
From: CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 22 January 2013 10:59
To: CAB REDING ARCHIVES BIS
Subject: FW: spotlight europe: Vive l'Europe! Vive l'Union!
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From: Hoffmann, Isabell
Sent: Tuesday, January 22, 2013 10:49 AM
To: REDING Viviane (CAB-REDING)
Subject: spotlight europe: Vive l'Europe! Vive l'Union!

Dear Mrs Reding,

the 50th anniversary of the Elysée Treaty between Germany and France is a good moment for both nations to look back with pride at what has been achieved. Cooperation between the two countries has shown that differences can generate positive energy, rather than being purely harmful. And that an ever closer Union is by no means a synonym for conformity. Our author Joachim Fritz-Vannahme argues: "Now is the time to work together to make Europe a better place." But how can this be done?

To celebrate the occasion, this first spotlight europe in 2013 is also published in French: Mesdames, Messieurs, veuillez également trouver ci-jointe la version française de "Vive l'Europe! Vive l'Union!"

Wishing you an interesting read,
 Bien cordialement,

Isabell Hoffmann

Isabell Hoffmann

Project Manager
 Program Europe's Future

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spotlight europe

2013/01 — January 2013

Vive l'Europe! Vive l'Union!

Joachim Fritz-Vannahme

Bertelsmann Stiftung, joachim.vannahme@bertelsmann-stiftung.de

The 50th anniversary of the Elysée Treaty between Germany and France is a good moment for both nations to look back with pride at what has been achieved. Cooperation between the two countries has shown that differences can generate positive energy, rather than being purely harmful. And that an ever closer Union is by no means a synonym for conformity. Now is the time to work together to make Europe a better place. But how can this be done?

spotlight europe # 2013/01

Is the European Union about to come to grief on account of the growing budgetary imbalances? The European Commission's report on Employment and Social Developments in Europe 2012 reveals that there are growing gaps between north and south, between young people and old people, and between debtors and creditors. And this is all happening in an EU that made a point of stating in its treaties that it wishes to have "a highly competitive social market economy, aiming at full employment and social progress." (Art. 3.3 TEU) On the occasion of the 50th anniversary of the Élysée Treaty Germany and France should try to meet this crucial European challenge and bridge the growing gap between the EU's ideals and social reality.

Europe is the stage on which the much-vaunted Franco-German couple can show what they can do.

This is not a new idea. In fact, it paved the way for the Élysée Treaty of 22 January 1963, and the following fifty years. At first, Franco-German cooperation concentrated on the "German problem," namely the role that postwar Germany was going to play in Europe during the Cold War. Many people today have forgotten this original endeavour and how important it was for Europe over five decades.

"The German problem is the European problem par excellence. European – just think back – since the emergence of the Roman Empire, that is, since Europe ceased historically to be limited to the shores of the Mediterranean, in order to extend as far as the Rhine; (...) Is it necessary to say that the events which have occurred during the first half of this [the 20th] century have made this problem more disturb-

ing and burning than ever? (...) For France, everything can be summarized in three closely interconnected observations: that we have to act so that Germany becomes a sure factor for progress and peace; to contribute, on this condition, to its reunification; to pursue the path and to choose the framework which will make this possible."

This is what French President Charles de Gaulle said on 4 February 1966, and they were prescient words. In 1989, a truly momentous year, his socialist successor François Mitterrand adhered unwaveringly to these guidelines.

The German question back then was the European problem par excellence. In the united Europe of today the problem has resurfaced, though under a completely different set of circumstances. Nowadays many people in France consider a reunited Germany to be a role model, whereas others believe it is a fear-inducing bogeyman. In other words, if Germany is strong, it threatens to become a European problem. If it is weak, as was the case only ten years ago, it is also a problem.

Complementary, not contradictory

"Germany is more than France can handle," Jacqueline Hénard wrote in the Frankfurter Allgemeine Zeitung a year ago. In the middle of a united Europe the country between the Rhine and the Oder plays a central role, but it is not the one it played during the Cold War. The French have always been aware of this, even though some Germans seem to have forgotten it. Germany, with its geopolitical location in the heart of Europe, its eight (!) EU neighbours, its economic clout in the internal market, and of course its strength as an exporting nation is, if things go well, a great opportunity as far as Europe is concerned, and, if things do not, a bit of a risk. And it means that the government in Berlin has to be patient, and that it needs to exercise tact and discretion. In this context it is not actually necessary to talk about the past – the geographical facts speak for themselves.

Is Germany still going down the common path in Europe, or is it going at it alone? Is it merely looking after its own interests, or is it helping its partners to flourish and prosper? Throughout the recent EU crisis sensitive answers to such anxious questions have defined the image of Germany in France, as well as in Greece, Italy, and other countries.

Currently the French are in an especially sensitive mood. Arnaud Montebourg, a left-wing socialist and Minister of Industrial Renewal, is not the only person who thinks that what is going on at the moment is "la politique à la Bismarck." So you think there's no difference between 1871 and 2013? One is inclined to retort. Can such statements be taken seriously, or are they simply being said for personal, polemical, and image reasons?

