurozone itself. And that would require change not only in peripheral countries such as Greece but also in core countries such as Germany.

The CER also focused on the political context of the euro crisis. In papers published in June and November, Katinka Barysch explained the thinking behind the German government's controversial stance on the euro. She argued that both domestic politics and real concerns about profligacy in other member-states meant that Germany would not abandon its hard-line stance on issues such as fiscal discipline or the imposition of losses on private sector bond-holders.

The European economy

At the start of 2010 a new team of commissioners took office, led once again by President José Manuel Barroso. In February we published a policy brief on the economic philosophy of the Barroso II Commission. We forecast that, although economic liberals no longer hold all the key portfolios, the new team of commissioners would in most respects maintain the broadly pro-market stance of the Barroso I Commission. But we also predicted that the increasingly illiberal climate in many national capitals would make it difficult for the Commission to pursue a liberalising agenda. So far, that seems to have been the case.

In the early months of the year we published two major reports with economic themes. Philip Whyte's 'How to restore financial stability' focused on the regulation of banks and capital markets at EU level. He criticised over-simplistic calls by politicians for 'more regulation'. If politicians tilted at castles like hedge funds – which had not caused the financial crisis – but failed to tackle the macroeconomic factors that were responsible, financial stability was likely to prove elusive. Philip warned against the risk of excessive regulatory and capital requirements damaging economic growth. This report was launched in Brussels by David Wright, then a Commission deputy director-general, and in London by Mark Hoban, then a senior member of the Conservative Treasury team (and now a minister).

Philip and Simon wrote our tenth 'Lisbon Scorecard', assessing the member-states' performance on the economic reform agenda that they signed up to in Lisbon in 2000. In lamenting the lack of progress over the decade, the authors argued that, notwithstanding the views in some national capitals, the financial crisis had not invalidated the case for further liberalisation at EU level. As he has done every year since 2005, President Barroso spoke at the launch of the scorecard in Brussels. Greg Hands, a member of the Conservative Treasury team, did the honours at a similar event in London.

The Lisbon agenda has drawn to an end and we shall not publish another report in this format. We are proud to have plugged away at the economic reform agenda for ten years. Though the subject is not sexy, the scorecard remained our most widely-read publication throughout the decade. I find it surprising that few people have made the connection between the eurozone crisis and the Southern Europeans' reluctance to meet the targets set out in the Lisbon agenda.

Several of the special events that we put on for corporate members focused on business, finance or economics. These included dinners with Pascal Lamy, the director-general of the World Trade Organisation, on global trade, and with Howard Davies, the director of the London School of Economics, on the causes of the financial crisis; a lunch with Ken Clarke (then shadow business secretary, now justice secretary) on the EU's role in regulating business; and breakfasts in London and Brussels with Alexander Italianer, Commission director-general for competition policy; Malcolm Harbour, chairman of the European Parliament's internal market committee; Robert Madelin, Commission director-general for the information society; Mario Monti, who spoke on two separate occasions about his report on the single market; Paola Testori Coggi, Commission director-general for health and consumers; and Paul Tucker, deputy governor of the Bank of England. And in January we teamed up with Business for New Europe for a major conference on the EU's business agenda, with Peter Mandelson and David Miliband, then senior British ministers, as keynote speakers.



Ed Miliband speaking at the launch of 'Carbon capture and storage: What the EU needs to do', London

Energy and climate change

In 2010 the CER increased its focus on energy and climate change. Stephen Tindale, a former government special adviser and head of Greenpeace UK, joined the CER as a senior associate fellow. His report on 'Carbon capture and storage: What the EU needs to do', written jointly with Simon Tilford, argued that CCS would not take off unless the EU spent more money on it and improved the regulatory framework. Ed Miliband, the then climate change secretary, launched the report in London in March. Several of the recommendations, including the idea that demonstration plants should cover gas as well as coal, have been adopted by the new British government.

