



# **EUROPE AFTER SEPTEMBER 11<sup>th</sup>**

**Edward Bannerman, Steven Everts,  
Heather Grabbe, Charles Grant,  
and Alasdair Murray**

Published by CER, 28 Tufton Street, London SW1P 3QL  
Telephone +44 20 7233 1199, Facsimile +44 20 7233 1117  
[info@cer.org.uk](mailto:info@cer.org.uk) [www.cer.org.uk](http://www.cer.org.uk) © DECEMBER 2001

## **ABOUT THE AUTHORS AND ACKNOWLEDGEMENTS**

The authors all work at the Centre for European Reform. Edward Bannerman is Head of the Business Unit, Steven Everts is Senior Research Fellow, Heather Grabbe is Research Director, Charles Grant is Director and Alasdair Murray is Director of the Economics and Social Policy Unit. They wish to thank Laure Astill, Ben Hall, Catherine Hoye, Daniel Keohane and Kate Meakins for their help with this pamphlet.



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# 1 Introduction: a coalition for global security

*Charles Grant*

Something positive has emerged from the flames, smoke, dust and rubble of the attacks on New York and Washington. The major powers have come together and committed themselves to fight international terrorism. This alliance of Americans, Europeans, Russians and others, including perhaps the Chinese, promises to be a constructive force in world affairs.

Whatever happens on the battlefields of Afghanistan, or in other zones of conflict, new patterns of alliances and interests are going to shape global politics in the coming years. As Tony Blair said in his Brighton speech of October 2001, “the kaleidoscope has been shaken, the pieces are in flux and soon they will settle again. Before they do, let us re-order this world around us.”<sup>1</sup>

*<sup>1</sup> Speech to the  
Labour Party  
conference,  
October 2<sup>nd</sup>,  
2001*

The focus of this pamphlet is the European Union’s response to, and its role in, the formation of a new coalition of world powers. The essays cover neither the military and political events in Afghanistan, nor the troubled relationship between Islam and the West. But they do examine the new opportunities that could allow governments and organisations to manage global problems better than they have done in the past.

At least six good things seem to have come out of the crisis, so far:

- ★ America has rediscovered the need to engage with the world, although largely on its own terms.

- ★ The governments of the European Union are strengthening their co-operation on external and internal security; the Union is therefore better equipped to meet global challenges, and a more useful international partner.

- <sup>2</sup> *For the purposes of this essay, a western country is defined as one committed to a market economy, representative democracy, a relatively pluralistic society and a constructive attitude to international organisations.*
- ★ Under the leadership of Vladimir Putin, Russia has taken a strategic decision to become a more western country, with closer ties to the EU.<sup>2</sup>
  - ★ At the same time, NATO is becoming an increasingly political organisation, which means that Russia can develop friendly relations with it.
  - ★ The two leading Asian economies, China and Japan, have aligned themselves with the anti-terrorist coalition.
  - ★ And there is a new spirit of international economic co-operation, particularly between the US and Europe.

None of these positive developments is set in stone. All are fragile to a greater or lesser degree. Politicians must strive to ensure that these embryonic realignments endure. And since the US is the sole superpower and the apex of the new coalition, this is particularly important for American leaders.

The conduct of President George W Bush in the crisis – at least in its first two-and-a-half months – has confounded the expectations of many of his European critics. Together with Colin Powell, his secretary of state, Bush has worked hard to build a broad international alliance against terrorism. He understands that the US cannot defeat this threat without allies, including moderate Muslim states such as Pakistan. He appears to recognise that international organisations have an important role to play, and has called for the UN to take charge of the reconstruction of Afghanistan. For the sake of the alliance, Bush has also spoken of the need for a Palestinian state and – some of the time – put strong pressure on Ariel Sharon,

the Israeli prime minister, to desist from actions that provoke the Palestinians.

Together with their European allies, Bush and Powell will have to expend much effort and endure endless frustrations in holding the coalition together. But they should persevere. Brent Scowcroft – who as national security adviser to President Bush senior helped to build the Gulf War alliance – has argued the case for working with a broad coalition as convincingly as anyone. The new coalition can “produce benefits far beyond the principal purpose of running terrorism to ground. It can help erase the reputation that the US has been developing of being unilateral and indifferent, if not arrogant, to others.” The new spirit of co-operation could improve America’s relations with Russia, China, Iran and Pakistan, he wrote. “It can even help unblock issues that have seemed intractable for generations – for example, the Arab-Israeli confrontation.”<sup>3</sup>

<sup>3</sup> Brent Scowcroft, *‘Building a coalition is the way to win this war.’* *International Herald Tribune*, October 17<sup>th</sup>, 2001.

That kind of ‘multilateralist’ argument is exactly what the Europeans want to hear. However, Europeans and Americans may misunderstand each other when they talk of multilateralism. What Americans often think of is a US-led alliance, held together by the glue that comes from countries doing each other favours. This is an old-fashioned balance-of-power approach to international relations. What the Europeans tend to mean by multilateralism is a new system of global governance, in which national sovereignty is shared and managed by international organisations and treaties. And that is not an appealing model for many American policy-makers, whatever else has changed since September 11<sup>th</sup>.

In any case, as Steven Everts argues in this pamphlet’s second essay, there is no guarantee that Washington’s multilateralists will go on winning the argument. Paul Wolfowitz, the deputy defence secretary, and many other hawks in key positions, have argued that the next phase of the war against terrorism should be an all-out attack on Iraq. But if Bush followed that policy, without strong

evidence of links between Baghdad and al-Qaeda, and without UN approval, the new coalition would collapse. Not only would the moderate Muslim countries, the Russians and the Chinese peel away from the US, but so too would most EU governments. The resulting fractious collection of powers would have little chance of organising the concerted and prolonged actions that are required to combat terrorism and reconstruct the failed states that foster it.

However, as this pamphlet went to press (in early December 2001), Washington's multilateralists seemed to be holding the upper hand. If they continue to do so and the anti-terrorist front holds together, the potential benefits are huge. One of the biggest prizes would be to fix Russia in a westward-leaning direction. For the 45 years of the Cold War, two opposing blocks dominated the world. And then briefly, around the time of the fall of the Berlin Wall and the liberation of Kuwait, Moscow came in from the cold. It was not fatuous of George Bush senior to talk of a new world order. For example, Russia's constructive stance in the Security Council enabled the UN to become a useful organisation, for a while.

However, this new order did not last long. Russian democracy took root, in its own very imperfect manner, but that did not guarantee a pro-western orientation. Weakened by economic crises – which most Russians blamed, not entirely unjustly, on western-inspired economic reforms – Russia sometimes reverted to knee-jerk opposition to the policies of America and its allies. For their part, neither the US nor the EU countries made a serious effort to involve Russia in the structures of European or transatlantic security. The creation of a NATO-Russia Permanent Joint Council in 1997 did not fulfil expectations. And the Kosovo War of 1999 only alienated the Russians still further from the West, as did EU criticism of Russian military actions in Chechnya in the same year.

But now Russia has a leader who thinks strategically. Before September 11<sup>th</sup>, Putin's chief concern appeared to be to strengthen Russia through a process of economic modernisation. He wanted



Russia to adopt and adapt western economic methods and ideas. However, he was happy to sign a new treaty with the Chinese, while talking of the need for a ‘multipolar’ world that was not subject to American hegemony.

Since the attacks on the World Trade Centre, Putin has moved deftly to position Russia as a key ally of the West. He has given the US access to Russian airspace, intelligence on al-Qaeda, and diplomatic support in Central Asia and the UN. Putin moved ahead of his own defence establishment and important strands of public opinion by supporting the bombing of Afghanistan, and by calmly accepting the presence of US forces on former Soviet territory. His softening of Russia’s previous hostility to NATO enlargement has upset plenty of senior figures in Moscow. However, NATO’s own transformation into a more political body, in which the military organisation counts for less, makes it easier for Putin to push for a closer Russian relationship with the alliance.

Putin also wants Russia to join the WTO and to develop new links with the EU. He appears to be sincere in wishing to make Russia a more modern country, and in being seen to behave as western countries do. Thus he has not (so far) tried to extract a high price from the US or the Europeans for Russia’s participation in the coalition. Nevertheless, as the fourth essay in this volume argues, the West needs to be sensitive to Russia’s concerns and to find new ways of integrating it into global economic and political structures, so that Russians see the benefits of Putin’s strategy.

This new coalition will not be effective if its membership is limited to the US, the EU countries, Russia and a few friendly Arab countries. More than half the planet’s population lives in Asia, a continent which accounts for a quarter of world GDP. Many of the world’s most enduring sources of conflict, including Korea, Kashmir, Sri Lanka and Taiwan, are in Asia. Furthermore, violent strains of Islamic fundamentalism have taken root in parts of Western China, Indonesia, Malaysia and the Philippines. Therefore, many

governments in the region have a strong interest in supporting the coalition against terrorism. It is important that the coalition embraces these governments, not only for the practical assistance they can provide, but also to prevent it from appearing as a largely Christian and Caucasian club.

Happily, some of the most important Asian countries are keen to work with the coalition. China has used the crisis to improve its relationship with the US, which had reached a nadir during the spyplane affair of April 2001. It has backed the Americans in the United Nations, shared intelligence and offered cautious support for US military actions. It has even welcomed a US aircraft carrier and its battle group to Hong Kong. Russia's repositioning has probably encouraged this shift: there is no point in China sketching plans for a multi-polar world if Russia has decided to support the biggest pole.

Of course, the current entente between the US and China may not endure. The fact that China is not a democracy, that its human rights record leaves much to be desired, and that it oppresses some of its own citizens, such as Tibetans and Uighurs, means that many sources of tension remain. The state of China's relationship with Taiwan also has the potential to spoil its tentative new friendship with the West.

However, China's current stance seems to be part of a long-term strategy. It has never previously approved of American military involvement in the affairs of another country. And even before September 11<sup>th</sup>, China was showing signs of stepping up its engagement in co-operation on security issues beyond its borders. In 2000 it forged a regional pact – now known as the 'Shanghai Six' – with Russia and four Central Asian republics, against terrorism, drug-trafficking and Islamic fundamentalism.

The impact of September 11<sup>th</sup> on Japan has, arguably, been as profound as that on China. Junichiro Koizumi, the prime minister, has seized the opportunity to push through changes that will make

Japan a more 'normal' country. Until recently, Japan's constitution forbade its armed forces from playing anything other than a self-defence role. However, a new anti-terrorism law allows Japanese forces to provide logistical support for an ally engaged in an armed conflict. In November 2001, in response to American requests, Japan despatched naval support vessels to the Indian Ocean.

Both left-wingers within Japan and the country's neighbours, notably China, are unhappy about the changes in Japan's defence policy. Nevertheless Koizumi has taken the wind out of the sails of his opponents by offering fulsome apologies for the Second World War. The world's second largest national economy, for so long a political pygmy, may finally be readier to play a more active role in global governance. These changes, which suggest that Japan may one day emerge as a regional counterweight to China, can only please the Americans and the Europeans.

The essential elements of the new anti-terrorist alliance include not only the US and Russia but also, of course, the EU and its governments. The attacks of September 11<sup>th</sup> generated solidarity not only across the Atlantic, but also among Europeans. The sentiment that "we are all in this together" has undoubtedly helped to promote closer European co-operation.

The Europeans have shown themselves to be the Americans' most loyal and dependable allies. Not only Tony Blair, but also Gerhard Schröder and Jacques Chirac have given rock-solid backing to the Americans, as have many meetings of EU ministers and heads of government. But the EU has offered much more than loyalty. The Europeans' political contacts and friendships in the Middle East have been helpful. For example, the US has no diplomatic relations with Iran, while the Europeans do. The EU is also the biggest funder of the Palestinian Authority, which gives it some influence with Yasser Arafat. Furthermore, some of the European intelligence services have provided useful information. The more the Europeans have helped the US, the more influence they have bought in Washington.

As an organisation, the EU has performed adequately, rather than brilliantly during the war in Afghanistan. That is not surprising, given that the EU is not a military organisation. In the future, however, when an internationally approved government is running Afghanistan, the EU will be able to play to its strengths. The EU's experience with post-conflict reconstruction in the Balkans, and its extensive economic power – it provides 55 per cent of the world's development assistance – will be crucial in the attempt to rebuild Afghanistan. Furthermore, although the Europeans' armed forces cannot compare with the Americans' when it comes to high-intensity combat, they have a track record in peacekeeping which is second to none. This may prove useful in Afghanistan, where European peacekeepers could serve as part of a multinational force.

Some European politicians complain that EU institutions have been sidelined by the member states, and in particular by Britain, France and Germany. But such complaints have little validity. The Union's institutions have wide-ranging powers over economic policy but – for the moment – much less sway over foreign policy and virtually no say in military matters. So it is to be expected that in wartime the Commission and the EU's foreign policy representative, Javier Solana, will adopt a relatively low profile. It does not matter if it is prime ministers who speak for Europe, so long as they sing from the same hymn-sheet, which they usually have done.

Nevertheless, as the third essay in this volume explains, the war against terrorism has the potential to undermine European integration. If the hawks win the argument in Washington, and President Bush attempts to topple Saddam Hussein without UN authorisation, some EU states will criticise the US while others, such as the UK, will be reluctant to do so. The Europeans would be divided and their common foreign and security policies would lack credibility.

In any case, in the near future the EU seems more likely to make solid progress in internal security than in foreign and defence policy.

The EU's governments have been talking about developing common policies on internal security – otherwise known as Justice and Home Affairs – for several years. But it was only the shock of September 11<sup>th</sup> that spurred EU leaders to recognise that internal security mattered as much as external security, and that they needed to take urgent measures to confront the terrorist threat.

The EU governments have now committed themselves to a common European arrest warrant. This is a momentous step: each member state will have to trust the others' judicial systems. And the rapid moves to harmonise a wide range of policies on internal security have significant institutional consequences. Europol, the body which coordinates the work of European police forces, is likely to take on more powers, while Eurojust, whose job will be to promote co-operation among prosecuting authorities, may develop muscles of its own.

However, as Heather Grabbe explains in the fifth of this pamphlet's essays, moves towards common EU rules in internal security will not be problem-free. First, the new measures approved by ministers will not produce dividends in the fight against terrorism without effective implementation. And that will require national police forces, courts, judges and prosecuting authorities – all of which have hitherto had a domestic focus – to learn a new spirit of transnational co-operation. Second, new EU legislation on justice and home affairs may create difficulties for the countries that are preparing for accession; they are already struggling to digest the 80,000 pages of existing EU rules. And third, some of the steps taken to tighten EU rules on internal security threaten civil liberties. The EU's leaders will find it a constant challenge to achieve a balance between internal security and the freedom of individual citizens.

Another positive development is the renewed spirit of economic co-operation – amongst the Europeans and across the Atlantic – that has emerged since September 11<sup>th</sup>. One manifestation was the agreement in mid-November at Doha to start a new round of trade liberalisation. Furthermore, in some specific areas such as

money laundering, new international agreements are in the offing. In most financial centres, banks and other institutions will have to monitor transactions that could be linked to the funding of terrorist groups.

However, the improvement in economic co-operation since September 11<sup>th</sup> seems more fragile than the other encouraging trends noted in this introduction. If the world economy heads for a severe recession, the voices of protectionism will grow louder. There are already signs of transatlantic tensions over how to respond to the slowdown. The US has adopted a set of policies which can be described as neo-Keynesian: stimulating demand through tax cuts, public spending increases and interest-rate reductions. The Europeans, restrained by their commitment to monetary and fiscal prudence, have largely avoided those kinds of activist policies.

The EU is having to face the challenge of recession just when it is preparing to launch the notes and coins of its new currency. Edward Bannerman and Alasdair Murray argue in this pamphlet's final essay that the EU needs to boost growth by stepping up the pace of structural economic reform. And they believe that in the longer run the EU needs to rethink its framework for the management of monetary and fiscal policy, as well as the way it is represented in international bodies such as the Group of Seven.

## **Maintaining the alliance**

The global coalition against terrorism has the potential to do much good. However, it will be hard for the Americans and the Europeans to hold this new alliance together. They will only manage to do so if they can make it clear that the coalition's purpose is to fight not only terrorism, but also its roots and the things that nourish them – such as economic under-development, the failure of states and lax controls on the diffusion of weapons of mass destruction. They must also (as the next essay discusses) make a renewed effort to reinvigorate the Middle East peace process.

And they will have to be prepared to engage in trade-offs and compromises, to maintain the support of some less-than-perfectly democratic countries.