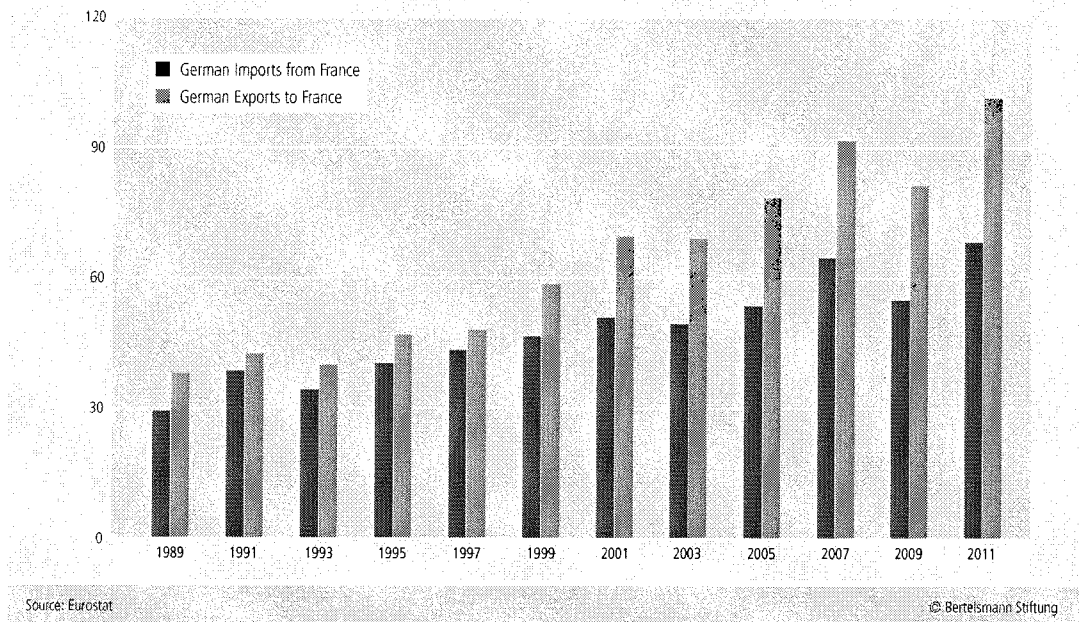
On the other hand, in Germany one hears people making chauvinist remarks about "the lazy Greeks." There is an unmistakable German tendency to construe the country's present comparative success as proof of its systemic superiority. In other words, Germany is doing everything right, whereas the others are doing the opposite. But is anyone seriously suggesting that a country with one percent of the world's population (and it is getting smaller on a daily basis) can give the rest of mankind cast iron advice on how to get ahead?

"Our common future cannot be separated from a deepened and enlarged European Union." This is what a Franco-German declaration proclaimed ten years ago, on the occasion of the 40th anniversary of the Élysée Treaty. Today things are not quite as simple. The deepening of the EU is now largely in the hands of the member states that have the euro, and enlargement has receded into the distance. In fact, reducing the entire EU to a eurozone EU or a core Europe based on a monetary, economic and political union is being pondered. Some see it as an arrangement with a brighter future.

As yet François Hollande, a socialist, and Angela Merkel, a Christian democrat, are still at loggerheads about how the EU is going to emerge from this crisis stronger than ever before. In point of fact, the two sides complement each

Goods Imported and Exported, and Balance of Trade between Germany and France

In billions of euros, 2011



other perfectly. France wants a Europe based on social justice; Germany wants a stable and competitive EU. Once again one sees Paris thinking in terms of grand designs and sweeping visions of the kind the EU badly needs. Meanwhile Berlin is working away at tedious and self-imposed duties.

Solidarity and growth, discipline and responsibility, good economic policies and good social policies, are all necessary if Paris and Berlin want to extricate themselves and their European partners from the crisis. Again, this is not a new idea. In the history of the European Union the two partners have always had to strike a balance and indeed reach a compromise between a liberal economic order and a social order based on the notion of solidarity. Now they are going to have to pursue this quest in tempestuous times, if, that is, they want to live up to their traditional leadership role. That is the impression one gets at first sight. However, if one takes a second look it becomes apparent that the ideas of the two sides do not entirely coincide. Berlin would like a convention in order to amend the treaties. Furthermore, talk

about the United States of Europe no longer shocks anyone in the German government – nor in most of the opposition. Things are different in Paris, where no one currently dares to broach concepts and visions of this kind.

Yet in Europe a community of solidarity cannot materialize unless democracy is strengthened on both the national and European levels. The fiscal compact, which constitutes the cornerstone of the EU's [or is it the eurozone?] economic policy, is a provisional affair. It must be incorporated into the treaties as fast as possible, and democratic control should be exercised by the elected parliaments and not by the European Council and the national governments. None of this is possible without amending the treaties. Thus France is only temporarily evading the forthcoming grand debate about new rules and regulations for stronger institutions.

The current differences between Paris and Berlin are not cause for despair. It is a fact that since the end of World War II the beginnings of grand Franco-German initiatives designed to bring about a united Europe were usually

not marked by unanimity, but by the opposite. As French political scientist Hélène Miard-Delacroix recently pointed out in her perceptive “Deutsch-französischen Geschichte”, phases of rapid progress alternated with those in which everything was in the doldrums.

The Franco-German relationship derives its strength from all these dissimilarities, and indeed from the differences between the partners. Thus the two countries are living proof of the fact that an ever closer union certainly does not encourage conformity and centralism. The differences do not actually disappear in the course of integration, and if anything they become more pronounced. There is a need to compromise, but in the end it guarantees the survival of diversity.

Better than Conformity

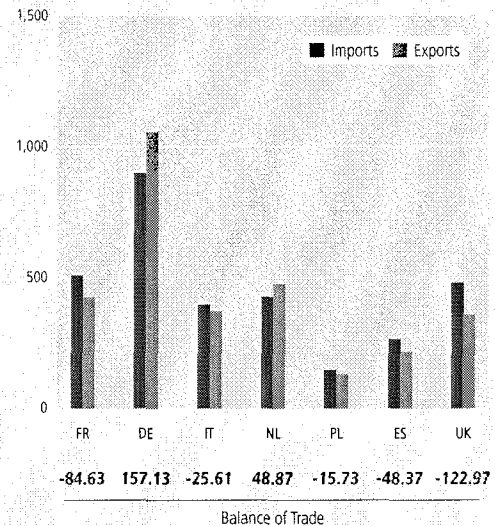
A few examples may make it easier to understand these Franco-German differences. To this day the (west) German elites approve of European integration. This has never been the case in France. Since the post-war era and far into the 1980s a third or, at a later stage, almost a quarter of the electorate voted for the Communist Party, which execrated European integration just as much as it rejected the Fifth French Republic. To this day extreme right-wing and extreme left-wing parties, which reject the EU, manage to secure the support of nearly a fifth of the electorate.