In May we published a contrarian paper by Katinka Barysch on Nabucco, the proposed pipeline that would bring Caspian and perhaps Middle Eastern gas into Europe via Turkey. She argued against the received wisdom that

Nabucco was unlikely to be built. Several of our special events for sponsors focused on energy and climate: a dinner with Chris Huhne, soon after he became secretary of state for energy and climate change; a breakfast in Brussels with Philip Lowe, the Commission's new director-general for energy; and a dinner with Adair Turner, the chairman of the UK climate change committee.

The US, Russia and China

The EU's global role provided another major theme for our work in 2010. In foreign policy, as in economics, the EU has failed to fulfil expectations. The mood of many foreign policy analysts was summed up by the title of a book by Richard Youngs (director of the Madrid think-tank Fride) that we launched at the CER: 'Europe's decline and fall: The struggle for global relevance'.

But not all was doom and gloom. The EU's enlargement process continued, with most countries in the Western Balkans moving closer to the EU. The Europeans held together on the Iranian nuclear diplomacy and agreed on serious sanctions against Tehran. Under the leadership of High Representative Catherine Ashton – the guest of honour at our 12th birthday party in London in April – the EU is building an external action service, which, when fully operational, should make it easier for the Europeans to develop common analyses and policies (two CER alumni, Edward Bannerman and Steven Everts, serve in Ashton's cabinet). And despite President Barack Obama's supposed indifference to the EU, transatlantic relations are in a close and co-operative phase.

The Daimler Forum, which we run with the Brookings Institution and the Stiftung Wissenschaft und Politik, brings together policy-makers and thinkers from the two sides of the Atlantic to discuss common challenges. The forum met for the 21st time in Washington in April, and for the 22nd time in London in November. From the Obama administration senior figures such as Bill Burns, Ivo Daalder, Phil Gordon, Dennis Ross, Anne-Marie Slaughter, Jim Steinberg and Sandy Vershbow took part. On the European side participants included foreign ministers Carl Bildt, Radek Sikorski and Alex Stubb; Alexander Graf Lambsdorff MEP; MI6 chief Sir John Sawers; and the political directors and heads of policy planning of Britain, France and Germany.



Catherine Ashton speaking at the CER's 12th birthday party, hosted by the Irish Ambassador, London

In May we launched our first publication on Afghanistan, 'Can the EU be more effective in Afghanistan?'. The author, Joanna Buckley, has worked for the EU and the UN there, and once interned at the CER. Highly critical of the EU's performance, she suggested how Europeans could better co-ordinate what they do in the country. Both Francesc Vendrell, a former EU special representative, and Sherard Cowper-Coles, the then UK special representative, spoke at the launch event.

The CER continued to work on Russia, China and the EU's relations with both. We have a fairly pessimistic view of Russia's economic prospects. In February we published a policy brief by Katinka Barysch on Russia-EU relations. In this and subsequent pieces she predicted that 'resetting' the relationship on the model of the US-Russia reset would be difficult. She was sceptical that the proposed EU-Russia 'modernisation partnership' could do very much to help Russia modernise, though she foresaw scope for co-operation on climate and energy. In June we hosted a breakfast in Brussels with Vladimir Chizhov, Russia's ambassador to the EU.

In July we published 'How to reform the Russian economy', a policy brief by Sergei Guriev, one of Russia's leading economists. His gloomy analysis concluded that because Russia's ruling elites have little interest in economic reform, the future is likely to consist of slow growth punctuated by bouts of macroeconomic instability. In September I took part in the annual 'Valdai Club' meeting, which gives western policy analysts a chance to meet Russian leaders including Vladimir Putin. Nothing I heard made me think that Guriev had been too pessimistic. After the Valdai Club we held a roundtable in London on the state of Russia, with Professors Anatol Lieven and Robert Skidelsky leading the discussion.