Some of the origins of terrorism are economic. The Europeans will need to persuade other western countries – and notably the US – to engage in a renewed effort to tackle the problems of economic under-development and poverty. However, economic assistance is unlikely to achieve much in a country which lacks basic law and order. And it is the failure or collapse of states that often creates conditions in which terrorists can flourish. Of course, some terrorists are sponsored by viable states, such as Syria, while others – for example ETA in the Basque country – come from parts of coherent states where some people want to break away. But many of the more virulent sorts of terrorism thrive in places where law and order has collapsed, gangsterism rules, weapons are readily available, poverty and disease are rife, and the world economy is distant.

Think of Colombia, Sierra Leone, Congo, Somalia, Kosovo, Macedonia and Chechnya. In the past, such zones of chaos were largely isolated from the rest of the world. But no longer. As Robert Cooper wrote in his prescient *The Postmodern State and the World Order*, if these areas “become too dangerous for the established states to tolerate, it is possible to imagine a defensive imperialism. If non-state actors, notably drug, crime or terrorist syndicates, take to using non-state bases for attacks on the more orderly parts of the world, then the organised states may eventually have to respond.”<sup>4</sup>

This is exactly what they had to do in the last three months of 2001. Any international effort to prop up and rebuild a failed state must employ a broad range of techniques, including military, diplomatic, economic and humanitarian measures. So that this work enjoys widespread legitimacy, the over-arching authority will in most cases need to be the UN.

<sup>4</sup> Originally published by Demos in 1996, revised edition published by Demos and the Foreign Policy Centre in 2000. Since October 2001 Cooper has been co-ordinating British diplomacy on Afghanistan.

The priority in a failed state like Afghanistan must be the creation of a viable government, to ensure that economic aid can make an impact. In Bosnia and Kosovo, the West has established what are in effect international protectorates under the authority of the UN, with the EU and its members taking the lead on economic reconstruction. The relatively peaceful passage of the Kosovo elections in November 2001 shows that these painstaking efforts sometimes pay off. The western allies and the international organisations will have to embark on a similar process of reconstruction in Afghanistan, and perhaps in other places too, though the EU will not always play the leading role. Martin Wolf of the *Financial Times* has called this process a “new imperialism”, of a multinational, benign and thoroughly necessary variety.

If failed states enable terrorists to flourish, the absence of effective arms control regimes may allow them to obtain weapons of mass destruction. One or a few countries on their own cannot make a serious effort to stamp out the trade in the components which go into making nuclear, biological or chemical weapons: this effort has to be multilateral. There is ample evidence that the al-Qaeda network has tried hard to obtain the materials for such weapons. These attempts highlight the need for stringent international rules to ensure that dangerous materials are safe, secure and accounted for, and that there are effective procedures for monitoring compliance with these rules.

Most of the existing regimes – such as the Chemical Weapons Convention, the Biological Weapons Convention and the Missile Technology Control Regime – need strengthening. Cuba, India, Pakistan and Israel need to be persuaded to sign the nuclear Non-Proliferation Treaty. The International Atomic Energy Agency needs more resources in order to do an effective job of inspecting its members’ nuclear facilities. Historically, the Americans have usually understood the need for tough rules on proliferation, and they have often been more engaged than the Europeans in trying to stamp out the trade in weapons of mass destruction. If there is one area where



the Europeans should be able to persuade the Bush administration of the benefits of multilateralism, this is surely it.

President Bush seems to understand that the tasks of reconstructing Afghanistan and deconstructing terrorist networks will be arduous, and that the US needs to maintain a broad-based international coalition in order to achieve those ends. The words, attitudes and decisions of American leaders will be crucial to whether this alliance can hold together for the long term. A stronger and more confident Europe, offering wisdom, advice and practical support, will also help the Americans to keep the coalition together.

There is, of course, a downside to forging and maintaining an international alliance. In a true alliance there has to be give and take among the members. If the US and the EU want to keep the Russians, the Chinese and others on board, they will have to be ready to compromise on some of their objectives. That is why they have softened their criticism of Russian actions in Chechnya.

The US and the EU countries should be ready to consider coalition-strengthening compromises, so long as the benefits of doing so are likely to be substantial, and so long as fundamental principles are not betrayed. Evidently it would not be acceptable for Russia to reintroduce press censorship, or for China to launch missiles at Taiwan. But some bargains may be worth striking, especially if the country concerned is keen to maintain the good opinion of the coalition, and if it is already moving in a westward direction. Russia fulfils both conditions, so there is probably a strong case for doing deals with the Putin regime. However, in Iran the anti-western conservatives do not appear to be relaxing their grip on power, so the benefits of offering trade-offs would seem more doubtful.

Many commentators have compared the battle against international terrorism to the Cold War: the scope of the conflict is global, the length of the struggle will be long, and victory will require the

concerted use of a wide array of instruments, of which armed force may not be the most important. In the Cold War, the US allied with some unsavoury regimes, because the national interest required it. In such conflicts, there is less room for idealism in foreign policy, in the sense that a war against terrorism requires an unsentimental evaluation of the national interest and, sometimes, compromise. However, as Tony Blair has made clear in several speeches, national self-interest and the general good are increasingly likely to coincide:

Self-interest for a nation and the interests of a broader community are not long in conflict. There are few [foreign] problems from which we remain immune. In the war against terrorism the moralists and the realists are partners, not antagonists....[This war] is not just a police action to root out the networks and those who protect them, although it is certainly that. It needs to be a series of political actions designed to remove the conditions under which such acts of evil can flourish and be tolerated. The dragon's teeth are planted in the fertile soil of wrongs unrighted, of disputes left to fester for years or even decades, of failed states, of poverty and of deprivation.<sup>5</sup>

<sup>5</sup> *Speech at the Lord Mayor's banquet, London, November 12<sup>th</sup>, 2001.*

It is not necessarily hypocritical of the Americans and Europeans to ally themselves with undemocratic regimes such as China, Iran, Pakistan, Saudi Arabia and Syria, for several reasons. First, the US and the EU are still free to argue their case on, for example, the mistreatment of a minority. They are merely obliged to do so in a more understanding tone, and less often in public. Thus Bush did discuss human rights with Jiang Zemin when they met in Shanghai in October. Chris Patten, the EU's external relations commissioner, has told Iran that if it wants a Trade and Co-operation Agreement with the EU, it must include clauses on personal and political freedom.

Second, so long as the government concerned is keen to maintain its position in the new alliance, America and Europe have some

leverage. For example, western governments may have more influence on China when they have friendly relations with its government. Since September 11<sup>th</sup>, there have been some hints that China is rethinking its policy of allowing sales of nuclear technology and missile components to states like Pakistan and Iran.<sup>6</sup>

<sup>6</sup> *David Shambaugh and Robert Litwak, America and China get a chance to improve their relations; International Herald Tribune, October 18<sup>th</sup>, 2001.*

Third, some of the concessions that have been made to hold the alliance together are intrinsically desirable. Thus the European Commission has announced a preferential trade package for Pakistan, ending tariffs and relaxing quotas on Pakistani textiles, which it expects to lead to \$900 million worth of extra exports to the EU over the next five years.

International politics is usually about making difficult choices. In World War Two Britain was right to ally itself with the USSR against Nazi Germany, which was the greater evil. And whatever may be wrong with Putin's Russia today, it bears no comparison to Stalin's country. The current coalition against terrorism, like that which opposed the Nazis, is worth working to preserve. For if the coalition endures, its benefits could extend far beyond the immediate need to protect innocent people from terrorist attacks.



## 2 A new phase in US-European relations

*Steven Everts*

The September 11<sup>th</sup> terrorist attacks have shaken the international system. New coalitions and faultlines have appeared, while older alliances are being put to the test. The main impact on US-European relations has been the emergence of a new sense of purpose to a relationship that had been drifting since the end of the Cold War. In the coming months, both sides will squabble less over stale disputes on ‘second order’ issues, such as beef hormones, and concentrate more on what they can accomplish together in the fight against international terrorism. Atmosphere matters in foreign policy, and since September 11<sup>th</sup> there has been less haze and more clarity in the transatlantic relationship.

The principal opportunity for Europe is to build on America’s tentative re-engagement in a system of global governance. Earlier in 2001, the Europeans had criticised the strong unilateral inclinations of the Bush administration. Now they have a chance to seize on what appears to be a new mood in Washington and highlight the benefits – to the US – of supporting global rules and working within international organisations. The task ahead for Europeans is, first, to solidify this renewal of US interest in seeking multilateral solutions to global problems; and, second, to extend it from the fight against terrorism to other areas where concerted international action is necessary, such as failed states and global warming.

In the Middle East, the EU should use the current fluidity of the political situation to enhance its political role in that region. The most urgent task is to push for a settlement of the Israeli-Palestinian

conflict. More generally, the EU should contribute to regional security by making greater efforts to link its economic power to the pursuit of its political objectives, such as respect for political pluralism, fundamental freedoms and the rule of law.

## **Europe's contribution to the fight against terrorism**

Nothing unites like a common enemy. European support for, and participation in, the campaign against terrorist networks has been impressively strong. This disproves the confident predictions by anti-Europeans in London, Washington and elsewhere that many European countries would 'go wobbly' immediately after the start of military operations. But in the coming months, European governments and the EU institutions will have to flesh out what their general pledges mean in terms of practical commitments.

European countries have much to contribute to the global fight against terrorism, not least the know-how they have gained from decades of experience in dealing with terrorists. Their governments have learned – the hard way – that using coercive instruments alone cannot defeat terrorism; a 'multi-dimensional' approach that tackles the causes of terrorism is also required. Thankfully, many Americans seem to be aware of this – which offers opportunities for Europe. In order to ensure that the US listens, Europe needs to continue offering serious and practical support to the coalition. But it also needs to go on making the case for a campaign that is focused, inclusive and mainly political rather than purely military in nature.

EU governments have already offered full collaboration on measures to tackle the financing of terrorist organisations; closer ties between their policing authorities (including Europol) and the FBI; and better co-operation with the US on judicial matters, including contacts among prosecutors and an agreement to speed up extradition procedures. These are all sensible – if politically and technically demanding – initiatives. The main risk is that the momentum behind these initiatives will falter. There are too many examples in EU

history, unfortunately, of ambitious proposals that fall victim to sectional or national interests and therefore end up delayed and diluted.

Less visible to the public eye, but no less important, will be transatlantic co-operation on intelligence. It may now be a cliché to assert that better intelligence – rather than superior airpower – is a crucial element in the long-term struggle against terrorist networks like al-Qaeda, but it happens to be true. Because the Europeans have links with countries that the US has shunned, and because of their emphasis on human intelligence (as opposed to the US penchant for satellite imagery and signals intelligence), they have much to offer. For example Zacarias Moussaoui, a French Moroccan who has been suspected of being an additional member of the September 11<sup>th</sup> hijacking team, was arrested in the US in October 2001 on the basis of information supplied by French intelligence. There has been particularly effective trilateral co-operation among the American, British and French intelligence services, the latter two providing useful information about the situation on the ground in Afghanistan.

The Europeans should be generous in offering intelligence to the US, while urging the Americans to treat intelligence sharing as a two-way street. Within Europe, governments can do more to share intelligence assessments – both bilaterally, and multilaterally in NATO and the EU's foreign policy organisation under Javier Solana. Every country will be keen to protect its sources and thus reluctant to pass on raw data. But this should not prevent them from sharing assessments and stepping up attempts to draw up joint analyses within the EU.

Better intelligence sharing is important not only for the narrow objective of combating terrorist organisations, but also for the broader purpose of bridging divergent perspectives on foreign policy. After all, closer co-operation on intelligence could reduce the differences in threat perceptions that undeniably exist, both within Europe and across the Atlantic. If Europeans and Americans could agree more

often on the nature and urgency of security threats, then they would be more likely to agree on how they could best deal with them.

Finally, several European countries have contributed military assets to the campaign against al-Qaeda and the Taleban regime. Britain has offered assistance to the US military effort right from the start, firing cruise missiles from two submarines on the first day of military action and later providing reconnaissance and refuelling aircraft. But other European governments, including France, Germany, Italy and Turkey, have also offered not only logistical support, but also combat troops, including special forces.

Initially, the US was reluctant to take up these countries' offers, knowing that to do so would mean consulting them – at least occasionally – on the campaign strategy. However, the US administration changed its stance in early November 2001, perhaps realising that in a long-lasting campaign it needed to find practical ways of binding the Europeans into the US-led coalition. As well as being helpful for transatlantic cohesion, this shift probably had a positive effect on public perceptions of the military campaign in the Arab world: a broad coalition that includes several European countries is viewed with less disdain than a purely Anglo-Saxon alliance.

The value of the European military contribution is likely to increase, as the emphasis shifts from defeating the Taleban to rebuilding Afghanistan. European forces may yet play a crucial role as part of an international stabilisation force. The Europeans have valuable experience of using their soldiers and other technical personnel, including aid workers and engineers, for post-conflict operations.

The events of September 11<sup>th</sup> have highlighted the fact that Europeans and Americans face many common security threats. At the same time, the role of NATO, both in this campaign and as the leading transatlantic security organisation, is increasingly a subject for debate (see the fourth essay). Many American defence specialists have long argued that the US should reduce its involvement in

peacekeeping missions, while preparing its armed forces for ‘high-intensity’ conflicts, such as those which may arise over Taiwan or in the Gulf region. When Americans imagine future wars, they mostly expect US forces to be the dominant element in a coalition – or if necessary to fight alone.

NATO has become relatively marginal to America’s military strategy. Some Europeans also see NATO as becoming less important, though for different reasons. Most European governments assume that their armed forces need to be prepared for peace-support operations, as part of multinational ‘coalitions of the willing’ – such as those that have taken place in ex-Yugoslavia. If the US is less interested in this type of mission, many Europeans say, then the EU, rather than NATO, might in the longer term be the most suitable organisation to manage them. Some Europeans add that with its evolving policies on immigration and police and judicial co-operation, the EU could be better placed than NATO to deal with new security challenges such as terrorism, cross-border crime and weapons proliferation.

So far, this transatlantic divergence on attitudes to security problems has remained subdued. Officials on both sides repeat the soothing rhetoric that NATO remains crucial as a military alliance to protect its members against attacks, and as a broader European security organisation. But beneath the surface, Americans and Europeans are both re-assessing the utility of NATO for dealing with the problems that each of them considers important. If NATO does become a less important part of the transatlantic relationship, at some point in the future more consultations on security and foreign policy may have to pass through the US-EU link.

## **Europe and the broader Middle East**

Europe knows the Arab and Muslim world well. The EU can use its extensive diplomatic links, political influence and economic leverage in the Middle East to advance the broader international



campaign. It is already the most important trading partner and source of financial assistance for many countries in the Middle East and Central Asia. The EU itself spends more than €1 billion a year on countries in the Southern Mediterranean and the Middle East. On top of this there are much larger contributions from the member states, as well as soft loans from the European Investment Bank. The EU has already offered generous financial assistance and trade concessions to help stabilise countries such as Pakistan. It is negotiating new trade and partnership agreements with Iran and the six states of the Gulf Co-operation Council. And it has pledged significant aid for Afghan refugees and a post-Taliban Afghanistan (total EU aid to the country in 2001 will exceed €320 million).

But the EU must not limit its role to simply handing out money. For instance, it should not hesitate to link its financial assistance to commitments from recipients: not only to refuse to assist terrorists, but also to foster political and economic freedoms. That was the message – *sotto voce* – of the team of senior EU officials that visited Pakistan, Iran, Saudi Arabia and Syria in late September 2001.

Many governments do their best to resist this type of linkage, decrying it as interference in their domestic affairs. But the EU should have the courage of its convictions to be forthright in using its economic power to support its political strategy. All the EU's 'partnership' or 'association' agreements with third countries contain clauses on respect for political pluralism, human rights and standards of governance. These clauses give the EU considerable leverage. The Commission has proposed that non-compliance with the human rights clauses should lead to, for example, a suspension of high-level contacts, the postponement of new development projects, or the use of different channels of delivery (relying on independent NGOs instead of government-run organisations). But under pressure from cautious member states, the Union is generally reluctant to take such steps.

The EU should take a more pro-active stance. One idea would be for the EU to develop a series of benchmarks against which it could judge the performance of non-EU countries. It could then link that performance to its trade and development policies. The Commission and the Council of Ministers Secretariat should draw up an annual report that assesses each country's compliance with the benchmarks. The EU foreign ministers could then decide to reward those countries that make progress with extra EU and national assistance, while punishing others that have failed to comply with the standards that they have pledged to uphold. Humanitarian aid would be exempt from this policy of linking discretionary spending to compliance with respect for human rights and the rule of law.