After the French rejection of the Constitutional Treaty in 2005 eurosceptics and anti-Europeans began in earnest to infiltrate the right-wing government, and are now doing the same with the left-wing government. They are a small though vociferous minority. This state of affairs cannot really be equated with the views of successive German governments and their staunch pro-European stance. These voter preferences shape public opinion in the two countries in very different ways and on certain occasions do not make it any easier to govern, especially in Paris.

Our second example is also very revealing. Until recently the combination of German economic power and French leadership acumen was

Goods Imported and Exported by Selected EU Member States

In billions of euros, 2011



Source: Eurostat

© Bertelsmann Stiftung

considered to be the engine of European unification. It has not been entirely forgotten that Helmut Kohl once said that a German chancellor was well advised to bow three times to the French flag. Today some French citizens bow discreetly to the German flag since it stands for the kind of economic success and the (as yet) stable social conditions which they wish they had in their country. Others warn that there is a danger of German dominance and arrogance. This is perhaps an area in which German observers need to make some distinctions.

When one talks of “France,” one is referring to its political, media and intellectual elite. Ordinary people often look at the state of their country in a far more critical way, and for this reason more realistically, though occasionally in a far more pessimistic manner than the people at the top in Paris. At the beginning of the year the opinion research institute Médiascopie conducted a survey entitled “France, the country of lost illusions” for the Le Monde newspaper. In France fear was a more powerful emotion than the desire to be rebellious, and the crisis in the economy was leading to

a crisis in the world of politics. A fear of globalization and a lack of trust in policymakers are of course not peculiar to France, and in this respect our neighbours are no different to us and to other people in the West.

And finally, another example sheds some light on the fact that occasionally the two partners have a distorted view of each other. German commentators like to describe and indeed to disparage the French economy as being interventionist, dirigiste, or even "colbertiste." There is an element of truth in this, and yet it is certainly not the whole truth. Let us not forget the fact that the German government's own energy transition, or Energiewende, is a good example of interventionist industrial policy.

France is one of the richest countries in the world (it comes in 5th place after the US, China, Japan and Germany); its per-capita income puts it in the top EU bracket; and it has a higher life expectancy rate than almost all other countries, and a higher birth rate than its EU neighbours (and in this respect it leaves Germany a very long way behind). Indeed, in the medium term its competitiveness is certainly on a par with Germany.

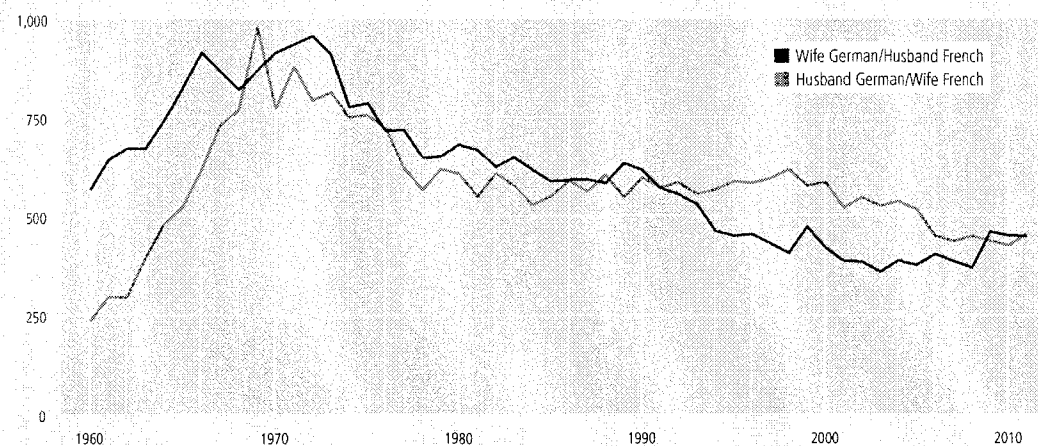
Pessimists, but fighting on?

Can such signal successes really be the result of a "fear of the world"? It may of course be true that such anxieties exist in certain minds, and the political scientist Pascal Perrineau has claimed that the French hold the world record for pessimism. Yet France's strengths are easily overlooked by the French themselves and by their friends. In a direct comparison with Germany, it was for a long time the better of the two. Among the 500 largest companies in the world there are just as many French names as there are German ones. And when one compares it with all its other European partners France actually comes out rather well. If one bases one's comparison on the German data to the exclusion of all else, one will simply end up with distorted results. In a very low-key way in 2012 France succeeded in placing bonds on the international market and in borrowing money at low rates of interest despite the negative comments of the rating agencies.

However, the French weaknesses cannot be denied, and experts and politicians are certainly aware of them. The government share of the economy, which almost reaches 57 percent, is one of the highest in Europe. The ideal career as it suggests itself to a young Frenchman is not that of a free entrepreneur or inventor. It

Franco-German Marriages in Germany

Marriages between 1960 and 2011



Source: Destatis

© Bertelsmann Stiftung

continues to be embodied by ENA (École nationale d'administration), the elite graduate college for government, public administration, and the economy. The traditional budget policies designed to stimulate growth by means of government spending (on social issues) is coming up against certain constraints on account of a level of indebtedness amounting to more than 80 percent of GDP and a low level of growth amounting to less than 0.4 percent. This is no doubt a European phenomenon, but it is more noticeable in France than elsewhere.

The report commissioned by the left-wing government in the summer of 2012 from Louis Gallois, the former head of EADS, the aerospace company and defence contractor, for a "French industrial competitiveness pact" lists further shortcomings such as the low level of spending by industrial companies on research, innovation and training; the insufficient amount of capital being made available to "the industrial enterprises;" the lack of innovative and strongly competitive companies; and the not particularly productive social dialogue. According to the report, half of the country's exports were generated by the 200 largest companies, and these conducted almost two-thirds of the research. This was something not everyone in the French government was happy to hear.