In 2010 China appeared increasingly assertive – to many of its neighbours, to Europeans and to Americans. The response of some western analysts was to call for tougher policies towards China. But in 'China and the global

financial crisis', an essay published in March, Bobo Lo challenged that and other assumptions. He wrote that western attempts to 'get tough' with China would achieve very little. He also argued that the Chinese economy was succeeding in rebalancing away from exports towards consumption (Bobo subsequently left the CER and we wish him luck in his new career as an independent analyst). In November we held a roundtable to mark the launch of Gideon Rachman's book, 'Zero-sum world', which makes the case that globalisation is working more to the benefit of China than the West. The respondent, Mark Malloch-Brown, a former Foreign Office minister, took a more optimistic line than Gideon on the impact of China on the global system.

In a paper published in July, 'India's response to China's rise', I focused on the Indians' worries about China's military build-up, its warm ties with India's neighbours, its more successful resource diplomacy and the unbalanced nature of the two countries' trade. The paper argued that India's response to the rise of China was in the short term to avoid confrontation, and in the long run to forge close relations with other countries concerned about China, while ensuring stability and growth at home.

Enlargement and the neighbourhood

Closer to home, the considerable attention that the EU devoted to two strategically crucial countries – Turkey and Ukraine – failed to produce hoped-for results. In Turkey, the increasingly authoritarian style of the ruling party made it harder for Turkey's friends, including those in the CER, to beat the drum for Turkish membership of the EU. In Ukraine, the dire performance of the governing classes meant that very few western policy-makers were prepared to talk seriously about a membership perspective.

In January 2010, Katinka's paper 'Can Turkey combine EU accession and regional leadership?' argued that given Ankara's growing diplomatic clout, the EU should find ways of talking to it outside the troubled accession process. This idea has resonated in several European capitals, including London. In September we published 'Turkish politics and the fading magic of EU enlargement', by Sinan Ülgen, the chairman of the EDAM think-tank. He analysed why Turkey's enthusiasm for EU membership had dissipated so quickly and how it could be rekindled. In December, we published a paper by Katinka that examined the consequences of the looming stalemate in the EU-Turkey accession talks.



(L to R) Charles Grant and Chris Huhne at a CER dinner on EU energy policy, London

We ran five events on Turkey, the most important being the Bodrum conference in October, organised jointly with EDAM. This brought together 85 Turkish, European, and American policy-makers, business leaders, editors and experts to discuss Turkey's global role and other international issues. Speakers included Egeman Bagis, Turkey's chief negotiator, Carl Bildt, Kemal Dervis, a former Turkish economy minister, and Mikolaj Dowgiewic, Poland's Europe minister.

We also organised two events in Brussels – one to launch Ülgen's paper, the other a breakfast with Selim Kunalalp, Turkey's EU ambassador; and two lunches in London, one with Mustafa Sarigul, an opposition leader, and the other with Michael Leigh, the Commission director-general for enlargement (who spoke about the Balkans as well as Turkey).

In February 2010, Ukraine elected a new president, Viktor Yanukovich. He promptly did a deal to extend the lease on Russia's Black Sea Fleet base in Sevastopol, in exchange for cheaper gas. Tomas Valasek's policy brief in October, 'Ukraine turns away from democracy and the EU', argued that the EU should worry less about Ukraine's rapprochement with Russia and more about its gradual slide towards one-party rule. His warning was prescient: the regional elections in December were the least free since the Orange Revolution. In October we hosted a group of visiting Ukrainian think-tankers at a roundtable.

The Southern Caucasus, though not often in the headlines, remained troubled. In January 2010 we hosted the London launch of Ron Asmus's book 'A little war that shook the world: Georgia, Russia and the future of the West' – an excellent account of the events leading to the war, which warns that violence could yet return to the country. The EU's relations with its eastern neighbours dominated the fourth meeting of our 'Stockholm group',

which took place in the Swedish capital in June. This group, which we run with the Polish think-tank DemosEuropa and the Swedish Parliament, brings together officials and analysts to discuss how to make EU foreign policy more effective. Participants included Hans Blitz, the former head of the International Atomic Energy Agency, Hryhoriy Nemyria, the former deputy prime minister of Ukraine and, from Catherine Ashton's office, Carl Hallergard and Christian Leffler. Poland's Mikolaj Dowgiewlecz gave the keynote speech. The CER has strengthened its ties to Poland, which takes on the Union's rotating presidency in the second half of 2011. Radek Sikorski, Poland's foreign minister, presented his priorities for its presidency at a CER roundtable in October.