One particular area where the EU can play a constructive role is on the relations between Israelis and Palestinians. Many Americans and Europeans are understandably reluctant to link the campaign against al-Qaeda with attempts to restart the Middle East peace process, lest they give the impression that it is only the necessity of fighting terrorism that has led to renewed efforts on the peace front. But it is a fact that continuing Arab support for the coalition depends on a more active and even-handed approach to the peace process. President Bush's comment that the creation of a Palestinian state was part of the US "vision" for the future of the Middle East helped to improve, at least in some respects, US standing in the Arab world. So did Tony Blair's reception of Yasser Arafat in Downing Street and his comments that he too wished to see a "viable Palestinian state".

But words are easy, of course. Many Palestinians point out that they have been waiting for decades for their own state. Meanwhile, their day-to-day reality is the continuous expansion of Israeli settlements, frequent army incursions into Palestinian areas and an on-going Israeli policy of targeted assassinations of suspected extremists. The Israelis, meanwhile, have their own set of concerns. Their constant complaint that Arafat does too little to tackle terrorists operating from inside the territories administered by the Palestinian Authority is mostly justified.

The EU and the US should consider whether the time has come to move beyond the ritualistic calls for restraint, a ceasefire and a resumption of peace talks. Maybe the situation requires some shock therapy. Since September 11<sup>th</sup>, Europeans and Americans have an even greater common interest in trying to force a solution, which the parties themselves seem incapable of producing.

Continuing the line of constructive transatlantic co-operation that led to the Mitchell Report, the EU and the US should jointly work out a blueprint for a final settlement. This could be based on the near-accord of Camp David in July 2000, that is to say a Palestinian state in the West Bank and Gaza with East Jerusalem as its capital; the removal of most settlements; and cast-iron security guarantees for Israel. This document should then be presented to the parties as non-negotiable, and coupled with a binding declaration that both the US and the EU will guarantee the deal.

Both Israelis and Palestinians would doubtless complain that this or that part of the proposed settlement was unacceptable. But the EU and the US should persist nonetheless. The fact that the US is closer to Israel, while the EU has better contacts with the Palestinians, should assist rather than hinder this shock therapy approach. If the EU and the US can agree on a final settlement it is likely to be fair and balanced. Moreover, provided that they are committed and truly work in tandem, Americans and Europeans can apply plenty of political and financial pressure on both sides to accept the proposed deal.

Interestingly, Shlomo Ben-Ami, Labour foreign minister in the previous Israeli government and widely tipped to be the party's next leader, has written that "it should be clear that an agreement freely reached between the parties themselves is simply not possible".<sup>7</sup> He went on to suggest that an international solution must be imposed "or there will be no solution at all". Leading Palestinians, including Sari Nusseibeh, the Palestinian Authority's official representative in Jerusalem, and even some figures in Hamas, have echoed this call for the outside world to impose a settlement.

<sup>7</sup> *Financial Times*, October 31<sup>st</sup>, 2001.

A peace agreement between Israelis and Palestinians would be not only an historic achievement in itself, but also an important fillip for the campaign against terrorism. For as long as there is no Palestinian state, Arab feelings towards the West will always veer between ambivalence and hostility. An end to the conflict would also remove the opportunity for Islamic fanatics to hijack legitimate Palestinian claims for the purposes of their own campaigns. And it would diminish the ability of corrupt and autocratic Arab governments to somehow justify their own political and economic failings by playing on the plight of the Palestinians. If the 'Palestinian question' were solved, Arab regimes might face more pressure to improve their countries' political and economic performance. And if the Arab world contained more politically open and economically successful states, radical Islamic movements would find it harder to recruit. And that in turn would lessen the terrorist threat to the US and Europe.

### **Why the US needs multilateralism**

For many years, the US has had a deeply ambivalent attitude towards international organisations and treaties. On the one hand, they often magnify US influence and make the exercise of US power more legitimate. Thus the US plays an agenda-setting role in bodies such as the IMF and NATO. The US has also initiated new treaties that deal with issues that Americans find important, such as the proliferation of arms. The results have included the nuclear Non-Proliferation Treaty and the various START treaties limiting the number of US and Russian warheads and inter-continental missiles. On the other hand, international bodies give all sorts of countries a say in making the rules, and these in turn limit US freedom of action.

When President Bush took office, the US mounted a campaign to remove those constraints on its freedom of action which it found bothersome. European criticism of US 'unilateralism' reached a crescendo in the summer of 2001. In seven months, the Bush

administration had abandoned or torpedoed a large number of international initiatives – some of which had originated in the US and all of which the Europeans considered important.

Bush rejected the Kyoto protocol on global warming; deserted an OECD scheme to combat money laundering and tax evasion; resisted a special UN convention to stem the international flow in small arms; refused to sign an enforcement protocol for the Biological Weapons Convention; and campaigned actively against the treaty establishing the International Criminal Court. Whatever the issue, the administration defined US interests narrowly, and it treated other countries' opinions and rule-based, multilateral co-operation with an indifference that bordered on disdain.

In many ways, missile defence had become the touchstone issue. As soon as it took office, the Bush administration adopted a hard line. It pursued an expansive and expensive design for missile defence, while emphasising the need to move beyond the constraints of the Anti-Ballistic Missile (ABM) treaty. Quiet European reservations and louder Russian and Chinese objections made little impact. The overall impression was that Washington had adopted a hard-nosed 'take it or leave it' approach to foreign policy. In all European capitals, including London, this approach was causing concern.

But since September 11<sup>th</sup> there has been a new mood in Washington. In forging the international coalition, the US has relearned that that it needs allies – and that allies have their own views, which need to be accommodated. A thorough opinion survey by the Pew Research Center and the Council on Foreign Relations has produced some striking results.<sup>8</sup> The authors found that “since the attacks, more Americans have come to support an active US leadership role in the world. At the same time, a growing proportion of the public has become sensitive to the need for the United States to co-operate with and listen to its allies”. The figures to support this notion are impressive:

*<sup>8</sup> 'America's new internationalist point of view', the Pew Research Center and the Council on Foreign Relations, New York, October 24<sup>th</sup>, 2001.*

By two-to-one (59% to 30%), Americans say the United States should strongly take into account the interests of its allies...as opposed to basing decisions mostly on US national interests. Prior to the attacks, when asked about general levels of co-operation with the allies, the public was more divided with 48% in favour of taking the allies' views into account and 38% saying American national interests should take priority. Every ideological group has shown increased support for multilateralism. Now, even a majority of conservative Republicans, who previously expressed most scepticism, endorse that approach.

This shift in thinking about how the US should conduct its foreign policy also seems to have affected officials and political leaders. For instance, the Bush team acknowledged publicly that the need to ensure Pakistani support for the campaign against the Taleban had implications for the US military strategy, and for the characteristics of the successor regime in Afghanistan. Similarly, in a partial U-turn, the administration has proposed new enforcement mechanisms to ban the buying, building and acquiring of biological weapons. The US still rejects the internationally negotiated protocol that is aimed at strengthening the 1972 Biological Weapons Convention. The new US proposals therefore say nothing about the specialised bio-weapons agency that would monitor compliance with the convention and help organise inspections. But Washington does now accept the need to grant the UN Security Council the authority to launch surprise inspections of bio-warfare installations. European diplomats have welcomed this evolution of US policy, and hope for more.

The US also seems to have adopted a more positive attitude to the UN – by finally paying its debts, by seeking Security Council support and by acknowledging that the UN should play a big role in reconstructing post-Taleban Afghanistan. In short, few Americans now argue that the US can combat international terrorism single-handedly and on its own terms. Europeans welcome this new US

willingness to consider other countries' views and, at least sometimes, to heed their advice.

Nonetheless, a problem remains. For the administration seems likely to select those international regimes which it needs and likes, ignore the others, and cut specific deals with particular countries: "multilateralism *à la carte*" in the polite phrase of Richard Haass, a senior State Department official. This is only to be expected from a superpower in a crisis. But in the medium term this approach will not allow the US to fulfil all its objectives. For the great benefit of robust multilateralism is that it creates stronger and deeper co-operation among states (and other actors) than clever bilateralism can ever achieve.

There is an important difference between an international system of ad-hoc, bilateral co-operation and one characterised by strong institutions and common rules (so-called robust multilateralism). The first refers to the classic balance-of-power world that dominated international politics before World War Two. International co-operation did occur but was mostly short-lived. More often, balance-of-power politics led to rivalry, instability and war.

The second approach, popular among Europeans, aims to base international co-operation on a more solid footing – and it has produced remarkable results since 1945. European integration is one obvious example, but others include the IMF, the World Bank, NATO and various anti-proliferation treaties. The clear lesson of the pre-war period is that for international co-operation to remain sustainable and effective in the medium term, countries have to move beyond ever-shifting coalitions of the willing. They need strong institutions plus enforcement measures.

European leaders should welcome – loudly and repeatedly – the apparent renewal of US interest in, and support for, international co-operation. To maintain influence in Washington it would help if Europeans suppressed an understandable urge to say: "we told you

so”. And they should make it clear that they understand that the immediate priority in Washington will be to strengthen international regimes against terrorism.

But European leaders should also make two additional points. First, they must stress that the new impetus behind international co-operation needs extending to other problems. Tony Blair is right to call for concerted action on pressing issues such as global warming, the Middle East peace process and Africa’s political and economic underdevelopment. The so-called international community cannot be merely a vehicle for addressing US-specific concerns. Other countries and groups have their own priorities and interests, most of which merit international attention.

Second, the Europeans need to make it clear that successful international co-operation requires treaties that lay down norms, plus institutions that monitor and enforce compliance with those norms. Good examples of this approach include the WTO, which the US supports, but also the Kyoto Protocol, the International Criminal Court and the enforcement protocol of the Biological Weapons Convention – all of which the US shuns. Many Americans, especially on the Republican right, will remain sceptical, complaining about the threat to US sovereignty or the role of ‘intrusive’ inspection mechanisms.

European leaders should stick to their strategy of trying to enlist US support for a rule-based international system. But to be successful in Washington, the Europeans should use a different, more result-focused language than they have in the past. They should point out that initiatives on global governance are not somehow ‘morally’ superior to unilateral or bilateral actions. Rather, they are needed to get the job done. In other words, the defence of US – rather than European or even global – interests requires the unilateralists to rethink their visceral dislike of international treaties and institutions.



There is good reason to believe that a united and sustained European effort could make a difference. First, many Americans, including heavyweights in the administration such as Colin Powell, disagree with the hard-line unilateralists. Wherever possible, Europe should support these multilateralists. Second, just as left-wing governments are often better-placed to reform welfare arrangements, perhaps only a right-wing administration can make the US once again an initiator, shaper and supporter of international norms and institutions – a role it performed so successfully in the early post-war period.

Is this rosy scenario for transatlantic relations plausible? Much depends on the evolving nature of the US strategy. If the campaign continues to focus on defeating the Taleban and al-Qaeda in Afghanistan, through a skilful combination of military force, financial measures and diplomatic efforts, then US-European solidarity will remain strong, the wider international coalition will endure and the campaign stands a good chance of achieving its objectives.

However, if the US extended its military operations to other countries such as Iraq, Somalia or Syria – without explicit UN authorisation and the support of important Arab countries – then the US and Europe would fall out, the coalition would disintegrate and the campaign would inevitably be ineffective. Ever since the start of the crisis, the Bush administration has been divided between supporters of both approaches: hard-liners such as Paul Wolfowitz in the Pentagon have been keen to extend the campaign beyond Afghanistan, while others, notably secretary of state Colin Powell, have argued for caution and focus. Now that the Taleban regime has collapsed, the hawks are renewing their efforts to shift the war to a second front. It is vital that European leaders continue to throw their weight behind the moderates. As the arguments within the Bush administration continue, a forcefully expressed European viewpoint has the potential to tip the balance in the moderates' favour.

On balance an optimistic scenario is more likely: one in which Europe contributes generously to the global campaign against terror networks, and in which the US rediscovers the benefits of seeking multilateral solutions to global problems.



### 3 A stronger European foreign and defence policy

*Charles Grant*

On October 7<sup>th</sup>, 2001 Javier Solana, the EU's High Representative for the Common Foreign and Security Policy, was sitting in Trieste airport, together with the foreign minister of a Group of Seven country. Solana's mobile rang, and it was Colin Powell. The American secretary of state told him that the US would begin bombing Afghanistan in a few hours. Solana was delighted that Powell knew which number to telephone: Henry Kissinger's famous question, that when he wanted to call Europe he never knew what number he was supposed to ring, had finally been answered.<sup>9</sup>

*<sup>9</sup> Kissinger once told this author that he had never asked the famous 'Kissinger question', but that he did not mind the false attribution, since the question reflected his thinking.*

Solana passed the news on to the foreign minister beside him, who had not been informed by the US. He then called Louis Michel, the foreign minister of Belgium, the country that held the EU's rotating presidency, who was also in the dark. Because Solana was speaking in a public place, he was guarded in his language: "The music is going to begin...*les activités vont commencer*". It took some time for Michel to understand the message.

Solana and Powell have developed a close working relationship during this crisis, speaking on average every other day. On November 19<sup>th</sup>, Solana was in the Middle East as part of an EU 'troika' with Guy Verhofstadt, the Belgian prime minister, and Romano Prodi, the Commission president. Powell was preparing a major speech on the future of the Middle East, that he would deliver the following day. He called Solana to discuss the contents of the speech, but he did not call Verhofstadt or Prodi.

These anecdotes reveal two things. First, the Bush administration understands that the EU is much more than a collection of states, even in an area where national governments remain pre-eminent, such as foreign policy. The EU's own institutions, such as the office of the High Representative, matter. Second, the rotating presidency, which is supposed to represent the EU externally, in tandem with the High Representative and the Commission, has a serious credibility problem. When large countries hold the presidency, as France did in the second half of 2000, they sometimes push their own priorities at the expense of the broader European interest. But when small member states take on the presidency, there is a risk that countries outside the EU may ignore it.

The crisis in Afghanistan hit the EU when it was in the middle of trying to build a more effective and coherent Common Foreign and Security Policy (CFSP). The creation of Solana's job in 1999 marked an important step. For the first time, the EU has a figure who – when the governments give him a mandate – speaks for and negotiates on behalf of the Union. Solana has chalked up some notable successes, such as the political settlement in Macedonia that he and NATO secretary general George Robertson brokered in the summer of 2001.

The EU governments have also tried to give their common foreign policy more clout by developing a European Security and Defence Policy (ESDP). In December 1999 they launched a plan for a 'Rapid Reaction Force', so that they could field 60,000 troops to deliver humanitarian aid, conduct a peacekeeping operation or separate the parties in a civil war. The EU has subsequently created a new set of institutions to manage this force, reporting to Solana, and agreed on plans to boost European military capabilities.

The war against terrorism is now testing the Union's fledgling CFSP, and its still-embryonic ESDP. It is too early to tell how September 11<sup>th</sup> will affect the European Union, an organisation that is in a state of perpetual flux. But it is clear that a new set of forces has started

to shape the EU's malleable clay: there are more strains between big and small countries, between the member states and the institutions, and between the more and the less Atlanticist governments.

Nevertheless, Europe's leaders are united in their belief that, faced with new and dangerous challenges, they need to co-operate more closely, particularly on security issues. The EU's governments' common line – of unambiguous support for the US – has allowed the Union to emerge as a stronger diplomatic force. The EU is well placed not only to exert some influence in Washington, but also to help shape the reconstruction of Afghanistan. However, a part of the EU's new-found strength comes from the important role played by the larger member states, and that displeases some Europeans.

It is a cliché of history that countries or alliances prepare to fight the last war they were involved in. The rationale of the ESDP was to give Europe the means to cope with the challenges it has faced in the Balkans over the past ten years. But the struggle against al-Qaeda and the Taleban is a different sort of conflict, for which the work of police, customs and intelligence services, and the tracking of terrorist funds, may be as important as conventional military and diplomatic means. Furthermore, neither the EU as an institution nor its member states have many of the high-tech military capabilities – such as sophisticated unmanned aerial vehicles and precision-guided munitions – that have helped to defeat the Taleban regime and hunt for the al-Qaeda network.

However, that does not mean that the ESDP is irrelevant to a problem such as Afghanistan. It is possible that at some point a multinational peacekeeping force may be required on the ground. Some of the capabilities the Europeans are trying to develop – such as transport planes, mobile troops with light armour, and better communication systems – would be very useful for such a force.