Industry is no longer as important as it used to be, and over the last decade 700,000 jobs have disappeared (Uterwedde). The balance of trade has slipped into the red, and unemployment, especially among young people, has gone up, a sad tendency though not a new one.

The Élysée is not Elysium

In the election campaign, Hollande declared that debt reduction was his top priority. He would of course have preferred to renegotiate the European Fiscal Compact, and in fact as late as autumn some members of his party tried to torpedo the idea. Hitherto Hollande's only contribution to the European reform debate is a European growth pact. This is not yet ready to be implemented across the entire EU. And the financial transaction tax (on which agreement was reached with Berlin) still has to be adopted

by the rest of Europe. The European Banking Authority, established in December 2012, is a Franco-German compromise par excellence, and seems a far more promising venture.

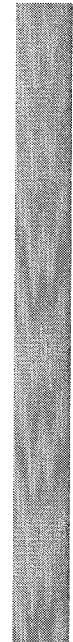
Germany's strength is France's problem, and France's weakness is Germany's problem. This is the way it is. Nor is it particularly new, for at the beginning of the 1980s there were similar asymmetric images of the two partners, especially after German reunification. And at the beginning of the 21st century many people in Europe, and of course in Paris, poked fun at the "sick man on the Spree," without noticing that he was in the process of recovery.

These things are not minor matters. However, they are not the only things that determine the potential of the Franco-German couple. What really matters is political will. It seldom emerges all at once, and tends to be the result of tough negotiations and at times painful compromises. At the time of the Élysée Treaty and in an EEC with no more than six members many things were less complicated. In an EU with 27 partners the traditional Franco-German initiative is now only a necessary precondition, though no longer a sufficient one, for European policymaking.

Nowadays the latter is no longer measured only in terms of the level of agreement between Paris and Berlin, and is scrutinized immediately in order to see whether it is of use for all of the EU. The kind of exclusive talks that were held 50 or even 20 years ago are gone for good. But that does not make the procedure any easier.

However, at the moment the partners are finding it hard to do what needs to be done. What is adequate seems to be even more difficult. That is the state of the game, at least for the moment. But does that call for doom, gloom, and despair?

What are Paris and Berlin going to present to their citizens and their partners on the occasion of the 50th anniversary of the Élysée Treaty, and how are they planning to perpetuate the story of their shared success at the end of the 20th century, so that it will resound throughout the 21st century? The story will have to be European in character, for otherwise it will be of little interest



to anyone. It will have to accept the world as it is, as a daily challenge and not as a source of fear and anxiety. And more to the point, it should not allow itself to be swayed by the beautiful name of its place of birth. The Élysée is not Elysium. It is not a place for the blessed and the heroes of the past, but simply a place where people can work to forge a better Europe. ■

Further reading:

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Stefan Collignon: *Economic growth and competitiveness: a Franco-German tale*. Bertelsmann Stiftung. <http://goo.gl/x6i59>

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From: CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 01 February 2013 16:16
To: CAB REDING ARCHIVES BIS
Subject: FW: spotlight europe: At Long Last, the EU Takes on its Banks
Attachments: BS_0712_EN_Web.pdf

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From: Hoffmann, Isabell
Sent: Friday, February 01, 2013 11:06 AM
To: REDING Viviane (CAB-REDING)
Subject: spotlight europe: At Long Last, the EU Takes on its Banks

Dear Mrs Reding,

The agreement on establishing a common banking authority is paving the way for a banking union. The decision was reached by the finance ministers only hours before last December's EU summit. After making a headway on sovereign debt by deciding on a fiscal union one year beforehand in December 2011, the EU is by now also addressing the banking crisis.

"We know at least who is going to supervise who and what", explains our author Stefani Weiss.

Wishing you an interesting read.

Yours,
Isabell Hoffmann

Isabell Hoffmann

Project Manager
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spotlight europe

2012/07 — December 2012

At Long Last, the EU Takes on its Banks

Stefani Weiss & Isabell Hoffmann

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The agreement on establishing a common banking authority is paving the way for a banking union. The decision was reached by the finance ministers only hours before last December's EU summit. After making headway on sovereign debt by deciding on a fiscal union one year beforehand in December 2011, the EU is by now also addressing the banking crisis and we know at least who is going to supervise who and what.

spotlight europe # 2012/07

Five years have elapsed since the collapse of the banking sector in the US triggered the financial crisis. It has caused a lot of despair observing that the European heads of state and government decided to bring the banks to heel only after the looming implosion of Spain's banking sector in June 2012. Indeed, it is impossible to overlook the causative and harmful role that the banks played and continue to play in the crisis. The debts of the eurozone banks are three times higher than the sovereign debt of all of the eurozone countries taken together. In 2008 alone, Germany propped up its banks by taking over guarantees worth €480 billion.

Make no mistake, the European banking problem is just as much a home-grown affair as is sovereign debt. From the 1980s onwards and in expectation of higher growth rates policymak-

ers significantly deregulated the financial markets. As a result, banks became involved in increasingly risky activities that were not subject to government supervision. Academic research has convincingly demonstrated the connection between deregulation and the financial crisis. The studies provide proof that in the aftermath of the Lehman crash in 2008 and 2009 poor economic performance in any given country was directly linked to poor government supervision of the banking sector.

There can be no doubt that what happened in Spain, as well as in Ireland, illustrates that the eurozone's financial stability is endangered not only by excessive indebtedness of the member states, but also - and perhaps to an even greater extent - by bad loans on the books of European banks. Government bonds and banks

now form a vicious circle. The ailing banks drive up government debt, whereas financially weak states are very burdensome for the banks since their bonds are practically worthless. It is exactly this kind of interdependence that the banking union will try to break.