European defence and NATO

For many years the CER has argued that European governments should pool military assets and capabilities, to save money. At last, in 2010, governments responded to intense budgetary pressures by thinking seriously about cross-border co-operation. One sign was the decision of Britain and France to work together on aircraft carriers, nuclear weapons facilities and joint operations. Money could also be saved by boosting EU-US defence trade. Clara Marina O'Donnell's paper, 'A transatlantic defence market, forever elusive?' argued that removing some of the key obstacles would not only cut costs but also make it easier for European and American troops to fight side by side. In January we hosted a roundtable with Jeff Bialos, a former Pentagon official, and Quentin Davies, then a British defence minister, on the transatlantic defence market. The CER also researched the growing interest of sovereign wealth funds in Europe's defence industry. In 'How should Europe respond to sovereign investors in its defence sector?', Clara argued that although EU governments should remain vigilant they should in principle welcome them as a useful source of capital.

In November NATO adopted a new 'strategic concept'. In his role as an adviser to Madeleine Albright's 'group of experts', our own Tomas Valasek helped draft the report on the concept that went to the NATO secretary-general.

We ran seminars on the future of NATO in February and in November, which between them featured two former secretaries-general – George Robertson and Jaap de Hoop Scheffer – as well as former White House senior director Frank Miller, analysts Lawrence Freedman and François Heisbourg, General Sir Richard Shirreff and former UK Secretary of State Geoff Hoon.



(L to R) George Robertson, Franklin Miller and Geoff Hoon at 'The future of NATO' roundtable, February 2010, London

Two CER publications influenced the debate on the strategic concept. In February, a paper by George Robertson, Kori Schake and Franklin Miller criticised Germany's call for the withdrawal of US tactical nuclear weapons from Europe; Wolfgang Ischinger (like Robertson and Schake, a CER board member) criticised the paper in a piece for the *International Herald Tribune*. In May, a paper by Ron Asmus, Tomas Valasek and other authors

argued that NATO needed to provide more reassurance to its new members in Central Europe; in return, however, those new members needed to accept a policy of engaging Russia. That broad idea featured in the new NATO strategic concept.

Policing, justice and institutions

The CER continued its series of dinners with key figures in the world of justice and home affairs (JHA), hosting Michèle Coninx, the then head of Eurojust, the EU's body of national prosecutors, in April; and Cecilia Malmström, the EU's first commissioner for home affairs, in September. Separately we organised a brainstorming between Malmström and senior UK policy-makers on how the EU could help the member-states to tackle terrorism, organised crime and border security. In February, Chris Huhne, then the Liberal Democrat shadow home secretary, spoke at a CER breakfast on the relationship between UK and EU immigration policy.

Justice and home affairs was only one area in which the powers of the European Parliament – enhanced by the Lisbon treaty – were keenly felt. In February, MEPs voted down an EU-US agreement on sharing bank data relevant to combating terrorism. The increasingly self-confident Parliament is making an impact on the EU across a broad swath of policies, as we discussed at a seminar on the impact of the Lisbon treaty in November (in London, organised jointly with three Brussels think-tanks). The Parliament's attempt to swell the size of the EU budget – at a time when most national capitals are grappling with the need for unprecedented austerity – led many governments to brand it irresponsible.