In any case, other challenges that the Europeans have had to face in recent years, such as Sierra Leone, the Great Lakes of Africa and the

Balkans, remain problematic. The military capabilities they are trying to develop could be useful in such places. Furthermore, as subsequent essays in this volume show, the EU is not ignoring the need to develop other mechanisms for fighting terrorism, such as enhanced police co-operation and new rules on money laundering.

### **Boosting European solidarity**

In many ways, the impact of September 11<sup>th</sup> is likely to strengthen Europe's foreign and defence policies. The Americans have seen how useful European diplomacy can be. Tony Blair and Jack Straw, Britain's foreign secretary, spent much of the autumn in aircraft, working to strengthen the international coalition in support of the US. Gerhard Schröder and Joschka Fischer have also been extremely active on the diplomatic front, for example in helping to put together the meeting of Afghan leaders which began in Bonn on November 27<sup>th</sup>.

In the past, many commentators in the UK and the US worried that the purpose of Europe's foreign and security policy was to create a counter-weight to the US. While a few politicians saw the CFSP's rationale as anti-American, notably in France, most Europeans never thought of it in that way. The Americans have been reassured to see the diplomacy of the EU's governments and institutions working on their behalf. The State Department is also aware that EU diplomacy can play an important role in helping to ease the Israel-Palestine problem, as the previous essay describes.

As for European defence policy, the Americans' diminishing commitment to the Balkans may have a positive effect. Even before September 11<sup>th</sup>, the US was thinking of drawing down its troop numbers in Bosnia and Kosovo, and it had offered no soldiers for the NATO force in Macedonia. Now that the Bush administration has priorities elsewhere, it thinks that the Europeans should take on a larger share of the burden of policing the Balkans.

It is possible that Bush will withdraw most of the American troops in Bosnia, where the situation is – compared to Kosovo – relatively calm. The Europeans, and many American enthusiasts for NATO, will argue that the peacekeeping force in Bosnia gains credibility from American involvement. And whatever the composition of the force, the operation is likely to be branded ‘NATO’ rather than ‘EU’, at least for the foreseeable future. Nevertheless, there is a growing realisation among European governments that the Balkans is their responsibility. That is likely to reinforce their efforts to prepare units of soldiers – and of other essential groups such as police and judges – that can be deployed there.

Before September 11<sup>th</sup>, the long decline in European defence budgets had bottomed out. Britain, Italy, Netherlands and Spain had all increased defence spending in real terms in 2001, while France had found more money for procurement. Germany, however, was continuing to cut its budget.

Budgets declined because people felt safe. Politicians did not think that they would win votes by campaigning for more spending on weapons, rather than schools and hospitals. Post-September 11<sup>th</sup>, it is easier to argue that countries need effective armed forces, and that the EU needs to be able to deploy troops. Evidently, a war against terrorism requires many capabilities, including more and better-trained spies, but it needs military hardware too. One reason why the US has chosen to run a largely unilateral military campaign in Afghanistan is that the Europeans do not have many of the most useful kinds of military asset. European governments know that their voices would be taken more seriously in Washington if they could deliver more punch.

Across the continent, defence ministers will find it a little easier to win arguments with finance ministers. The German government has decided to spend an extra DM3 billion on defence and security, while the Italian government has promised to boost its budget by a sum which is greater than the previously announced cuts.

The increases in spending will be modest, and nothing like the massive rise in the US defence budget that is currently underway.<sup>10</sup> However the real problem in Europe has been more the mis-spending of budgets than their size. Too many European armies are still focused on the Cold War objective of territorial defence, rather than what is now required, namely the ability to deploy soldiers rapidly to a distant location.

<sup>10</sup> *The US defence budget has risen from about \$280 billion in 1999 to a projected \$330 billion in 2002.*

Just as the case for bigger defence budgets has grown stronger, so has the case for military reform. France has almost finished the introduction of an all-professional army that will be more mobile than a conscript force could be. But other countries need to follow the French example. There is talk in Germany that conscription could be abolished after the next general election. Italy and Spain may speed up their efforts to abandon conscription. In sum, the prospects of Europe developing more serious military capabilities have improved.

### **Weakening European solidarity**

However, the military campaign in Afghanistan also has the potential to damage both Europe's common foreign policy and its nascent defence policy. One very specific problem is the EU's relationship with Turkey, whose government is upset that Cyprus is likely to join the Union, despite the absence of a resolution to the Cyprus problem.

Turkey is in NATO but outside the EU, and therefore unhappy about the EU's military ambitions. It fears that the Rapid Reaction Force could – under the influence of Greece and Cyprus – be deployed against Turkish interests. For the past year Turkey has been blocking a series of arrangements on links between NATO and the EU, including one which would allow the EU assured access to NATO's planning staff. This is causing serious problems for the EU's efforts to build up its military organisation. Both President



Clinton and President Bush have put pressure on prime minister Bulent Ecevit to sign up to the deal which every other member of NATO has accepted – but to no avail. In May 2001 Turkish foreign minister Ismael Cem appeared to accept a compromise negotiated with the British – only to be overruled by the Turkish chiefs of staff.

Before September 11<sup>th</sup>, the Europeans were hoping that the Bush administration would increase the pressure on Turkey. Now the Americans have many other priorities in their conversations with the Turks. The Europeans no longer expect the US to sort out this problem for them. In early December 2001, there were clear signs that Turkey was becoming more flexible. But if the Europeans cannot reach a deal with the Turks, they will have to bypass the problem, for example by developing informal contacts between the EU and NATO, by drawing on national planning capabilities, or by building up a group of EU military planners.

The EU needs to point out to the Turks that they would benefit from a resolution of the ESDP problem. A closer EU-Turkey relationship – both politically and economically – would become feasible, and more governments would support Turkey's bid for EU membership. The EU's leaders should show that they are serious about Turkey's candidacy by drawing up and publicising a road-map of its route to membership. This road-map could set down a series of clear targets that Turkey would need to meet.

Two other factors have had the potential to damage the CFSP and the ESDP, though neither has yet done so. At one point it looked as though the only western soldiers fighting in Afghanistan would be American and British. That would have sent a strong message to public opinion in Britain and on the continent. British people would have been more likely to believe that they are the blood brothers of the Americans. And other Europeans would have been more inclined to think that the British are Anglo-Saxon rather than European.

The Blair government was aware of this potential problem. It wanted the war to be seen as a joint action of the US and its European allies, rather than as a war run by the US and its British poodle. The British therefore urged the Americans to make use of forces offered by other European countries. This seems to have had some effect. By early December small numbers of French soldiers, like small numbers of British soldiers, were on the ground in Afghanistan. There was also the prospect of Canadian, German, Italian, Spanish and Turkish troops playing a role.

The second factor depends largely on internal arguments within the Bush administration. If the administration's hawks convince the president that an attack on Saddam Hussein is necessary – and there is no evidence of Iraqi involvement in international terrorism that the Europeans find convincing – the US-led coalition will probably fall apart. The British would not participate in a second military campaign against the Iraqi regime, but they would probably give it moral support. Some other EU governments would surely criticise the Americans in public. Both NATO and the EU would appear to be in disarray, and that would damage the credibility of Europe's common foreign and defence policies.

However, if the US can demonstrate hard evidence of Iraqi complicity, if it works hard to gain the support of moderate Muslim states, and if its new-found friendships with Russia and China can ensure UN support for action against Saddam Hussein, the Europeans could probably present a united front in support of the Americans.

At the time of writing, the crisis in Afghanistan has done more to strengthen the ESDP than to harm it. Nevertheless the Europeans should not be satisfied with the modest progress they are making in this area. They should raise their ambitions, embrace more radical military reforms and – at least in under-spending countries such as Germany, Italy and Spain – increase budgets substantially. Then, as François Heisbourg has argued, the Europeans could become truly

useful partners to the US, able to take part in joint interventions that would sort out security crises in many parts of the world.<sup>11</sup>

*<sup>11</sup> François Heisbourg, 'Hyperterrorisme: la nouvelle guerre', Odile Jacob, Paris, November 2001.*

Throughout the Afghan conflict, the European countries – including Britain – have complained that the US has consulted them very little on military matters, and expected them to follow the American lead. It is true that the Americans should make a much greater effort to talk to their friends, in order to strengthen the alliance they lead. But until the Europeans are prepared to make serious investments in military capabilities, it will be hard to convince the Americans that they should listen to their views.

## **Big against small**

One effect of the current crisis has been to highlight and exacerbate tensions between the EU's large and small countries. The larger countries have twice decided to meet as a group, provoking the smaller states to complain that these meetings undermine the Union's solidarity. First President Chirac, Prime Minister Blair and Chancellor Schröder held a brief mini-summit before the official EU summit in Ghent on October 20<sup>th</sup>; and then Blair convened a dinner in Downing Street on November 4<sup>th</sup>, with invitations going initially only to Chirac and Schröder, but ultimately to the Italian, Spanish, Dutch and Belgian prime ministers (the last representing the EU presidency), plus Javier Solana.

It is important to distinguish between the substance and the style of such meetings. On the substance, when there is a war on and military questions need to be discussed, it is perfectly understandable that the leaders of the big three countries should wish to meet together, without the presence of the presidency, Solana or Commission president Romano Prodi. Neither the EU institutions nor the Belgian presidency has great diplomatic or military capacity. The defence budgets of Britain, France, Germany and Italy make up 76 per cent of the EU's

<sup>12</sup> *In the year 2001 the British defence budget is the equivalent of \$33 billion; France is at \$24 billion, Germany at \$20 billion and Italy at \$15 billion. Next come Spain at \$7 billion, the Netherlands at \$5 billion and Sweden at \$4 billion. The remaining eight defence budgets add up to \$13 billion. Source: 'The Military Balance 2001-02', International Institute for Strategic Studies, London.*

total in 2001.<sup>12</sup> Britain, France, Germany and perhaps Italy are the only EU states whose forces could make a fairly significant contribution to a military campaign in Afghanistan.

On the style of these mini-summits, however, the large countries have erred in treating their fellow members insensitively. *Directoires* generally work better if they are run on a very informal basis, and if the members make a big effort to inform and consult those left outside the group. In NATO, for example, the other members accept the informal club of Britain, France, Germany, Italy and the US, because they are treated with care.

Some criticism of these mini-summits appears – at least to British eyes – rather hypocritical. When Helmut Kohl and François Mitterand were in power, they regularly met before EU summits, and often launched Franco-German initiatives. The Big Two seemed part of the natural order of things; the addition of the British seems unnatural to some. Several days after the Downing Street summit, when speaking to

aggrieved prime minister of one small country, Blair asked: “Are you saying that it is OK for EU governments to meet bilaterally, or at 15, but not at any number in between?” The question is an important one, particularly with EU enlargement imminent. There will surely be a need to find formats for meetings that fall between bilaterals and a full house.

Nevertheless, the British handled the Downing Street dinner poorly. The invitations appeared to depend on personal lobbying by prime ministers. Furthermore, not only the war in Afghanistan but also – apparently – humanitarian aid, very much an EU competence, was discussed. Finnish prime minister Paavo Lipponen has suggested a

sensible way forward: “We should hold our dinners *à quinze*, and then if the big boys want to discuss non-EU military matters among themselves over coffee afterwards, that would be fine.”<sup>13</sup>

<sup>13</sup> *Conversation with the author, November 8<sup>th</sup>, 2001.*

The fact that the larger countries felt the need to hold these mini-summits is an indication that when there is a crisis – and especially one with a military dimension – the EU’s existing institutions are ill-suited to co-ordinating a response or representing the Union to the rest of the world. The rotating presidency, together with the High Representative and the Commission, should in theory take the lead in performing those tasks. Being a country with relatively limited diplomatic and military means, Belgium – through no fault of its leaders – lacked the credibility to lead European diplomacy in the second half of 2001. The case for reforming the EU’s presidency is now stronger than ever. For example, the High Representative and the Council of Ministers secretariat might take over some of the presidency’s tasks in external relations.<sup>14</sup>

*<sup>14</sup> See Steven Everts, ‘Shaping a credible European foreign policy’, CER, December 2001.*

### **The big three**

The Downing Street summit was one of Blair’s less glorious moments in the months following September 11<sup>th</sup>; his public dressing down at a joint press conference with Syrian president Bashar Assad was another. But in most respects Blair has had a good war. He has used the crisis to reinforce Britain’s position in Europe and the world, and his own role too. His strategy has been to strengthen Britain’s status as Washington’s indispensable ally, by offering solid political support, practical military and diplomatic assistance and – behind the scenes – some candid advice.

Blair has focused, in particular, on shoring up the international coalition that backs America. He and his ministers and advisers have worked hard to maintain the support of Muslim countries which are relatively moderate (such as Pakistan), or might become moderate (such as Iran). They have made a special effort to work with the Americans on the public relations battle in the Muslim world. Blair offered himself for an interview on the influential Arab-language al-Jazeera TV station, an idea later picked up by Bush advisers such as Condoleezza Rice. While he has evidently failed to

convince a lot of Muslims of the coalition's case, Blair has been one of its more eloquent spokesmen.

Britain's forthright support for the US has made an impact on that country, where the UK has become extremely popular. In Europe, the dynamism and self-confidence of Blair's performance has been more controversial. Some on the left regard him as a war-monger. And some of the less Atlanticist politicians argue that his so-pro-American line is by definition anti-European. That is presumably why Louis Michel accused him of "grandstanding" and of using "bellicose" language.

Blair would have ruffled fewer feathers in Europe if he had talked more often about the EU's as opposed to Britain's role in the crisis. He may have sometimes got the tone wrong, but the substance of Britain's diplomacy – like that of the French and the Germans – has generally been to promote the European interest. So long as the larger countries present a common European view, rather than try to undermine each other or the EU, their solo diplomacy can strengthen the Union's external policy.

The reality is that Blair has a better *entrée* to Bush than do the other EU leaders. Most European governments understand that this can be useful for the EU. That is the view one hears, for example, from Chancellor Schröder's advisers, or from Belgian prime minister Guy Verhofstadt. It is hard for those outside the White House to judge how much or how little influence Blair enjoys with Bush. But it seems that Blair's voice is one of several to which Bush pays serious attention. When Blair represents European views and sensibilities to Bush – for example on stressing the need to focus on Afghanistan rather than shift the war to Iraq, or on the importance of the UN's role in the reconstruction of Afghanistan – he may well influence the president's thinking, at least some of the time. In the words of one British official directly involved in the current crisis: "In a conflict between the State Department and the Pentagon, when we weigh in on the side of the State Department, that may tip the balance in its favour".

Blair himself has never seen a contradiction between being pro-American and pro-European. He reckons that if Britain is more influential in Washington, it has more clout in Brussels, and vice versa. That is probably the case, at least when security issues are on the agenda.

Gerhard Schröder, like Tony Blair and Vladimir Putin, has used the situation in Afghanistan to enhance his country's international standing. For most of the past half century, Germany has been keen to keep out of military conflicts, especially those far from its borders. In 1991 Germany provided no military aid to the Gulf War coalition, although in more recent years it has sent peacekeepers to Bosnia, Kosovo and Macedonia. Many Greens and some Social Democrats have continued to oppose Germany's involvement in military actions, while successive governments have gone on cutting the defence budget.

However, Schröder seems determined to make Germany a 'normal' large member of the EU, meaning one that can respond to security crises in a similar manner to Britain or France. Since September 11<sup>th</sup>, he has offered unconditional support to the Americans. And most Germans have backed the clear lead that he has given. He told the Bundestag on October 11<sup>th</sup>, 2001 that "after the end of the Cold War, the restoration of German unity and the recovery of our full sovereignty, Germany needs to show a new international responsibility". He said that Germany's role as a secondary player in international affairs "has irrevocably passed". It now needed "a new conception of German foreign policy". Schröder declared that Germany was ready for "involvement in military operations that defend freedom and human rights, and create stability and security".

Schröder has shown that he can not only speak fine words but also take risks. Faced with the need to gain parliamentary approval for the deployment of German forces in the Afghan conflict, he submitted his government to a vote of confidence. He defeated a rebellion by Greens and some of his own Socialists to win by two votes on November 17<sup>th</sup>.

The energetic diplomacy of Schröder and Fischer has been useful to the coalition cause. For example, because of its consistently pro-Israeli foreign policy, and its financial support for Holocaust victims, Germany probably has more influence with the Israeli government than do other EU countries. But when it comes to military capabilities, Germany cannot match Britain or France. And it will not be able to do so unless and until the government presses ahead with reforms to its old-fashioned defence organisation, and finds the money for some new equipment.