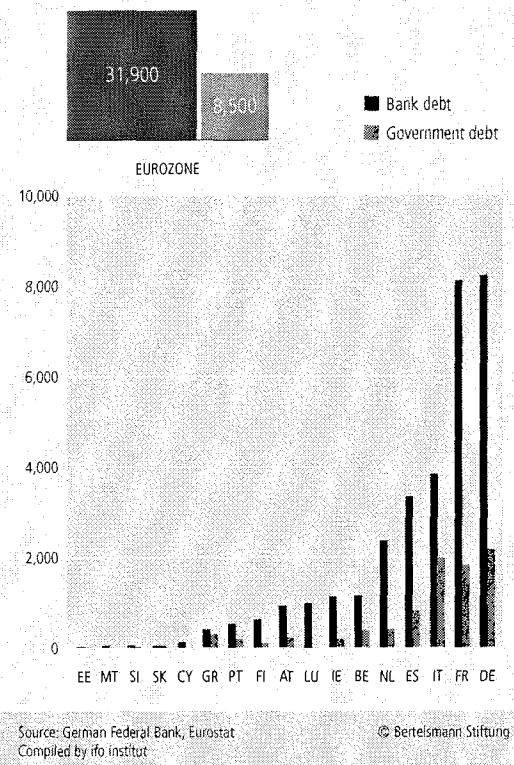
What does the banking authority actually do?

The creation of a single supervisory mechanism (SSM) with unlimited powers to discipline member states means that the EU is bringing an end to another chapter in the history of petty European politics. A distinct feature of the euro crisis has been that national supervisory authorities have played down the problems of their banks and, even if they are fully cognizant of the facts, protected their national "champions" to the detriment of others. The Spanish local banks, or *cajas*, are an excellent example. Without being prevented from doing so by the Spanish government, they financed a massive building boom in Spain even though they were significantly undercapitalized. That was until the property bubble burst. Their credit losses in this sector not only brought the Spanish government to its knees, but mushroomed to become a European problem.

This also demonstrates that in an economic and monetary union the impact of misdemeanours or mistakes made in the banking sector of one member state can no longer be restricted to that particular country. They impact on other member states, and may even endanger the very existence of the European Economic and Monetary Union (EMU). This is why there is a need for a single set of criteria for the supervision of banks, and for a better and above all independent kind of supervisory body which can insist on closing down ailing banks – even when this defies the wishes of policymakers. Only if such a regime is put in place we can expect that developments as we witnessed in the Spanish and Irish banking sector will not recur in the future. Nevertheless, in the current crisis taxpayers will have to foot the bill. The restructuring and closing down of banks cannot be done for nothing – and the losses could

Bank Debt and Government Debt

In billions of euros, June 2012



run into the billions. This reveals the political dynamite inherent in a European banking union based on the notion of joint and several liability. And the costs attached are the reason why there were such tough negotiations before eventually an agreement could be reached on who will be in charge of a new European banking supervision authority.

Who supervises?

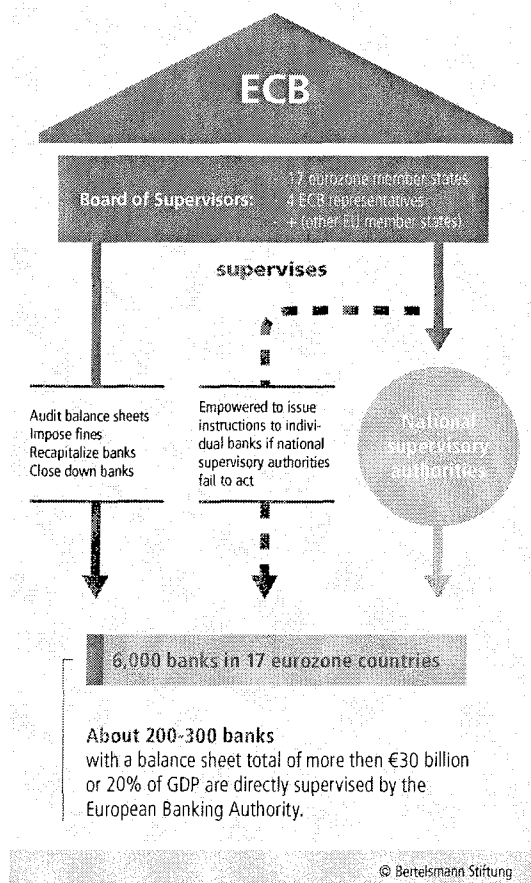
The ECB has been entrusted with supervising the banks in the eurozone as well as non-eurozone banks that want to join the SSM. This was contentious until the very end. There had already been heated debates in autumn 2012, shortly after the Commission published its first proposal. It was the European Council's highest legal advisor who rejected the idea that the Commission's legislation could be implemented without amending the treaties. There are two

reasons why what at first sight seems to be no more than legal quibbling should actually be taken seriously. First, the ECB has been given a mandate that is based solely on an article in the treaty that was not originally designed for this purpose. Thus the federalization of the bank supervisory system, though an undeniable necessity, is once again something being pushed through without consulting the EU citizenry. This is of course a practical way of doing things when there is a crisis since the process of amending a treaty, as the Lisbon Treaty debacle demonstrated, is time-consuming and its outcome unpredictable. But a trick of this kind merely adds to the legitimacy deficit of the EU, which is moving ahead with integration without the participation of its citizens.

Second, as soon as the ECB has been granted the powers to close down banks in member states, the ECB will encroach on property rights and take decisions that impinge on national budgets. As a result and in order to uphold the fundamental tenets of democracy and of the rule of law, the ECB will have to be supervised by governments, parliaments, and the courts. For this reason there are fears that if the ECB is accountable to the member states in the area of banking supervision, its independence might be undermined when it comes to monetary policy.

More than any other country, Germany has always championed the idea of a central bank beyond the reach of politicians. In the negotiations, it sought to strictly separate the ECB's monetary policy mandate from the envisioned new banking supervision mandate. German Finance Minister Wolfgang Schäuble called for nothing less than the construction of a "Chinese Wall" to separate the two. It remains to be seen whether the newly created ECB supervisory committee will be a bulwark of this kind. In addition to representatives of the participating member states, four ECB members will have a seat and the right to vote. The barrier between monetary policy and supervision might thus be high, but permeable. Furthermore, doubts were raised about the quality of the decisions of the supervisory committee in lieu of the fact that the ECB cannot be given instructions by member states.