However, a CER essay published in December argued that the real problem facing the Parliament was less the behaviour and alleged immaturity of its MEPs than its lack of democratic legitimacy. The authors, Professor Anand Menon of Birmingham University, and John Peet of *The Economist*, proposed that national parliamentary committees be given a greater say over EU matters, and that national parliaments should work more closely with each other and with the European Parliament itself.

This report has focused on the CER's longer publications in 2010. However, the shorter articles that we publish – the weekly electronic 'insights', and those in the six-times-a-year 'bulletin' – sometimes generate more buzz. For example, they influenced debates on subjects ranging from the euro to China-EU relations to Franco-British defence co-operation to shale gas. To mention just one example, in April 2010 few people expected the emergence of a Conservative-Liberal Democrat coalition in Britain, a radical Franco-British defence initiative, or an EU treaty change triggered by the euro crisis. But Hugo Brady predicted all those developments in 'Clameronism', an insight published that month. Some of our influence came through the opinion pieces that we placed in the world's newspapers – not only in the *Financial Times* (for which CER staff wrote five op-eds in 2010) but also in papers such as *Handelsblatt*, the *Independent*, the *International Herald Tribune*, *Kathimerini* (Athens), the *Kyiv Post*, *NRC Handelsblad*, *SME* (Bratislava), *Tagesspiegel* and the *Wall Street Journal*.

Political change in Britain

In May, when Britain's Conservatives returned to power, in coalition with the Liberal Democrats, governments across the continent were worried. They wondered if the Conservatives' eurosceptic instincts would lead to anti-EU policies, and whether the LibDems would moderate those policies. The provisional answers to those questions seem to be no, and yes. David Cameron's government has not created major problems for its partners, for example by threatening to block the proposed change to the EU treaties. Nor has it sought to lead the EU; it has often been content to see others take the initiative.



Lord Howell speaking at a seminar on 'Europe's crisis, Britain's challenge?', London

The arrival of the coalition government has not made much difference to our work, for we have long been a cross-party think-tank. In January 2010, for example, we briefed a group of Conservative front-benchers on EU energy policy. In addition to the events already mentioned with Conservatives Ken Clarke, Malcolm Harbour, Mark Hoban and Greg Hands, and LibDems Sharon Bowles and Chris Huhne, Conservative Foreign Office minister David Howell gave the keynote speech at our joint conference with ECFR. At the same event Malcolm Rifkind, a former Tory foreign secretary, debated EU foreign policy with Paddy Ashdown, a former LibDem leader. Meanwhile we did not neglect the Labour Party. Before the general election we hosted Chris Bryant, then the Labour minister for Europe, at a breakfast, and since the election we have briefed Labour front-benchers on the euro and on defence.

We were active with all three main parties at their annual conferences in the autumn. Our panel at the Labour conference included Jan Royall, leader in the House of Lords, and Charles Clarke, former home secretary. At the LibDem conference Andrew Duff MEP and Michael Moore MP spoke on our platform. At one of our Conservative conference fringe meetings we had Europe minister David Lidington and Malcolm Harbour MEP. At the second we organised a debate between William Hague, the foreign secretary, John Bruton, the former Irish Taoiseach, Carl Bildt and MEPs Vicky Ford and Daniel Hannan. To the surprise of some, Bildt and the supposedly eurosceptic Hague seemed to have more in common than Hague and the markedly eurosceptic Hannan.

We expect the coalition government to continue steering a moderate course on Europe. But that moderation will be tested as EU leaders continue to grapple with the euro crisis and start to haggle over the future EU budget.

A handwritten signature in blue ink that reads 'Charles Grant'.