Unfortunately, not everyone in the government shares the chancellor's vision: some of his ministers still argue that Germany should maintain a largely conscript army, for the purposes of territorial defence and community service. And the presence of the Greens in the government continues to restrict Schröder's freedom of manoeuvre. But Schröder has set an objective, and if he sticks to it, European defence policy could in future be led by three nations instead of two. That would make Europe as a whole a stronger entity.

While the British and German governments have turned the post-September 11<sup>th</sup> situation to their advantage, the French government has had a harder time responding to the crisis. The *cohabitation* of Jacques Chirac and Lionel Jospin has handicapped French policy on the war against terrorism, as it handicaps all French foreign policy. In the words of a Schröder adviser: "When we make a suggestion to the Elysée, the Matignon always blocks it; and when we make a suggestion to the Matignon, the Elysée always blocks it. This is very frustrating."

A second *cohabitation*, between the Socialists, Communists and Greens in Jospin's governing coalition, has weakened France's hand still further. The Communist and Green parties oppose the US military action. The twin *cohabitations*, together with France's more general reluctance to follow the US uncritically, account for the French government being a little less ardent in its support for the US than those of Britain and Germany.



France cares more about its rank in the world than do many other countries. There is some concern in France that its position in the coalition against terrorism is less important than it should be. Diplomatically, Schröder and Fischer have been more active than Chirac and Hubert Védrine, the French foreign minister. French diplomats find it galling that Germany, rather than France, hosted the negotiations over the future of the Afghan government in Bonn. And militarily, the UK has been more active in the war against terrorism than France, particularly in the early stages.

In October 2001, it seemed that France's contribution to the US-led military coalition would be minimal. One reason was that France did not have a lot of the military assets that the Pentagon then needed: it lacks submarines for launching cruise missiles and its sole aircraft carrier was then under repair (though it later sailed to the Indian Ocean). Another was a certain reluctance in France – because of the two *cohabitations* and some Gaullist reflexes in the foreign ministry – to get too heavily involved in a US-led campaign. A third factor was the strong desire of the Pentagon to avoid the complication of working with foreign forces, whose governments have the annoying habit of demanding to be consulted on military actions. The Pentagon makes an exception for the British, whom it regards as an especially close ally. Conversely, there is – at least among some senior figures in the US defence establishment – a particular distrust of the French.

At that time France appeared to be punching below its weight in the coalition. As Pierre Lellouche, a French parliamentarian and former adviser to Chirac, put it in October 2001: “The government is shaping a soft consensus based on the least common action, with the result that France is going to end up being completely out of the loop in the major developments already under way”.<sup>15</sup>

*<sup>15</sup> International  
Herald Tribune,  
October 5<sup>th</sup>,  
2001.*

By early December, however, France's position in the alliance had grown much stronger. Chirac had offered substantial quantities of

soldiers, aircraft and ships to the US. The White House and the State Department – assisted by the Blair government – had managed to persuade the Pentagon to take up some of those offers. French refuelling ships and Mirage 4 reconnaissance aircraft were playing a useful role, while French troops had secured the airport at Mazar-e-sharif.

France had once again shown the Americans that, in a serious conflict, it will stand by them – as it did in the Gulf War and during the Kosovo air campaign. Nevertheless, when the current crisis is over, the French elite should reflect on France's role in the world. For France's sometimes awkward stance during the Afghan crisis is due to more than *cohabitation*, which presumably will not last forever. France's leading role in Europe seems somewhat diminished, with Germany becoming more assertive, Britain keen to play a leading role on military matters, and a whole collection of East European countries – mostly pro-American and enthusiasts for NATO – preparing to join the EU.

French diplomats sometimes argue that France's special position in NATO, outside the military structure – and its sometimes prickly behaviour vis-à-vis the Americans – augment French influence: others have to make concessions in order to secure French support. However, while a Gaullist stance may sometimes prove effective in the EU – where France often has won important arguments – it is probably becoming unproductive in transatlantic relations. And even in the EU there are signs that other countries, for example Germany in debates on farm policy reform, are becoming less willing to follow a French lead.

One policy shift would have a significant impact on American perceptions of France. France should rejoin NATO's military organisation. As the next essay argues, NATO's military role is becoming less important, as the alliance becomes more political; but the symbolic impact of France's reintegration into NATO would be immense. It would help the French to win the trust of the Americans.

## Progress over ten years

Solo diplomacy, whether from Britain, France, Germany or any other EU country, is not necessarily damaging to the Union, so long as the leaders concerned present the European case and work for the unity of the anti-terrorist coalition. However, the countries with the diplomatic and military muscle must consult the High Representative and the Commission, and inform them of their actions. For if they fail to do so, the credibility of the EU institutions may suffer.

That would be undesirable, for the institutions can make a valuable contribution to the overall diplomatic stance of the Union. The fact that they do not represent any one country can be an advantage (for example, Israeli prime minister Sharon is not a fan of British foreign secretary Jack Straw). Furthermore, Javier Solana and Chris Patten, the commissioner for external relations, have a wide range of personal diplomatic contacts in Middle Eastern and Asian countries, which can be useful to the European cause.

The large countries must also make an effort to involve the small countries in Europe's external policies. For they too have plenty to offer. Thus Belgium has special knowledge of Central Africa, Portugal of Brazil, the Netherlands of Indonesia, Finland of Russia and Greece of the Balkans. One important task for the Commission and the High Representative is to stay in touch with the smaller members and, when appropriate, harness their contributions to the common purpose.

Europe's Common Foreign and Security Policy does not strike many people as impressive: its institutions are complex, it moves slowly and it cannot deploy B-52s. Its imperfections – such as British and French differences on Iraq – are only too evident. But the progress of the past decade, slow but inexorable, should not be ignored. Ten years ago, when Yugoslavia fell apart, Germany and France backed different sides. And when Iraq invaded Kuwait, France preferred solo diplomacy to working with its EU partners. Nowadays, the EU

governments work together in the Balkans, with all of them supporting the efforts of Solana and Patten. And in the crisis that has followed the attacks of September 11<sup>th</sup>, the Europeans have remained united in their support for America. They are emerging stronger from this crisis: more useful allies, but also more influential players.



# 4 A more political NATO, a more European Russia

## *Charles Grant*

When the Cold War ended, neither NATO nor Russia changed as much as the other one hoped or expected. NATO's enlargement into Eastern Europe, and its bombing of Serbia, convinced many Russians that it was still a hostile and potentially dangerous organisation. The brutality of Russia's military campaigns in Chechnya, plus Russia's predictable opposition to US diplomacy – for example in the UN – convinced many NATO governments that Russia was not ready for partnership. Each side wished the other would shake off its Cold War mentality.

The terrorist attacks on the US have swept away much of this Cold War thinking, although even before September 11<sup>th</sup> the above analysis was starting to look out of date. This essay looks first at how NATO is changing, and then at Russia's new ambitions.

### **Article V in the spotlight**

The last time the western allies went to war, during the Kosovo air campaign in the spring of 1999, NATO was in charge. Javier Solana, then the alliance's secretary general, regularly performed on prime time TV. But during the autumn of 2001, with the action over Afghanistan, NATO's military planners and headquarters had little to do, while George Robertson, Solana's successor, was less visible. The Americans have run this war themselves, and it is unlikely that they will ever again wish to use NATO to manage a serious shooting war.

During its 52-year history, NATO has always performed both military and political tasks. But one effect of September 11<sup>th</sup> has been to highlight how much its political role – as a club for countries with similar interests and values – has grown at the expense of its military role. Vladimir Putin was quick to notice this transformation. Speaking in Brussels on October 3<sup>rd</sup>, 2001, the Russian president declared that “if NATO takes on a different shade and is becoming a political organisation, of course we would reconsider our opposition with regard to [NATO] expansion. They keep saying NATO is becoming more political than military. We are looking at this and watching this process.”

Since the end of the Cold War, NATO’s military job has shifted from territorial defence towards peacekeeping and, in the case of the Kosovo air campaign, some robust peacemaking. At the same time NATO’s rationale has become much more political. Both the Partnership for Peace programme, which links 26 states to NATO, and the enlargement of 1999, which brought the Czechs, Hungarians and Poles into the alliance, were designed to extend western Europe’s stability and security eastwards. The fact that the three new members had inadequate armed forces – which subtracted from rather than added to the alliance’s military effectiveness – was of less concern to most NATO governments.

And after September 11<sup>th</sup> the Bush administration decided not to use NATO’s military organisation to conduct the war against terrorism. It has managed the war through Central Command at Tampa, Florida. This makes military sense: NATO’s own organisation has little of specific military value that can help in the fight against terrorism. But there were other reasons for avoiding NATO. The Pentagon had found the Kosovo air campaign a bruising experience. There were disputes between the NATO and American chains of command. Furthermore, acting through NATO meant working with committees, which the Americans often found frustrating. For example, France annoyed the US Air Force by blocking the bombing of Belgrade’s bridges.

On September 12<sup>th</sup>, NATO foreign ministers invoked Article V of the Washington treaty – the commitment to mutual self-defence that is often viewed as the core of the alliance – for the first time in its history. The Americans were delighted by this gesture of solidarity. However, the invocation revealed Article V to be a much looser commitment than many had thought. The article states that each member has to “assist the party or parties so attacked by taking forthwith...such actions as it deems necessary, including the use of armed force”.

As one senior NATO official explains, invoking Article V imposes “a huge moral obligation on each member to provide what the US asks for”. However, it is up to each member to provide such help as it sees fit. “In 1949 the men who drafted that article did so to ensure that the US would not have to send troops to defend Europe if it did not want to.”

After the article was invoked, the US requested the use of air space, ports and military bases, and asked for some ships to be transferred to the eastern Mediterranean. It also asked for five of NATO’s early-warning aircraft to fly to the US, to release American planes for Asia. The reason for the switch is that the US wants to avoid using NATO equipment in the war zone, for that would complicate its chain of command.

None of this means that Article V is unimportant. Moral obligations often produce results, as they have done in the current case. But the real significance of the article’s invocation was to demonstrate the alliance’s – and effectively Europe’s – rock-solid political solidarity with the Americans. NATO offered the US unlimited diplomatic cover for whatever military actions it chose to pursue.

It is becoming harder to think of potential crises in which NATO would use its military organisation. Of course, there are currently NATO-led forces in Bosnia, Kosovo and Macedonia. But as mentioned in the previous essay, the Balkans are moving rapidly

down the list of the Bush administration's priorities. One US official asked: "What is the point of a European Security and Defence Policy if it cannot manage a situation like Bosnia?"

If the US expects the EU to take over the easier sorts of peacekeeping, and yet intends to run serious wars on its own, what military role remains for NATO? In the long run, if the embryonic European Security and Defence Policy make progress, NATO's military role may become squeezed between American unilateralism and a more self-confident EU. For the time being, however, NATO still has an important role to play in low-intensity conflicts which are too big for the EU to cope with – for example, in Kosovo.

Afghanistan may also provide NATO with some military tasks. The organisation could play a role in the distribution of humanitarian relief. It might also help to put together an international peacekeeping force, under the aegis of the UN. NATO planners have more experience of running peacekeeping operations than do US military planners. Furthermore, in the words of one NATO official: "Who else has got a mobile corps headquarters?" The answer is the US, but it is highly unlikely that either the US or anyone else would want the American army to be managing Afghanistan's security. Turkey, a Muslim member of NATO with a large army, might play an important role in any such international force.

In the long run, NATO should try and maintain its relevance by developing a role in the fight against terrorism. Stanley Sloan has

<sup>16</sup> *'Give NATO a combined task force against terrorism,' International Herald Tribune, November 13<sup>th</sup>, 2001.*

proposed that NATO should create a Counter-terrorism Combined Joint Task Force.<sup>16</sup> This would bring together diplomats, soldiers and financial experts, and encourage the sharing of intelligence. The task force would act as a clearing house through which NATO members and their allies, including Russia, could pledge capabilities that were available for the fight against terrorism.



One principle task of NATO, however, remains what it always has been: to bind the US into Europe's security arrangements. The alliance remains the sole transatlantic organisation of any substance. It would therefore be very wrong to say that September 11<sup>th</sup> has revealed NATO to be irrelevant.

## **NATO and Russia**

The fact that NATO's character is becoming increasingly political has implications for its next round of enlargement. In November 2001, at a summit in Prague, NATO is likely to declare that Slovenia and Slovakia are ready for membership. Many Americans have long argued that Estonia, Latvia and Lithuania should also join, in order to enhance their security and stability. These Americans appear unconcerned that the arrival of five or possibly more new members would weaken the alliance's military cohesion. Most alliance governments are probably prepared to accept the Baltic countries. However, the British sometimes raise questions, pointing out that they would be hard to defend; but the British government is also one of the last in NATO that continues to view it as serious military organisation.

The more political the alliance becomes, the easier it will be for Russia to accept NATO enlargement and develop closer ties of its own. Visiting Brussels in October, Putin said that he wanted "profound" changes in Russia's relations with NATO and the EU. He complained about the way the Permanent Joint Council, set up as a forum for consultations in 1997, operated. "The co-ordination organs, which have been established so far, do not give Russia any real opportunity to participate in the preparation of decisions. Nowadays, decisions are sometimes made without [consulting] us at all, and then we are emphatically asked to approve them...we wonder whether this is a real partnership."

NATO officials insist that this criticism is unfair. They blame the obstructive attitude of the NATO-phobic Russian foreign ministry for the fact that the council has achieved little. But in any case it is

evident that the council needs to be upgraded or replaced by a new body that has a high enough status for the Russians to take it seriously. In mid-November 2001 Tony Blair wrote to NATO governments, proposing that a new 'Russia-North Atlantic Council' should replace the Permanent Joint Council. It would consist of the ambassadors of the NATO governments and their Russian counterpart, who would meet every two weeks.

This council could become the principal forum in which NATO members and the Russians discuss matters of common concern, such as the fight against terrorism, missile defence, weapons proliferation or the security situation in the Balkans. It might play a role in co-ordinating exchanges of intelligence on terrorist organisations. And it could arrange for western experts to help modernise Russia's armed forces. George Robertson has said that in discussions on some of these subjects of common interest, Russia could take part in the 'consensus-building' process. That would give Russia the right to veto decisions. But evidently, if Russia did wield a veto, the NATO governments would be free to discuss the issue concerned among themselves.

Could Russia one day join NATO? In the past, Article V appeared to be one of many barriers to Russian membership: West Europeans did not find the prospect of an obligation to defend Russia's Asian frontier appealing. However, now that Article V has been seen to involve a fairly loose political commitment to mutual defence, rather than one that is absolutely binding, that prospect is less alarming.

Putin has not submitted a request for membership, and nor is he likely to do so in the foreseeable future. For the time being, many Russians – including senior figures in the foreign policy and defence establishments – continue to view NATO as a hostile organisation. It is not entirely clear that Putin is in command of his own ministries. For example, in September 2001 the president of one Central European country wrote a letter to Putin, and followed normal diplomatic protocol by asking the Russian foreign ministry

to transmit it. That president later discovered that Putin had never received the letter – presumably because the foreign ministry disapproved of its content – so he had to make his point over the phone.

However, attitudes and opinions are in a state of flux in Russia. So long as Putin's government continues to follow a broadly democratic path, NATO should declare that it sees no fundamental objection to Russia joining at some point in the future. Such a statement would be the equivalent of the declaration by the EU's Helsinki summit in 1999 that Turkey was eligible for membership of the Union. It would certainly ease the problem of Baltic countries joining the alliance.

If and when Russia did join NATO, it would presumably follow France and stay outside the military structure. Russian membership would in practice weaken the significance of Article V. But neither the military structure nor Article V matter so much in an alliance that is becoming more political. A closer relationship between NATO and Russia – whatever its precise form – would strengthen the coalition that is committed to fighting terrorism.

## **Missile defence**

As stated in the introductory essay, Russia has not sought to extract huge concessions from the West in return for its help in the current crisis. There may come a time, however, when Putin demands some sort of payback. He is unlikely to put his foot down over NATO enlargement into the Baltic region – because he would not be able to stop it, and because he is increasingly relaxed about the new NATO.

But Putin is more likely to ask the US for concessions on missile defence, and on the related question of reductions to nuclear arsenals. The consensus in Washington is that, notwithstanding the fact that missile defence systems would not have prevented the atrocities of September 11<sup>th</sup>, the US will want to spend more money

– rather than less – on missile defence. Most Americans want to be as safe as possible from all conceivable threats.