European Banking Supervision



As far as Germany is concerned, the rejection of its proposals to weight the votes in the supervisory committee in accordance with the liability size may turn out to be an even greater problem. As is the case in the ECB, every country no matter how large or how small has one vote. Decisions are taken on the basis of simple majority voting.

But the ECB is also faced with conflicts of interest in other areas. In the euro crisis it has interpreted its monetary mandate rather generously by loosening the rules governing the collateral that banks have to pledge when they borrow. In addition, the ECB has made it possible for illiquid banks to gain access to long-term refinancing operations – so-called LTROs. Many “zombie banks” were thus enabled to stay afloat in the markets. To liquidate these banks, which is what needs to be done, will probably not be

easy for the ECB given this record. Losses for the ECB seem to be unavoidable.

Who is being supervised?

The question of which and how many banks the ECB will supervise was a contentious issue up to the very end of the negotiations. The Commission's original proposals, which received the support of France, referred to all of the 6,000 or so banks in the eurozone. In view of time and staff requirements, this did not really seem to be a feasible idea. Moreover, it immediately conjured up fears of a new and monstrous bureaucracy. There was also criticism of the fact that the ECB has no experience supervising banks or terminating their activities.

Opposition to all-embracing supervisory powers emerged in various areas. It was especially fierce in the case of the savings, cooperative and mutual savings banks that constitute the largest part of Germany's banking sector. The stumbling block was the proposed European deposit insurance system to which all the eurozone banks were going to have to contribute. An unusual feature of the savings and cooperative banks is that they already have a deposit insurance organization that will, if necessary, cover payment defaults by one of its members. Those at the head of the German saving banks have made it clear that they reject the idea of sharing their emergency reserves with other banks. They obviously believe that once under ECB supervision the next thing that will happen is the mutualisation of their reserve funds.

The German government did not have much of a choice in the matter. In Germany it is impossible to pursue policies that go against the wishes of the savings banks. Thus, it took a long time to reach a compromise. A middle ground was found in that only system-relevant banks will be directly under the single supervision of the ECB. Banks are deemed system-relevant if they have a balance sheet total amounting to more than €30 billion or if it amounts to more than 20 percent of the economic power of their homeland. This means that all of the German savings banks are excluded, whereas almost all French banks will be under direct ECB supervi-

sion. Initial estimates suggest that the regulations will apply to about 200 to 300 banks, and at least three banks in every eurozone country come under ECB supervision.

However, part of the compromise is an exception clause, which could lead to total ECB supervision via the back door. It specifies that at the first sign of trouble the ECB may also intervene in the case of small financial institutions. This would certainly make sense. After all, in Spain the problems were caused by many small banks. And when it comes down to it, the German savings banks and the regional "Landesbanken," which made serious errors of judgement with regard to the securitization of mortgages, are not as virtuous as they would like people to believe.

The fact that the ECB is empowered to intervene in the case of banks below the €30 billion threshold means that there are bound to be questions about how it will interact with the existing national banking authorities. Can the ECB act like a superior authority and issue specific instructions? Or is it merely permitted to issue "general instructions"? (This is what Schäuble maintained when meeting the press after the agreement was reached on December 13, 2012.) Obviously, the final word on this has not been spoken. The fact that the finance ministers have taken the precaution of setting up a mediation panel for potential conflicts between the ECB and the national banking authorities can be seen as an indication of this.

What about the eurozone "outs"?

For a long time the non-eurozone states were also opposed to task the ECB with the supervision of the banking sector. After all, they are not represented on its committees. Above all, they feared that with the establishment of a banking union eurozone members could dominate decisions relating to the free movement of capital in the internal market. These fears were further amplified by Christian Noyer, Governor of the Banque de France and a member of the ECB executive board, when he suggested

that for liquidity reasons the majority of euro-based transactions should no longer take place in London, but within the eurozone. This was certainly not calculated to dispel British reservations about the banking union.

The new supervisory board is designed to address such fears. EU member states are entitled to be represented on this committee; every EU member state that joins the banking union will receive a seat and have the right to vote. This though was not enough for Sweden and the Czech Republic that declared that they will not be joining the banking union for the foreseeable future.

In the end, the resistance put up by the "outs" was rather muted. Britain knows that it cannot prevent the move to more integration, which is the way the eurozone states are correcting the design faults in the EMU and are hoping to overcome the euro crisis. For this reason, proposals to upgrade the European Banking Authority (EBA), which is located in London, were quickly dropped.

In point of fact, this authority was set up in 2010 together with three other supervisory authorities in order to improve the quality of financial supervision in the EU. However the EBA has not been an unqualified success. All but eight of the 91 financial institutions that were subjected to the bank stress test in 2011 received a clean bill of health. This clearly did not reflect the realities of the market and was not a significant contribution to confidence-building. As part of the new approach, the EBA is taking over the task of developing a "single rulebook" by the middle of 2013. Thereafter it will supervise implementation of the new regulations in the member states.

In order to dispel anxieties about a two-speed Europe, the British government has insisted on changes in EBA voting regulations. The idea is to make it impossible for the eurozone countries to vote as a bloc and to prevent them from dominating the authority's decision-making. For this reason, all decisions will in the future be taken on the basis of a double majority of the eurozone and non-eurozone states. However, it seems that the ECB Council will continue to be able to overrule such decisions.

What still needs to be done?

The eurozone must not stop short at banking supervision, and should soon introduce a single bank closure mechanism and a European deposit insurance system. Supervision is a good idea, but is not much good when it comes to resolving the crisis, especially if the liquidation of banks continues to be the responsibility of the national authorities. Crises will continue to crop up, even if all of the eurozone members suddenly behave like paragons of virtue.