Charles Grant, Director

CER Publications 2010

How to restore financial stability
report by Philip Whyte (January 2010)

Can Turkey combine EU accession and regional leadership?
policy brief by Katinka Barysch (January 2010)

**Carbon capture and storage:
What the EU needs to do**
report by Simon Tilford and Stephen Tindale
(February 2010)

Germany opens Pandora's box
briefing note by Franklin Miller, George Robertson
and Kori Schake (February 2010)

Can and should the EU and Russia reset their relationship?
policy brief by Katinka Barysch (February 2010)

The new Commission's economic philosophy
policy brief by Charles Grant, Katinka Barysch, Simon
Tilford and Philip Whyte (February 2010)

The Lisbon Scorecard X: The road to 2020
report by Simon Tilford and Philip Whyte
(March 2010)

China and the global financial crisis
essay by Bobo Lo (April 2010)

Can the EU be more effective in Afghanistan?
policy brief by Joanna Buckley (April 2010)

Should the Nabucco pipeline project be shelved?
policy brief by Katinka Barysch (May 2010)

NATO, new allies and reassurance
policy brief by Ron Asmus, Stefan Czur, Chris
Donnelly, Aivis Ronis, Tomas Valasek and Klaus
Wittmann (May 2010)

Germany, the euro and the politics of the bail-out
briefing note by Katinka Barysch (June 2010)

How to reform the Russian economy
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A transatlantic defence market, forever elusive?
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How should Europe respond to sovereign investors in its defence sector?
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Turkish politics and the fading magic of EU enlargement
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Why Germany is not a model for the Eurozone
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Why Berlin won't back down on euro reform
briefing note by Katinka Barysch (November 2010)

Turkey and the EU: Can stalemate be avoided?
policy brief by Katinka Barysch (December 2010)

**Beyond the European Parliament:
Rethinking the EU's democratic legitimacy**
essay by Anand Menon and John Peet
(December 2010)



CER Events 2010

12 January: Roundtable with Jeff Bialos and Quentin Davies MP on 'The transatlantic defence market', London

13 January: Launch of 'How to restore financial stability' with David Wright, Brussels

14 January: CER/BNE conference on 'Friend or foe: Is the EU good for business?' with Lord Mandelson and David Miliband MP, London

15 January: Breakfast with Selim Kunalalp on Turkey, Brussels

27 January: Launch of 'A little war that shook the world: Georgia, Russia and the future of the West' by Ron Asmus, London

1 February: Breakfast with Chris Bryant MP on 'Making Europe work', London

1 February: Lunch with Mustafa Sarigul on Turkey and EU accession, London



2 February: Launch of 'How to restore financial stability' with Mark Hoban MP, London (left)

9 February: Launch of 'Germany opens Pandora's box' with Franklin Miller, George Robertson and Kori Schake, London

9 February: Roundtable on 'The future of NATO' with Baroness Neville-Jones, Lt Gen Sir Richard Shirreff, François Heisbourg, London (right)

19 February: Breakfast with Mario Monti on 'Is the single market under threat?', London



19-20 February: Conference on 'Lessons from the economic crisis'. Participants included Mario Monti, Adair Turner, Adam Posen, Bart van Ark, Jean Pisani-Ferry and Martin Wolf, Ditchley Park (left)



23 February: Breakfast with Chris Huhne MP on 'Is the UK too special to participate in an EU immigration policy?', London

23 February: Lunch with Kenneth Clarke MP on 'The EU's role in business regulation', London

1 March: Launch of 'Carbon capture and storage: What the EU needs to do' with Ed Miliband MP, London

3 March: Dinner with Pascal Lamy on the future of globalisation, London (left)

18 March: Launch of 'The Lisbon Scorecard X: The road to 2020' with Commission President José Manuel Barroso, Brussels

31 March: Launch of 'The Lisbon Scorecard X: The road to 2020' with Greg Hands MP, London (right)



13 April: Dinner with Michèle Coninx on justice and home affairs, London

19 April: CER 12th birthday party hosted by the Irish ambassador. Speaker: Catherine Ashton, London

29-30 April: CER/Brookings/SWP Daimler forum on 'World order and global issues'. Speakers included: Carl Bildt, Bill Burns, Phil Gordon, Anne-Marie Slaughter and Jim Steinberg, Washington