The Pentagon wants to push ahead with research on many sorts of missile defence system. The Anti-Ballistic Missile treaty, signed in 1972 by the Soviet Union and the US, places limits on research and development for missile defence, and bans the deployment of systems. Some of Bush's advisers want to scrap the treaty. The Russians are asking that it be modified, for they – like many West Europeans – regard the ABM treaty as a cornerstone of international arms control regimes. But the Russians are offering to be flexible on how the treaty is modified, so that the US would be free to carry out the R&D it desires.

Bush is also prepared to offer significant cuts to America's nuclear arsenal, from its current level of over 6,000 warheads, to a range of 1,700 to 2,200. That pleases the Russians, who would welcome the chance of cutting their own arsenal, in order to save some money. Bush may have hoped that this nuclear offer would be enough to persuade Putin to abandon the ABM treaty. But when the two met at Crawford, Texas, on November 14<sup>th</sup>, they could not reach an agreement. Putin wanted the cuts in nuclear weapons to be negotiated in some sort of document or treaty, while Bush talked of parallel, unilateral reductions. And Putin would not agree to scrap the ABM treaty.

If Russia insists on keeping the treaty, or something similar, it will be hard for Bush to pull out of it and keep his new-found friendship with Putin. Many EU countries will side with Russia in this argument. The US certainly understands the sensitivity of the issue for Russia. At the end of October, defence secretary Donald Rumsfeld postponed some tests on missile defence systems, on the grounds that they would have come near to the limits prescribed by the ABM treaty.

Bush and Putin may be able to find a compromise that prevents missile defence from becoming too contentious in the next few years.

In the long run, however, the US will have to choose between an enormous variety of missile defence systems. The most expensive and technologically complex would involve the US putting interceptors in space.<sup>17</sup> The Russians would be seriously alarmed by the prospect of space-based weapons, as would EU countries. But this may never happen: in a few years' time, even some of the hawks in the US may start to baulk at the cost of space-based missile defence. They may think that the hundreds of billions of dollars required could be better spent on other new weapons and technologies, or on non-military defences.

<sup>17</sup> See Bruno Tertrais, 'US Missile Defence: strategically sound, politically questionable', CER, April 2001.

## Russia and the European Union

Until recently, the Russian elite had little interest in, or knowledge of, the EU. It assumed that the EU was a body for trade negotiations and that all the important power lay in the member states. In the two years since Putin became president, however, many Russians have begun to take a keen interest in the EU. They have started to understand that it counts as an entity in itself. Russia's liberals are keen to promote closer relations with the EU as a way of modernising their country.

Before September 11<sup>th</sup>, Putin's entourage argued that the president's strategy of strengthening the Russian economy depended on integration with Europe. They were looking to the EU for a closer, high-level partnership, but felt frustrated that it did not respond. Those responsible for the EU's foreign policy acknowledged that its links with Russia left something to be desired. The Partnership and Co-operation Agreement, which covers trade issues, the Tacis programme of technical assistance and the twice-yearly EU-Russia summits tended to follow a bureaucrats' agenda and to underplay the political dimension that the Russians were looking for.

However, the Russian side often put too much emphasis on the creation of grand political structures, and not enough on the

nitty-gritty of the domestic reforms that would facilitate closer economic ties. The EU told the Russians that if they could enter the WTO, it would be happy to negotiate a Free Trade Area with them. WTO membership would require Russia to make some painful changes – such as opening financial and telecoms markets, enforcing rules on intellectual property, lowering many tariffs and reforming customs procedures – which is one reason why the talks on Russia joining that club moved slowly. Russian negotiators sometimes appeared to think that because Russia was a large and important country, it should not have to jump through as many hoops as some others that seek WTO membership.

However, the prospects of a genuine EU-Russia partnership have looked much stronger since September 11<sup>th</sup>. Putin seems to have decided that Russia needs closer ties with the EU, and that it must therefore implement the necessary political and economic reforms.

Speaking before the Bundestag on September 25<sup>th</sup>, 2001, Putin declared:

Nobody doubts the great value of Europe's relations with the US. However, I simply think that, certainly in the long term, Europe will better consolidate its reputation as a powerful and really independent centre of international politics, if it combines its own possibilities with Russia's human, territorial and natural resources, and with Russia's economic, cultural and defence potential... The world has entered a new stage of development. We understand that without a modern, lasting and firm international security architecture we will never create an atmosphere of trust on the continent; and without that atmosphere of trust, a united, larger Europe will not be possible.

In October 2001, when Putin went to Brussels for the regular six-monthly Russia-EU summit, he spoke of Russia developing closer relations with NATO, and of joining the WTO and (bizarrely) the EU. Putin and EU leaders agreed on a more substantive set of

measures than are usually covered by such meetings. The Russian ambassador to the EU will have monthly meetings with the Political and Security Committee, which is the EU body responsible for co-ordinating foreign and defence policy. There will also be monthly consultations to share intelligence on criminals and terrorists, on financial transactions that could aid terrorists and on monitoring movements of materials that could be used in nuclear, biological and chemical weapons.

The EU promised to help Russia with the reforms that will be needed to facilitate its joining the WTO. For his part, Putin declared that Russia was prepared to cut farm subsidies and tariff barriers; that it would comply with WTO rules on intellectual property rights; and that it would adjust its foreign trade laws to meet WTO requirements.

The Russian government and the EU also reaffirmed their commitment to the existing dialogue on energy co-operation. The point of this dialogue is to encourage investment in Russia's gas and oil industries, so that Russia boosts its exports and the EU gains more secure supplies. The EU, of course, is only too keen to diversify its supplies of energy away from the Gulf; with enough foreign investment, Russia could probably produce as much oil as Saudi Arabia. The EU wants to use this dialogue to ensure, among other things, better safeguards for foreign investors, the right to inspect pipelines in which the two sides have a mutual interest, and the restructuring of Gazprom (the quasi-monopolistic gas company which is in some respects a state within the Russian state).

There is still much Russian resistance to foreign investment in natural resources. An earlier EU-Russia energy charter remains unratified by the Duma. Some influential Russians still claim that western capitalists want Russia in the WTO only to exploit its mineral wealth and enrich themselves at Russia's expense (the more mundane truth is that Russia could use WTO mechanisms to defeat protectionism by the EU or the US). Some Russian industries, such

as cars, might well suffer from WTO membership. But if Russia were seen as willing and able to enforce WTO rules, it would improve its miserable record of attracting foreign direct investment (\$2.7 billion-worth in 2000, compared with Poland's \$9.6 billion and China's \$39 billion).

Since September 11<sup>th</sup> Putin has seemed in a hurry to get Russia into the WTO. If Russia made an effort it could perhaps join in 2004. Then not only a Free Trade Area but even the 'common European economic space', proposed in May 2001 by Commission president Romano Prodi, would become feasible. The idea would be to extend the EU's single market to Russia, removing non-tariff barriers to trade and investment. Russia would have to approximate much of its legislation to EU norms. Both sides would have to accept the principle of mutual recognition and have confidence in each others' inspection systems.

Closer ties between the EU and Russia must include a frank dialogue on human rights. Russia's progress over the past decade has been impressive, but the war in Chechnya remains an ugly scar on its reputation. Encouragingly, Russia seems to have become more interested in talking to Chechen rebels since September 11<sup>th</sup>. Its keenness to show that it is a western country – plus the evident failure of its existing policies – may be having a positive effect on the way it handles Chechnya. On November 18<sup>th</sup> negotiators representing Putin and Aslan Maskhadov, the Chechen president, had their first acknowledged meeting, at Moscow's main international airport.

Russia's participation in the anti-terrorist alliance has led the EU countries, like the US, to soften their criticism of Russian actions in Chechnya; but they have not ceased to raise human rights issues with the Russians. Nor have they forgotten their concerns about press freedom in Russia. The joint statement issued after the October EU-Russia summit declared that "media pluralism is a basic ingredient in a modern, democratic society".



The best way for the EU to anchor Russia in a westward-leaning direction would be to offer the prospect of a joint EU-Russia political structure. Instead of the existing EU-Russia summits, a special council of EU and Russian ministers could meet regularly to discuss issues of common concern – such as the Balkans, organised crime, the environment or Prodi's proposal of a common economic space. Decisions of the council would require the consent of both partners but then be binding.

That kind of partnership would not become viable until Russia's view of the world has evolved. Britain and France have had 40 years to adjust to the loss of empire and to understand that middle-sized countries can achieve more through integrating with neighbours than by standing alone. The Russians lost their empire only ten years ago, and some of them still view their country as a super-power. But as Russia gets closer to the EU and other international clubs, it will learn that integration sometimes required the giving up of specific national interests, in return for broader benefits. The Russians will not like the bureaucrats of Brussels or Geneva telling them what to do. But if they want to attract investment and strengthen their economy, they have no choice but to move closer to the WTO and the EU.

Putin seems to understand this. In his Bundestag speech he said:

Yes, the implementation of democratic principles in international relations, the ability to find the right resolutions, and the readiness for compromise, these are difficult things. Yes, it was the Europeans themselves who first understood the importance of seeking joint resolutions and rising above national egotisms. We agree, these are good ideas.

The Russians will therefore need to think hard about how their state could evolve. In Robert Cooper's terminology, states are either pre-modern (as in Afghanistan), modern (the classic nation state) or post-modern. Those in the EU are the most post-modern, because they have learned the benefits of devolving some authority to a

regional level, and of pushing some powers up to supranational institutions. Russia is, in essence, a very modern state – with a few pre-modern zones inside it, notably in the Caucasus. The EU’s objective should be to help make Russia a post-modern state: one

*<sup>18</sup> Cooper, ‘The post-modern state and the new order.’*

that – in Cooper’s words – “accepts either the necessity and desirability of interdependence, or its corollaries of openness, mutual surveillance and mutual interference”.<sup>18</sup> Since September 11<sup>th</sup>, that task has become somewhat easier.



## 5 Breaking new ground in internal security

*Heather Grabbe*

Since September 11<sup>th</sup>, Europe has moved speedily towards greater integration in the field of internal security. The EU's justice and interior ministers have approved a raft of anti-terrorist measures which would otherwise have taken months or years to pass. At the moment there is little opposition to the harmonisation of rules on internal security; no politician wants to be seen as slow in responding to the terrorist threat. But EU activities in 'Justice and Home Affairs' (to use the official jargon) touch upon some sensitive areas, including the EU's relationship with its member states, and the state's powers over the citizen.

Civil liberties campaigners worry that the EU's new policies will erode personal freedoms, while Eurosceptics will soon raise questions about the transfer of yet more powers to the EU. The plans for a new European search and arrest warrant, and for a common definition of terrorism, take European integration close to the heart of national sovereignty. Several of the measures currently under discussion are leading the EU into uncharted territory – the partial harmonisation of national legal systems.

### **Quick steps into the unknown**

The terrorist attacks of September 11<sup>th</sup> highlighted just how powerless any individual country is to guard against cross-border threats. However, before that date, the EU's justice and interior ministers were trying to implement the agenda for an 'Area of Freedom, Security and Justice' that had been set out by the Tampere

European Council of October 1999. Arguably, only one of the measures agreed in the autumn of 2001 – on the reinforcement of airport security – was a direct response to September 11<sup>th</sup>; the others were already in the pipeline. But the attacks in New York and Washington knocked away many of the constraints that had been holding back the Tampere agenda.

Within two weeks of those attacks, the European Council decided that agreement should be reached on a common definition of terrorism, an EU-wide search and arrest warrant, and a common list of suspected terrorist organisations. The EU's heads of government also pressed for more co-operation on exchanges of information between national intelligence services. They decided to endow Europol, the EU's joint police agency, with a special anti-terrorism unit, and said that it should be co-operating with US agencies by the end of 2001. The European Council also asked the EU's institutions to prepare specific measures for dealing with the terrorist threat, such as a strengthening of air travel security, an extension of the Commission directive on money laundering, and a framework decision on freezing the assets of suspected terrorists.

The most significant of these moves are the common definition of acts of terrorism, and the European search and arrest warrant. Most member states do not have a specific law outlawing 'terrorism', so they cannot prosecute people for incitement to violence, raising funds for terrorists or membership of a terrorist group. In many EU countries, terrorists can be caught and prosecuted only after they have committed murder or damaged property. The common EU definition will make it much easier for governments to catch and prosecute terrorists. The member states are also trying to establish a common list of penalties, including specified prison sentences for terrorists. For an offence such as murder, the convicted terrorist would get the usual sentence, plus extra time in prison for the fact that the crime was committed with terrorist intent.

The common arrest warrant is a giant leap for the EU, for it will require the member states to trust each other's judicial systems. The arrest warrant will apply to serious, organised crimes, as well as to terrorist offences, and it will replace extradition procedures between member states. The judicial authorities in any EU country will have to surrender a suspect to another EU jurisdiction on the basis of a single warrant. Judges in the state surrendering the suspect will be able to question the procedure used by the requesting judge, but not the substance of the charge in the warrant. Moreover, there will be a tight timetable for handing over suspects, perhaps of ten days if the suspect consents to being transferred to another country, and 60 days if not. The EU plans to set itself a target of one year to implement the new procedures for the arrest warrant, so the system should be in place by December 2002. The member states may agree to a transitional regime that would operate in the interim. In any case, the result should be the much speedier arrest and prosecution of suspected criminals and terrorists.

More generally, the arrival of the common arrest warrant will give the EU a growing say in criminal justice, for it applies the principle of mutual recognition between judiciaries. The Tampere European Council established that principle as the cornerstone of judicial co-operation, but the mutual suspicion of many national authorities had ensured that little progress was made. For example, French and Belgian courts refused to surrender Basque suspects to Spain, while France sought in vain the extradition from Britain of Rachid Ramda, wanted for bombing the Paris metro.

For many years, criminals have escaped prosecution in their own countries by escaping abroad. But many of them will now be anxious, for the EU warrant will apply not only to terrorism but also to serious crimes. There is a clear link: much terrorism is supported and financed by organised crime.

The member states are likely to agree on a long list of cross-border crimes to which the arrest warrant could apply. This list

will probably cover violent crime, attacks on public property, fraud, illegal trade, bio-terrorism, money laundering and crimes with a cross-border element, such as drug trafficking or e-commerce fraud. It might also include such serious crimes as sexual exploitation of children, child pornography and rape. However, the list will probably exclude offences for which member states' laws vary considerably, such as euthanasia, abortion or drugs. In these discussions, the UK is pushing for more integration, arguing for a 'negative list' of offences to which the warrant would not apply: all other crimes would be covered by the warrant. Other countries are more cautious. Italy, for example, wants a short list of crimes for which the warrant would apply.

Under the new system, the General Pinochet case might have turned out very differently. Suppose that another retired Latin American dictator came to the UK, and suppose that a Spanish judge issued an EU arrest warrant in his name: the British police would be obliged to deliver him to Spain within a matter of weeks. Provided the dictator could not claim parliamentary immunity, the British home secretary would have no power to decide his fate.

In order to ensure that the EU warrant system works smoothly, governments will have to give up legal exceptions which work in favour of their own nationals. The constitutions of several member states forbid the handing over of nationals to foreign courts. The process of constitutional revision has already started, because the establishment of the International Criminal Court requires the elimination of national exceptions.

The justice ministers have also decided to abolish the principle of 'double criminality', so that suspects of crimes on the EU list are handed over even where the laws of the two countries concerned differ. Until now, extradition has only worked when the suspect has committed an offence under identical laws in both countries.

## Obstacles ahead

The success of the new counter-terrorism measures will depend on the quality of their implementation. That cannot be achieved by ministerial meetings. It will require detailed and time-consuming work at national level, involving a sustained effort to reconcile legal procedures, and painstaking efforts to ensure that the new powers are used wisely by national and European authorities.

The introduction of the European arrest warrant means that national judicial systems will have to be made more similar. But it remains unclear how far that harmonisation will have to go. The key ideas behind the principle of mutual recognition are that harmonisation should be kept to a minimum, and that countries should respect decisions made by foreign courts as if they were their own. Therefore police forces and judges need to have confidence in the legal systems of other member states.

However, that confidence has long been in short supply, especially between Northern and Southern Europe. The member states have varying traditions on civil liberties, and contrasting attitudes with regard to the powers of the state and respect for the law. Their national and regional police forces have different working methods, as do their judicial systems. The accountability of law enforcement agents also varies from country to country. And prison conditions in some EU countries are much worse than in others, which means that a sentence served in one country may be less onerous than a sentence served in another.

Perceptions of threat remain different, too. Some countries have long experience in dealing with terrorist attacks on their own soil – such as Spain with Basque separatists, the UK with Northern Ireland, and France with Algerian militants. But in others – for example Finland, where terrorism is unknown – people feel little immediate threat and are therefore reluctant to give the state more powers over individual citizens.