There are those who may be irritated by the fact that the US is actually a shining example of how things ought to be done. Indeed, in its approach to resolving the banking crisis the US has shown the Europeans that a truly integrated banking market is of paramount importance for the stability of a common monetary area. Daniel Gros of CEPS, the Brussels-based think tank, has demonstrated this quite clearly in a comparison between Nevada and Ireland. The two entities, which are roughly the same size, were severely impacted by the wave of bankruptcies that hit the property market in 2008. In Nevada, despite numerous bank insolvencies and a 30% decline in gross national product, the local banking market did not grind to a standstill. Ireland, on the other hand, first had to bail out its banks and then had to be bailed out by the EU.

Why is it that the State of Nevada did not go down with its banks? Clearly what made the difference in the US is the federal banking system, which means that risks are widely distributed. Furthermore, the large deposit insurance systems such as the Federal Deposit Insurance Corporation (FDIC), which redistributes losses and provides compensation, provide an additional safeguard. At the same time there is a kind of private banking union in the United States. Thus financial institutions that operate in a state of the union other than the one in which they are incorporated can deduct losses incurred in this state from profits made in other states. It has never been possible to do this in the EU, and as a result it is difficult for business entities to absorb asymmetric shocks.

Some member states still may feel inclined to hold their heads in their hands and mutter

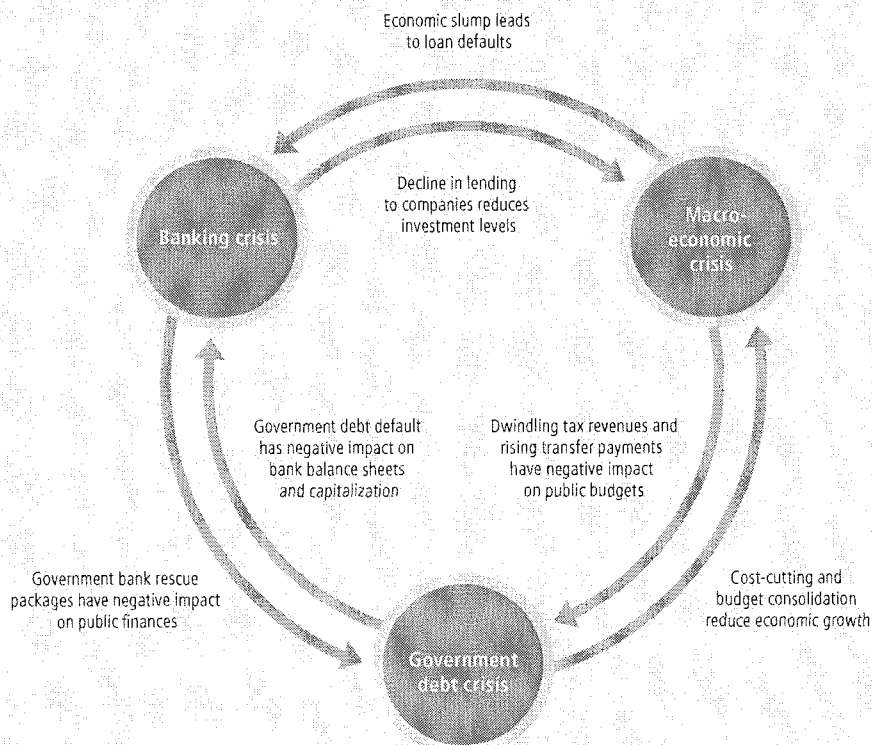
when thinking about the costs of bailing-out banks. They are unwilling to impose additional burdens on their citizens, especially in election years. And, indeed, it is unfair to be asked to pay for the faults of others. This is something that should be avoided if at all possible. But what is the point? If one has come to the conclusion that there are vital reasons why the euro should be saved under any circumstances, then the bill has to be paid one day.

Cyprus's finance minister called the banking authority "a Christmas present for the whole of Europe." Yet, it would be even better if we were going to be given the whole of the banking union by Easter. It is not out of the question: the proposals are on the table for a single European deposit insurance system that protects savers, and single rules for the restructuring and closure of banks including a new Euro-

pean bank closure agency with its own bank closure fund. Systemic banking crises would then, hopefully, be a thing of the past, and the vicious circle between banks and government bonds would be broken. Savers would no longer have to be afraid of losing their savings, and taxpayers would no longer be alone when it comes to bearing liability for the risky deals of the banks. ■

A Vicious Circle

A vicious circle of bank debt, government debt, and the macroeconomic crisis



Further reading:

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From: (CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 11 February 2013 13:11
To: CAB REDING ARCHIVES BIS
Subject: FW: spotlight europe: From Rebellion to All-Out War
Attachments: BS_Spotlight1302_EN_web.pdf

Categories: Green Category

From: Hoffmann, Isabell
Sent: Monday, February 11, 2013 11:48 AM
To: REDING Viviane (CAB-REDING)
Subject: spotlight europe: From Rebellion to All-Out War

Dear Mrs Reding,

The situation in Syria at the beginning of 2013 could hardly be worse. Dead, wounded, refugees, a humanitarian disaster. President Assad is destroying his country and waging war against his own people. Russia and Iran back the regime. The West wants regime change without intervening militarily. The political opposition is now more united but overwhelmed with the situation at hand. The armed resistance, partially dominated by Jihadists, is difficult to size up. Our experts Christian P. Hanelt and Kristin Helberg are wondering: "Is there a way out?"

Wishing you an interesting read.

Yours,
Isabell Hoffmann

Isabell Hoffmann

Project Manager
Program Europe's Future

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From: (CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 20 March 2013 10:51
To: CAB REDING ARCHIVES BIS
Subject: FW: spotlight europe: The European Union and Russia at a Crossroads
Attachments: spotlight.pdf

From: Hoffmann, Isabell
Sent: Wednesday, March 20, 2013 10:35 AM
To: REDING Viviane (CAB-REDING)
Subject: spotlight europe: The European Union and Russia at a Crossroads

Dear Mrs Reding,

The enclosed spotlight Analysis offers a current snapshot of EU-Russian relations. The finance ministers of the euro zone have recently decided to rescue Cyprus' banking system with involuntary support from depositors, among them Russian citizens. The EU's Cyprus decision add additional piquancy to EU-Russian relations.