13 May: Launch of 'Can the EU be more effective in Afghanistan?' with Francesc Vendrell and Sherard Cowper-Coles, London

6-7 June: 4th meeting of the Stockholm group on EU foreign policy with Hans Blix, Mikolaj Dowgielewicz, Carl Hallergard, Christian Leffler and Hryhoriy Nemyria, Stockholm

8 June: Breakfast on the Monti report with Mario Monti, London

9 June: CER/Interel breakfast with Vladimir Chizhov on 'EU-Russia relations', Brussels

15 June: CER/ECFR seminar on 'Europe's crisis, Britain's challenge?'. Speakers included: Joschka Fischer (right), Lord Howell and George Soros, London





18 June: CER/Interel breakfast with Philip Lowe on EU energy policy, Brussels

21 June: Debate on 'How can confidence within the eurozone be restored?' with Jürgen Stark and Martin Wolf, London (left)

9 July: CER/Interel breakfast with Alexander Italianer on EU competition policy, Brussels

22 July: Dinner with Chris Huhne MP on 'A European pathway to a low carbon future', London

23 July: Breakfast with Paul Tucker on 'Restoring financial stability in Britain and Europe', London

16 September: Roundtable with Commissioner Cecilia Malmström on 'EU security over the next five years', London

16 September: Dinner with Commissioner Cecilia Malmström on 'Future priorities for European home affairs policy', London (right)



20 September: CER/BNE fringe event at Liberal Democrat party conference on 'Europe's crisis: what role for Britain?' with Andrew Duff MEP and Michael Moore MP, Liverpool

26 September: CER/BNE fringe event at Labour party conference on 'Europe's crisis: what role for Britain?' with Charles Clarke, Richard Corbett and Baroness Royall of Blaisdon, Manchester

29 September: CER/Carnegie launch of 'Turkish politics and the fading magic of EU enlargement' with Sinan Ülgen, Brussels



30 September: Roundtable on Russia with Anatol Lieven and Robert Skidelsky, London

3 October: CER/BNE/Open Europe fringe event at Conservative party conference on 'Is the Channel wider than the Atlantic?' with Carl Bildt, William Hague MP (above) and John Bruton, Birmingham

4 October: CER/BNE fringe event at Conservative party conference on 'Europe's crisis: what role for Britain?' with Malcolm Harbour MEP and David Lidington MP, Birmingham

9-12 October: CER/EDAM Bodrum roundtable. Speakers included: Egeman Bagis, Carl Bildt, Kemal Dervis and Mikolaj Dowgielewicz, Bodrum

13 October: CER/Interel breakfast with Malcolm Harbour MEP on 'Rebooting the single market', Brussels

20 October: Roundtable on Ukraine, London

21 October: Roundtable with Radek Sikorski, Polish Foreign Minister, London

3 November: Launch of 'Zero-sum world' with Lord Malloch-Brown and Gideon Rachman, London

4 November: Dinner with Sir Howard Davies on 'The financial crisis: Who's to blame?', London

10 November: CER/Interel breakfast with Robert Madelin on 'Digital innovation, growth and jobs', Brussels

11-12 November: CER/Brookings/SWP Daimler forum on 'World order and global issues'. Speakers included: Phil Gordon, Ivo Daalder, Dennis Ross and Sir John Sawers, London

15 November: CER/European Commission lunch on 'Turkey and the Balkans', with Michael Leigh, London

17 November: Launch of 'Europe's decline and fall: The struggle for global relevance' with Richard Youngs, London

19 November: Roundtable with Commissioner Karel de Gucht on EU trade policy, London

22 November: Launch of 'The Lisbon Treaty one year on: Was it worth it?' with Janis Emmanouilidis, Tinne Heremans and Piotr Maciej Kaczynski, London

24 November: CER/Dutch Embassy lunch with Jaap de Hoop Scheffer and Lord Robertson, former NATO secretaries-general, London

26 November: CER/Interel breakfast with Paola Testori Coggi on 'Challenges in health policy for the next decade', Brussels