The new emphasis on combating terrorism has distracted attention from other areas of Justice and Home Affairs, however. For example, the EU's efforts to combat child pornography and sexual exploitation are moving much more slowly. However, proposals for Europe-wide standards on the treatment of refugees, and for a common migration and asylum policy, will return to the fore next year.

### **Firm words, slippery implementation**

The EU will find it much harder to develop its own police and prosecutions agencies than the rhetoric emanating from European summits would suggest. It is planning to launch an embryonic prosecutions agency called 'Eurojust' early in 2002. But its future status remains unclear: Eurojust could allow co-ordinated judicial oversight of joint investigations. But some member states favour a much more ambitious agenda, so that Eurojust would become a real European prosecutors' agency.

Europol (the European Police Office) has been in existence for a decade, as a liaison body for exchanging data on crime and terrorism between member states. But its development has long been hampered by jealous national authorities, and its powers are far from those of a Euro-FBI. It still has to rely on national police forces for both information and the arrest of suspects. Since September 11<sup>th</sup> Europol has gained greater powers to demand information instantly, and to co-ordinate arrests. The key question is whether Europol will be empowered to work independently of national authorities. At the moment, if an EU government refuses to hand over information, Europol has no way of forcing it to do so.

Also since September 11<sup>th</sup>, Europol has a mandate to work with its US counterparts on terrorism. It is supposed to become the central body for the exchange of information not only between the member states but also across the Atlantic. But co-operation with the US is already running into difficulties. Behind all the expressions of



solidarity and support, European police forces and the FBI are reluctant to share sensitive information with each other. There are also disputes over the protection of data on individuals. The European Commission is proposing limits on how long companies can keep data obtained through e-commerce, while the US wants its judicial authorities to have unlimited access to the data.

Even more controversial is the extradition of suspects across the Atlantic, because of the American death penalty. No member state would be prepared to surrender a suspect to the US authorities without an assurance that the person would not face the death penalty. However, EU governments are making efforts to increase co-operation with the US authorities, and they are likely to speed up the transfer of suspects who do not face execution.

### **A single market in justice?**

Given the continuing differences between the member states' legal systems, the idea that they would be prepared to recognise that decisions made in one country are valid in another may seem far-fetched. But it seemed equally far-fetched when the principle of mutual recognition was introduced in the 1980s for the single market. It was not at all clear that countries would trust each others' regulators to police compliance with single market rules. Yet the principle was successfully established, through a combination of limited legal harmonisation and a great deal of confidence-building.

The single market programme as a whole succeeded because of the extension of qualified majority voting in the Council of Ministers, and the single-minded leadership of the Commission under Jacques Delors. The lesson of that experience is that integration in new policy areas requires a concerted push by determined member states and the Commission, sustained over a long period. It also requires a wide extension of qualified majority voting, whereas nearly all decisions on Justice and Home Affairs currently require unanimous agreement.

Many interior ministers are keen to make a success of the Justice and Home Affairs agenda. António Vitorino, the commissioner responsible, has won much praise for his deft handling of a complex and contentious agenda, and he is backed by skilled and canny officials. However, many parts of this agenda do not depend on the Commission's performance, for they are controlled by parallel structures that operate inter-governmentally. The EU needs to rationalise its highly complex institutional architecture to clear the path for faster policy-making. The Union also needs to increase the roles of the European Parliament and the European Court of Justice, so that decision-making becomes more accountable.

The EU's institutional architecture is unlikely to change before the 2004 inter-governmental conference, but the debate over the best mechanisms for achieving results in Justice and Home Affairs is already underway. Some member states would like to move police co-operation – which is currently entirely inter-governmental – into the 'Community' system of decision-making, so that the Commission and European Parliament can play a role. However, others argue that agreements among governments provide easier solutions and more flexible arrangements. Some ministers would like to extend the use of qualified majority voting. But no government wants to apply majority voting to everything: each finds one or another issue too sensitive and close to the heart of national sovereignty. In the long run, successful integration in Justice and Home Affairs will probably require some extension of Community decision-making, and of qualified majority voting.

### **Protecting Fortress Europe**

Since the Amsterdam treaty of 1997 brought the 'Schengen' agreement on free movement within the framework of the EU, much has been done to establish common standards for guarding frontiers. Now some EU countries are considering a more radical approach. Seven member states met in October 2001 to discuss setting up a common European border guard. Italian and German officials had

previously floated this idea, but it made little progress amid concerns about the loss of national sovereignty. But now a ‘coalition of the willing’ led by Belgium is discussing a range of options for closer co-operation on protection of the EU’s frontiers.<sup>19</sup>

*<sup>19</sup> Reuters report, October 5<sup>th</sup>, 2001.*

The minimalist option would involve merely joint training, the sharing of equipment and comparisons of best practice. More ambitious plans could lead to the establishment of fully integrated border-guard units. The EU’s imminent enlargement boosts the case for a common border guard, both to share the financial burden with the central and east Europeans, and to transfer expertise and standards to the new external frontiers of the Union.

These plans could result in the first use of the new ‘enhanced co-operation’ procedures set up under the Treaties of Amsterdam and Nice. However, seven countries might not be enough to invoke the procedures, which normally require a quorum of eight. This group has not issued invitations to the UK and Ireland, which remain outside the EU’s zone of passport-free travel; or to countries whose frontiers are perceived as weak links in the protection of that zone, like Greece.

The EU as a whole is already pushing for a stiff tightening of border controls in central and eastern Europe. At the end of September 2001, Europol co-ordinated an operation of some 10,000 police officers from EU and candidate countries in central Europe, to gather intelligence about smuggling routes for illegal immigrants, drugs, arms and explosives into the EU. Even before they join the Union, the candidates will have to implement many new border-control measures, for they have become the first line of defence against the entry of illicit goods and people into the existing EU.

The current security crisis is unlikely to change the tempo of the EU’s negotiations on enlargement, at least in the immediate future. However the Commission has already tightened some technical

requirements and added new ones in internal security. The candidates' already stretched police and judicial systems will find it a major challenge to meet the extra requirements that will emerge over the next few years. The EU will have to provide them with practical assistance, both human and financial, so that they can expand their institutional capacity.

There is a danger that the EU will over-emphasise border controls as the primary means of monitoring and checking the movement of people (including terrorists and criminals) through Central and Eastern Europe. Tighter external border controls are not the whole answer to the new threats, and can produce their own problems.

For one thing, border controls on their own are an ineffective way of tackling crime. More stringent checks may lead to a false sense of security, because no land frontier is impermeable, and because visas and passports can be forged. Law enforcement and customs officials often argue that intelligence-led policing is essential to track the movements of criminals, and that authorities should not rely primarily on document-checking at borders. Instead of focusing on visas and assuming that routine border controls can catch criminals and terrorists, the EU and its governments should pay more attention to tracking known criminals before they reach the border.

For another, a 'Fortress Europe' approach to internal security cuts off neighbouring populations in poor and politically unstable countries on the periphery of the enlarging EU. Many livelihoods of people in Ukraine and the Balkans depend directly on trade with, and work in, richer neighbouring countries. The EU would not enhance its long-term security by fortifying its expanded borders and thus creating more instability beyond them. The EU therefore needs new policies to lessen the impact of tighter border controls on the surrounding countries, and to intensify co-operation with their governments and peoples in fighting crime and terrorism.

## **Worries about freedom**

So far, public opinion has been generally supportive of tighter European co-operation on security and crime. But if the result is an erosion of individual liberties, will the EU end up more unpopular in the long term? Much depends on how effectively the member states co-operate in the new policies, and whether fledgling institutions like Europol and Eurojust develop into effective agencies. They need to be able to deliver results that are evident to the public.

The key to results is to ensure that the new powers are used wisely by intelligent and capable personnel. An increase in surveillance achieves very little unless the information gathered is interpreted with imagination and acted upon speedily. Poorly trained border guards and airport security personnel are worse than useless: they arouse the hostility of the travelling public without catching the criminals. Badly paid border guards and baggage-handlers also pose a security risk: susceptible to bribery and corruption, they may be tempted to collude with organised criminals.

The EU is also going to have to work hard to balance the requirements of effectiveness and accountability. Human rights groups such as JUSTICE argue convincingly that oversight of the emerging European judicial system is woefully inadequate. Because decision-making is inter-governmental, no one other than national governments monitors EU activities – for example, those of Europol – that may impinge on individual freedoms. There is no independent scrutiny. If the EU decides to keep police and judicial co-operation inter-governmental, it should appoint a special ombudsman to whom citizens can appeal if they believe their rights have been violated.

Not only suspected terrorists, but all EU citizens and residents may be affected by powers that are accruing to the Union and its governments in the field of internal security. The ‘Area of Freedom, Security and Justice’ that the EU has promised will not gain the trust

and support of Europe's citizens if it erodes their rights. For example, civil rights campaigners have raised concerns about how the EU protects the data that it holds in the Schengen Information System. This database contains information on a huge range of people, but individuals cannot gain access to their files except through national data protection laws, which differ enormously across the EU-15. And it is difficult for a citizen to seek to amend incorrect information on his or her record.<sup>20</sup>

<sup>20</sup> *JUSTICE, The Schengen Information System: a human rights audit, www.justice.org.uk.*

The EU's new measures to tackle crime and terrorism, and the growing powers of Europol and Eurojust, must be balanced by efforts to create pan-European civil rights. Otherwise complaints about interference from Brussels will shift from straight bananas and metric martyrs, to fears of a continent-wide Big Brother.

The pressure-group Fair Trials Abroad has proposed a system of 'Eurobail', to allow provisional liberty to suspects arrested under the EU warrant, and the introduction of civil rights at EU level ('Eurorights') that would protect citizens in any EU country. The EU's Charter of Fundamental Rights – adopted at the Nice summit in December 2000 – is not legally binding, and is therefore currently of little help. The EU should set common standards to safeguard the right to a fair trial: defendants need translation and interpretation facilities, so they can understand the charges and the proceedings of a foreign court. The EU should also ensure that all its members provide state-funded legal aid to defendants.

The EU certainly needs to pay greater attention to personal freedoms. But for all the potential pitfalls, there is no doubt that closer co-operation between police forces, judiciaries and security services is making the EU an increasingly useful ally for the US in the fight against terrorism. The new emphasis on internal security is also helping to integrate Eastern and Western Europe: the prospective new members have become the Union's willing and essential partners in the struggle against cross-border threats.

Justice and Home Affairs is a dynamic area of EU integration that provides direct and immediate benefits to citizens, and there is strong public support for actions that protect people's security. People now realise that public safety requires international co-operation over a whole range of polices, not just strong armed forces. These days people fear illicit migration, cross-border crime and international terrorist networks, rather than Russian tanks and missiles. The line between internal security and external security, which was so clear in the Cold War era, has been rubbed away for good.



## 6 A new spirit of economic co-operation?

*Edward Bannerman and  
Alasdair Murray*

For economic policy-makers on both sides of the Atlantic, the attacks of September 11<sup>th</sup> could hardly have arrived at a worse moment. The US economy was already in recession, while the euro-zone countries were showing clear signs of a sharp slowdown. With consumer and corporate confidence plummeting, governments were forced to face up to an even greater threat to the global economy.

In the immediate aftermath, governments and central banks naturally focused on 'fire-fighting' measures. Stock markets fell by up to ten per cent in the week after the attacks, so the first priority was to ensure that there was sufficient liquidity in the financial system to prevent a full-scale crash. However, it quickly became clear that efforts to shore up market confidence could not insulate the real economy from the effects of September 11<sup>th</sup>. The Organisation for Economic Co-operation and Development (OECD) estimates that its members' total GDP will experience an outright decline in the second half of 2001 – the first such fall in two decades.

Businesses had to cope with heightened economic uncertainty as well as more expensive security measures and insurance premia. The result has been the cancellation of investment plans and the introduction of cost-cutting programmes. With unemployment rising on both sides of the Atlantic, consumers have understandably been reluctant to spend.



Governments have begun to implement a raft of measures that are designed to restore confidence in the corporate and consumer sectors, and kick-start the global economy. At the outset it appeared that a new spirit of transatlantic co-operation – most apparent in the diplomatic and military coalition against terrorism – would spread to economic policy-making. Shared concerns about the outlook for the global economy, and a common desire to crack down on the funding of terrorists, prompted finance ministers to co-operate more closely. In some key policy areas there has clearly been progress: the US, for instance, reversed its previous opposition to concerted international action against money laundering. The EU and US also cast aside some of their long-standing differences on trade policy to help bring about the start of a new trade round at Doha.

Yet it is worth questioning whether these examples of renewed economic co-operation represent anything more than a short-term response to the crisis. Already, stark differences in the way the world's two most powerful economies are tackling the downturn have become evident. The Bush administration has put together a massive fiscal stimulus package and displayed a willingness to bail out struggling industrial sectors. In contrast, the EU has adopted a far more orthodox economic approach, opting for budgetary rigour ahead of the launch of euro notes and coins in January 2002.

Furthermore, there has been little evidence that the economic powers have begun to work together more effectively within existing economic fora such as the Group of Seven (G-7). The EU and the US, it seems, are willing to pay lip-service to the need for improved global economic co-operation. But they may be unwilling to create an institutional framework that is capable of translating words into action.

### **The revival of economic co-operation?**

The attacks of September 11<sup>th</sup> came at a moment of shared weakness in the US, Japanese and EU economies. Consequently, no single major economy is able to act as a growth engine by boosting

overseas investments or consuming more imports and thus pulling the world economy out of its slump. This puts pressure on the leading economies to revive global growth through heightened co-operation in the key areas of economic policy.

There has certainly been a lot more rhetoric about economic co-operation from Washington and the European capitals. And in a number of fields, the major economic powers – and in particular the US and the EU – have shown a real willingness to work together to tackle their own problems and those of the wider world. Thus the Federal Reserve in the United States and the European Central Bank co-ordinated a round of interest rate cuts on September 17<sup>th</sup>, thereby helping to calm the markets in the immediate aftermath of the attacks.

There is also some evidence that the Fed and the ECB have successfully intervened in the currency markets in order to prevent a sharp decline in the value of the dollar. Although neither central bank has confirmed any formal intervention in the markets, the dollar has been trading in a surprisingly tight range against the euro since the attacks.

Finance ministers from around the world have shown a renewed appetite for effective co-operation in the field of money laundering. The need to crack down on terrorist funding has already prompted the Bush administration to perform a major policy U-turn. In the spring of 2001, the US refused to endorse an initiative of the OECD that was designed to tackle money laundering and tax evasion. Paul O'Neill, the US Treasury Secretary, claimed then that the OECD's proposed measures would damage US competitiveness in the financial services sector. He also said that the US would not support the imposition of sanctions on offshore tax havens which failed to comply with the measures.

However, in one of his first acts following the attacks on New York and Washington, President Bush granted the US Treasury draconian

powers to punish and even shut down the operations of any foreign bank that was suspected of involvement in money laundering. The President has since piloted tougher anti-money laundering legislation through Congress, so that it should be harder for terrorist networks to raise funds. The new laws will encourage more information sharing among regulators, financial services firms and the intelligence services on financial transactions.

The EU has responded in a similar fashion, quickly reaching agreement on a new money laundering directive in October 2001. This directive extends the scope of existing EU financial legislation to cover all serious crimes, including terrorism. In future, almost all businesses that handle money, including property companies, accountants and even casino owners, will be obliged to follow the same reporting requirements as banks on suspected money laundering.

The US and the EU have also combined effectively to bolster the role of the Financial Action Task Force (FATF). This 29-country independent organisation is housed in the OECD. It has spent the past decade attempting to clamp down on money laundering, and to raise monitoring standards in financial centres around the world. The US has indicated that it will in future support the FATF's attempts to introduce sanctions against any country that fails to curb money laundering – in effect endorsing those OECD measures it had previously rejected. The FATF has also issued a new set of guidelines for governments, reflecting the steps already taken by the EU and the US to curb money laundering by institutions other than banks.

## **Trade and aid**

The launch of a new world trade round at Doha, in November 2001, provides the most positive evidence of a new spirit of transatlantic co-operation. By resisting pressure to postpone or relocate the Doha meeting, US and European leaders underlined their commitment to multilateral trade liberalisation under the aegis of the World Trade Organisation (WTO).

The US and the EU seem to have learnt from the failure of the previous WTO summit in Seattle in 1999. One reason for that meeting's acrimonious collapse was that the OECD countries failed to make a convincing case to developing countries that open markets were in their own interest. But an even bigger problem was the failure of the world's two largest trading powers – the US and the EU – to confront their own protectionist lobbies and to resolve bilateral differences.