13 December: Dinner with Lord Turner on climate change, London (right)

Financial support 2010

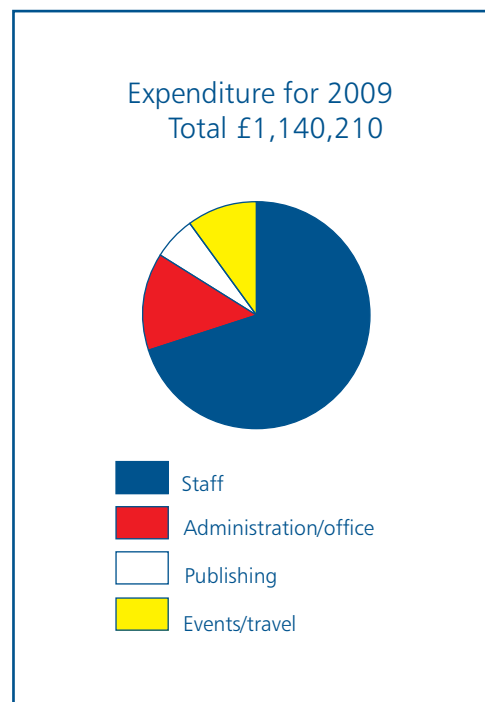
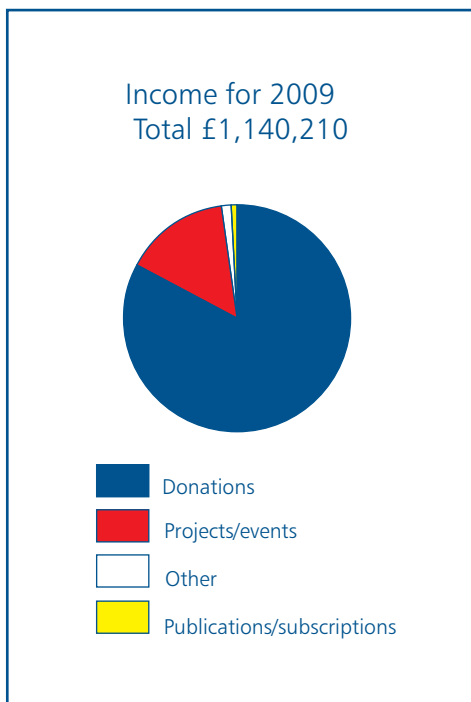
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In addition to our corporate members, numerous other companies have supported specific publications, projects and events.

Income and expenditure

Audited accounts for year ending 31.12.2009



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Staff 2010

Charles Grant is the director.

His interests include the euro, European foreign and defence policy, Russia and China.



Katinka Barysch is the deputy director.

Her areas of expertise are Russia, energy, the European economy and globalisation, EU enlargement and Turkey.



Simon Tilford is the chief economist.

He focuses mainly on competitiveness, macro-economics, economic reform, the euro and the environment.



Tomas Valasek is director of foreign policy & defence.

He specialises in European foreign and security policy, European neighbourhood policy, transatlantic relations and the defence industry.



Philip Whyte is a senior research fellow.

He specialises in fiscal and monetary policy, micro-economic reform and financial regulation.



Bobo Lo was a senior research fellow.

He specialised in Russia and China.



Hugo Brady is a senior research fellow.

He specialises in justice and home affairs as well as the reform of EU institutions.



Stephen Tindale is an associate fellow.

He specialises in climate and energy policy, as well as agricultural policy and the EU budget.



Clara Marina O'Donnell is a research fellow.

She specialises in European foreign policy, defence and the Middle East.



Catherine Hoyer is the director of operations and finance.

She is also PA to Charles Grant.



Kate Mullineux is publications manager and website editor.

She designs all CER publications and organises their production.



Susannah Murray is the events co-ordinator.

She also provides administrative support to the researchers and manages the CER's database.



Liliana Mulvany is the administrative assistant.





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