The decision to launch a new round of trade liberalisation will not transform the economic outlook overnight. But the Doha agreement shows that the major economies are committed to maintaining the long-term trend towards increasing integration and interdependence. This process of globalisation has been brought about by the removal of trade barriers, the introduction of new communications technologies and the liberalisation of capital markets. The social consequences of globalisation are much debated but it seems clear that it is both a cause and an effect of economic growth. The World Bank has estimated that the removal of trade barriers following a successful new round would lift 320 million people out of poverty by 2015.

Even before September 11<sup>th</sup>, there were clear signs that the process of globalisation was slowing sharply – if not going into reverse. World trade was growing at a slower rate than world economic growth for the first time since 1985. Foreign direct investment, a key measure of globalisation, probably declined by around a third in 2000 – the first fall in a decade.

For the Doha round of trade liberalisation to succeed, the major trading blocs must be prepared to take some painful decisions. The EU, in particular, still needs to make brave if long overdue reforms to its farm policy, so that its subsidised exports cease to damage agriculture in developing countries. In turn, the US must be prepared to make less use of anti-dumping agreements to exclude exports from poorer states. The EU has made an encouraging start by easing the quotas on textiles from Pakistan, while the US has moved ahead

with market-opening initiatives by finalising trade agreements with Jordan and Vietnam.

The recent entry of China into the WTO potentially opens up a fast-growing market of 1.3 billion consumers, whose purchasing power should become a valuable stimulus to the global economy over the longer term. The successful integration of China into the international economic system will undoubtedly pose many challenges. But one quarter of the world's population is effectively signing up to globalisation, just when dissenting voices in the West – and many in the Islamic world – are opposing it.

Beyond the urgent need to revive the growth of world trade lies a far more intractable question: how to improve the well-being of the billions of people who live in poverty. So far, globalisation has markedly failed to improve their fortunes. The continued prevalence of poverty and – in some of the world's poorest areas – the absence of functioning states provide fertile breeding grounds for the fanaticism that inspires terrorist atrocities.

If the western world wants to tackle not only terrorism but also its underlying causes, it will have to re-assess its approach to aid and development policy. Some new thinking is needed on how to manage the relationship between the developed world and the poorest countries, whose populations are growing fast. Over the next 50 years, the world's population is likely to grow by three billion. Virtually all this expansion will take place in the developing world and, by 2050, Western Europe will account for barely four per cent of the world's population. The governments of the rich countries will have to become more generous. Gordon Brown, the British chancellor, argued in November 2001 that aid donated by the international community should double from its current level of \$53 billion a year to about \$100 billion by 2015.

However, cash handouts alone will never be sufficient to drag billions of poor people out of poverty on a sustainable basis. The EU

and its governments need to develop new policies which involve the rich countries working much more closely with the poorer ones. The focus should be on the opening of western markets; assistance with the building up of economic and administrative infrastructure in the poorer countries; and an emphasis on good governance which means that some sorts of aid will have to be conditional.

The EU should take a lead in encouraging the developed countries, and especially the US, to come together to tackle the problems of under-development with renewed vigour. The EU is the world's largest aid donor, and has already promised €310 million for the humanitarian crisis in Afghanistan. And Europe has much to offer on the trade front. For example, Europe can negotiate special trade agreements that give access to its own vast markets, as it has already done with several countries in the Middle East and North Africa. And in failed states, the EU can provide expertise and money for rebuilding competent and efficient institutions, without which economic growth is unlikely to take root.

The EU's experience in the Balkans, where it has been working with the United Nations, the IMF, the World Bank and other agencies to rebuild institutions, against a background of endemic violence and ethnic conflict, should be useful in many other problematic parts of the world. There are plenty of European officials involved in institution-building roles in places as far apart as Rwanda and Kosovo. In countries like Afghanistan, the UN will normally need to be the over-arching political authority, in order to strengthen the legitimacy of the work of the EU and other agencies on the ground.

This western presence in problem states could be described as a new imperialism. Certainly, western involvement is likely to prove uncomfortable for those who provide economic aid and political security, as well as those who receive it. But in areas that are riven with ethnic conflict, gangsterism and lawlessness, little credible alternative exists in the short run.

## Transatlantic divergences remain

Despite the progress made at Doha, the revival of global economic co-operation should not be over-stated. Already, sharp differences in the focus and style of economic policy-making are re-emerging between the EU and the United States, even if they are very different from the divergences that might have been expected a few years ago.

The US has made all the running in the relaxation of monetary policy. Since the globally co-ordinated interest rate cuts of September 17<sup>th</sup>, the US Federal Reserve has reduced American interest rates even further to two per cent – their lowest nominal level since the 1960s.

In contrast, the ECB has persevered with a less proactive approach to monetary policy. Lacking the credibility with the markets that the Fed has built up over many years, the ECB is reluctant to take risks with inflation by cutting rates too far, too quickly. Otmar Issing, the ECB's chief economist, has also downplayed the scope for global co-operation on interest rates, arguing that it should be an option only in "exceptional" circumstances – a view shared by the Fed's Alan Greenspan.<sup>21</sup>

*<sup>21</sup> However, it was the ECB which first suggested that a co-ordinated cut on September 17<sup>th</sup> would prove beneficial to the markets and economies on both sides of the Atlantic.*

On the fiscal side, the US administration is trying to push through a massive \$130 billion stimulus package in an attempt to boost the struggling American economy. This shows a greater willingness to intervene in the economy than has been seen in recent years. However, it should be noted that \$75 billion of the package is likely to come in the traditionally Republican form of tax cuts, rather than in increased government spending. In this sense, President Bush has simply accelerated his own long-standing tax-cutting agenda.

Euro-zone finance ministers, in contrast, have been reluctant to take dramatic 'neo-Keynesian' fiscal measures to reflate their economies. Partly because of tax cuts in 2000 and 2001 in several euro-zone countries, there has been only a modest improvement in the levels of

budget deficits during the recent years of economic growth. As a result, these governments have only limited room for raising spending or cutting taxes under the rules of the Economic and Monetary Union.

Germany, for example, has increased spending on defence and security by DM1.5 billion since September 11<sup>th</sup>. Even though this is only 0.15 per cent of total government spending, the German government felt obliged to offset the extra spending with increases in tobacco and insurance taxes. By some estimates these tax hikes could boost consumer prices next year by as much as 0.4 per cent. These inflationary pressures could in turn make it harder for the ECB to cut rates further, even if euro-zone growth slowed dramatically. Therefore EU policymakers who wish to revive economic growth appear to have few options available, at least in the short term.

The US and the EU are also showing a marked divergence in their approach to state aids for struggling industries, such as airlines. During the first weeks after the attacks passenger numbers in the EU dropped by ten per cent, while the number of transatlantic travellers fell by almost a third. Most of the major airline carriers are reporting huge losses, and several others could follow Swissair and Sabena into bankruptcy. Not surprisingly, the Commission has come under heavy pressure from both carriers and governments to loosen its rules on government support for the industry.

However, Loyola de Palacio, the transport commissioner, has held firm: only state aid directly linked to the problem of US airspace being closed for four days after September 11<sup>th</sup> will be tolerated. The Commission has also suspended the 'use-it-or-lose-it' rules on airport slot allocations, to allow a breathing space for airlines that have been forced to cut capacity temporarily. The Commission's firm line is commendable, for the restructuring of the European airline industry is long overdue. Traditional flag carriers are unsustainable and should merge into more competitive European or



global enterprises. In the supposedly laissez-faire US, however, the government has offered up to \$15 billion of support to airlines. European airlines complain, not unreasonably, that they are being unfairly undercut. But nobody will benefit from a transatlantic battle over which government can provide the greatest subsidies, and the way forward must be a closer dialogue between the two sets of authorities.

## **The importance of global leadership**

Prior to September 11<sup>th</sup>, the ability of the EU and the US to resolve bilateral disputes on a wide range of issues appeared increasingly questionable. Transatlantic finger-pointing seemed to have become the norm in disputes over trade, the environment and arms control agreements. However, since September 11<sup>th</sup> EU leaders have shown such strong solidarity with the US that there may be a new opportunity to revive credible leadership at the global level, and in particular in the G-7.

French President Valéry Giscard d'Estaing had the idea of bringing together the leaders of the world's major powers in the mid-1970s, when the world – as now – appeared to be in crisis. War in the Middle East had sent oil prices spiralling and the Bretton Woods regime of fixed exchange rates had collapsed. World leaders wanted to demonstrate their willingness to co-ordinate their responses to economic problems as well as broader, global concerns.

While this informal body has taken on new members (including Italy and Canada, and, for some of the sessions, the European Commission and Russia) its limitations are increasingly obvious. American influence ensures that the G-7 shies away from anything that could be construed as an attempt to micro-manage the global economy. Anti-globalisation protesters have found the G-7's exclusiveness and extravagance an easy target, while its empty policy statements and many broken promises on, for example, debt relief have dismayed a wider audience. Nevertheless the extraordinary

and immediate impact of the attacks on the twin towers on the world economy shows the need for a more energetic global leadership.

There does not seem much chance of reforming the G-7 until the EU develops a more distinctive and coherent voice of its own, so that it can balance American influence in this forum. The governments of France, Germany, Italy and the UK take part in G-7 meetings but they co-operate only to a limited degree, and they speak largely to a domestic audience. This contrasts starkly with the EU's effective work during the preparations for Doha, as part of the so-called Quad Group, which consists of the European Commission, Japan, the US and Canada. In trade matters, the Commission has long had exclusive competence for developing and co-ordinating EU policy.

The EU needs that sort of focus in other aspects of economic policy, notably for the macro-economic issues that are discussed in the G-7. Javier Solana's impressive performance as the High Representative for foreign and security policy provides an instructive example. An EU High Representative for economic affairs, of equivalent stature and appointed by member state finance ministers, to coordinate their positions, should become its single, authoritative voice in the G-7. So long as such a figure was competent and could, like Solana, win the confidence of the member states, he or she would greatly enhance the EU's credibility on the international stage. It would not be appropriate for a commissioner to take on this role, for it is the member states rather than the Commission which are responsible for most aspects of macro-economic policy, such as issues of tax and spending.

The EU and the US also need to consider whether the more broadly-based Group of Twenty (G-20) should replace the G-7. The Group of Seven set up this parallel forum in 1999 as a response to criticism of its exclusivity; the G-7 represents barely ten per cent of the world's population – and this share is declining. The G-20, in contrast, includes emerging economic powerhouses such as Brazil,

China, India, Indonesia and South Korea. As a wider forum with fewer shared values, the G-20 would find it harder to exert constructive global leadership. But so long as these large developing countries have no meaningful stake in the system, they cannot be expected to offer unconditional support to rules set by the most powerful economies.

The creation of a High Representative for economic affairs would yield benefits not only in international fora but also closer to home, in the EU's own policy making. Europe's experience of Economic and Monetary Union has highlighted the interdependence of the economies in the euro-zone. The dispute in the spring of 2001 over Ireland's fiscal policy – which the Commission criticised as too loose – was the first of what promises to be many battles between national governments and the Commission, in its role as enforcer of budget discipline.

A High Representative would also be a more credible interlocutor for the European Central Bank, perhaps as an intermediary for trade-offs on monetary and fiscal policy between the ECB and the Euro Group, the informal body that brings together euro-zone finance ministers. One reason for the euro's weakness has been a lack of clarity over leadership and a divergence of voices from the national capitals of the euro-zone.

### **A crucial test for the euro**

The war against terrorism and the economic slowdown have created additional uncertainty around the launch of euro notes and coins, due at the start of January 2002. Confusion over price changes at the switchover may well make already cautious consumers even more reluctant to buy things, and that could delay economic recovery still further.

The two institutional guardians of the euro – the European Central Bank and the Euro Group – are finding their roles under greater

scrutiny than ever. If the euro-zone does sink into a serious recession, doubts over the ECB's mandate, which is narrowly focused on beating inflation, are likely to resurface. No euro-zone government currently wishes to undermine the ECB's policy stance with public criticisms, at a time when the need to maintain market confidence is paramount. Nevertheless tensions between the ECB and euro-zone governments are never far from the surface. At the Ghent European Council in October 2001, one part of the draft conclusions specifically called for the ECB to cut interest rates, though this was watered down in the final text.

The subject of reforming the ECB is likely to move up the agenda in 2002, as the debate on the EU's institutions post-enlargement develops. Romano Prodi, the Commission president, has suggested that the 2004 inter-governmental conference should tackle reform of the ECB's decision-making procedures. Furthermore, a number of governments, including that of France, have expressed reservations about the rules under which the ECB operates, and in particular its right to set its own inflation target.

For its part, the Euro Group faces a double challenge. First, it will need to help the ECB maintain public confidence in the euro during the changeover period. Its track record in presenting a coherent and united approach to economic policy is not strong. If individual finance ministers upset the markets or undermine consumer confidence in the coming months, the debates over whether the Euro Group should become a formal institution, and whether it needs a High Representative to lead it, will intensify.

Second, a sharp economic downturn is likely to prove the first serious test of the euro-zone governments' commitment to budget discipline. The extraordinary European Council in September 2001 made it clear that the Stability and Growth Pact would not be amended to give governments more flexibility in coping with the downturn – though it did recognise that budget deficits may need to rise modestly in the short run. That Pact prescribes the actions that

the council of finance ministers may take against governments which breach the Maastricht treaty's three per cent budget deficit limit, including the possibility of fines. There is a real risk that both Germany and Italy could breach the three per cent ceiling if the downturn in the euro-zone economy proves prolonged.

EU governments have wisely decided to give themselves greater fiscal flexibility by starting to revise the system under which they agree every year to 'Broad Economic Policy Guidelines'. Unlike the Stability and Growth Pact rules, these guidelines are not formally binding. They provide a more detailed annual analysis of the governments' efforts to bring their budgets into balance. The Gothenburg European Council of June 2001 said that budget targets should no longer be based on a straight measure of budget deficits – which are vulnerable to the whims of the economic cycle – but rather on the structural, or underlying, budgetary position. Now that this new principle is established in the Broad Economic Policy Guidelines, it should be extended to ensure that any breach of the Stability and Growth Pact rules is also examined in structural terms. For its part, the ECB has indicated that the budgetary rules of the Stability and Growth Pact should be interpreted flexibly.

## **Structural reform begins at home**

The fact that the EU has only limited room for manoeuvre in monetary and fiscal policy reinforces the need for progress on structural economic reform. The EU should renew its efforts to implement the programme agreed at the Lisbon European Council in March 2000. In particular, it needs new legislation to cut costs in the financial services industry; this is vital at a time when heightened market anxiety is raising the cost of capital. And the further liberalisation of EU markets for energy, telecoms and transport would be a boon for many of Europe's companies. The Lisbon programme also contains measures that should boost training and encourage the creation of new enterprises, goals that are all the more essential now that unemployment is rising.

Worryingly, however, there appears little hope of substantial progress at the March 2002 Barcelona European Council, which has the specific task of reviewing progress on economic reform. With elections looming in France and Germany, their governments will be reluctant to pursue reforms that may lead to job losses in the short term. Yet if the EU is to play a full part in helping to revive global economic growth, it must press on with the Lisbon agenda. The Commission, fortunately, remains committed to the Lisbon agenda. However, a new High Representative for economic policy could give more sustained leadership than a rotating presidency and increase the pressure on foot-dragging national governments to deliver.

Overall, there are still reasons to be optimistic about the medium-term outlook for the EU economy. European businesses and consumers do not face the same debt levels that confront their American counterparts. The arrival of the euro has helped to insulate the smaller euro-zone countries from the worst volatility of global markets. In previous economic crises, individual currencies were vulnerable to speculative flurries in the markets. Yet the euro exchange rate has remained relatively stable during the last few months.

If the euro-zone does escape a serious recession, the remaining ‘outs’ – and in particular Britain – may accelerate plans to join the single currency. The British government’s ambition to persuade voters of the merits of the euro has suffered from the perception that the euro-zone economy has underperformed, especially in comparison with the United States. But if the euro-zone weathers the downturn better than the US and the UK, euro membership may become a more attractive proposition.

Tony Blair has made it clear that he views British membership of the euro as a means to the end of his wider ambition, which is for Britain to play a pivotal role in intensifying global political and economic co-operation. While Blair’s handling of the crisis has

certainly enhanced his personal authority, the economics will need to be right if that ambition is to be fulfilled. He must therefore be hoping that the ECB and his fellow European leaders can steer the single currency safely through the coming years.