Despite the current crisis in the media, Russia and the European Union are partners - because of their geographic position, their common history, because of social and economic obligations. At present, the EU's relations with Russia are under pressure to innovate. The EU's ability to take action has been hindered by the financial crisis, which has developed into a crisis of the Union's political integration. Shaping its relations with Russia is a challenge for the EU, one directly related to the crisis of European integration. A successful Russia policy would improve the EU's position as a global actor.

For its part, Russia has reached a stage in its modernization in which political and economic stability no longer provide the ruling elite with legitimacy. Which options this opens for the EU can be found in the enclosed edition of spotlight "The European Union and Russia at a Crossroads" which is written by the authors Cornelius Ochmann and Iris Kempe.

Wishing you an interesting read.

Yours,
 Isabell Hoffmann

Isabell Hoffmann

Project Manager
 Program Europe's Future

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spotlight europe

2013/03 — March 2013

The European Union and Russia at a Crossroads

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The European Union and Russia are strategic partners – through their geographic situation, their common history, through social and economic obligations. Currently, the EU's relations with Russia are under pressure for innovation. The EU's ability to manoeuvre is hindered by the financial crisis, which has developed into a crisis of the Union's political integration. For that reason, the EU's relations with Russia depend on the Union's ability to overcome the crisis and undertake reforms.

spotlight europe # 2013/03

The Russia policies of EU member states and of the European institutions are dominated by the rhetoric of partnership for modernization. Europe is interested in a guarantor for security and in reliable energy suppliers. It remains to be seen to what extent today's Russia will live up to European norms and values, and in what form European policy will be able to react to the most recent developments.

The initial conditions for relations between the EU and Russia include, on the one hand, the crisis in European integration, and on the other, Russia's democratic deficits. Formally, bilateral relations are structured by the Partnership and Cooperation Agreement (PCA) of 1997. Although the PCA was originally negotiated to last 10 years, it is automatically renewed on an annual basis unless one party decides to

cancel it. The PCA no longer matches the political realities, as the fruitless EU-Russia summit in December 2012 demonstrated for all to see. For seven years, both sides have been called to work out and then ratify a new bilateral agreement. Before that can be done, however, it is necessary to clarify fundamental questions and only then, based on this analysis, develop new means of cooperation.

Russia as a European partner

Vladimir Putin's re-election as President of Russia in May 2012 is a signal for the future development of the country's society, state and economy. Russia is in a strong economic position, thanks to its rich reserves of oil and natural gas. In terms of building a democratic

society, however, the situation is very different: In the Bertelsmann Transformation Index 2012, the country places 99th out of 128 states in its transformation management. Making Russia into a sustainably modern country remains a task for Russian society, as well as for Russia's European partners.

Putin's articles in the media before the election make clear that, in his view, modernization can only succeed with the help of an influential Russian state and a technological breakthrough. The debate about Russia's future development has become a national task. Several groups of experts have given their substantive views. Supporters of Dmitri Medvedev, the previous president and current prime minister, have given further thought to the term modernization. In their view, society carries out the country's development. Only civic engagement and political participation bring about an effective middle class, federalism and the rule of law.

The state's effectiveness for its citizens can be measured by the education system, provision of health care, and protection against poverty.

Putin, however, is not following this path. "Strategic Global Outlook: 2030," a study undertaken by the Russian Academy of Sciences' Institute of World Economy and International Relations (IMEMO) under the leadership of Alexander Dynkin, ties the development of the global economy with the prognosis for international security policy. In the study, a team of Russian academics researched ideology, administration, global economics, social development, and global security policy, as well as the role of global actors such as the United States, the European Union, Asia, Africa and Latin America. A goal of the study was to determine global actors' influence on Russia. By contrast, the authors consider Russia as an actor in its own right only very briefly in the concluding chapter, devoting less than 10 pages to the topic.

Maria Lipman and Nikolay Petrov of Carnegie Moscow Center led the study, "Russia in 2020: Scenarios for the Future." In contrast to Dynkin's project and Medvedev's expert group, the scenarios from the Carnegie Center are critical of Russia's current system and oriented toward trans-Atlantic discourse.

1. Modernization as a domestic political task of the Putin system

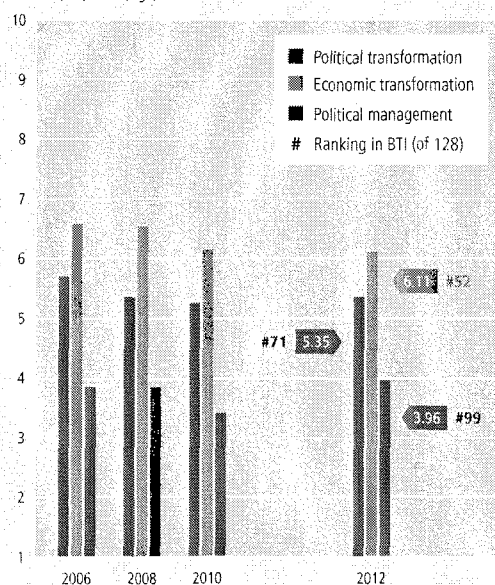
Since the parliamentary elections in December 2011, the modernization debate in Russia has also sharpened politically. First, irregularities in the parliamentary elections and general dissatisfaction with the government led to public protests. In the summer of 2012, Russian citizens protested against limitations on the activities of civil society organizations. In January 2013, residents of Moscow demonstrated against the Russian government's ban on the adoption of Russian children by US citizens. To date, popular resentment has not been mollified by modern governmental measures.

There are recurring rallies against the government in Moscow and St. Petersburg, as well as in Russian regional centres. However, there have not to date been charismatic personali-

Russia in the Bertelsmann Transformation Index

BTI 2006-2012

Scale: 1 (low) to 10 (high)



The Transformation Index (BTI) compares individual states in various categories and thereby evaluates the deliberately politically guided transition to democracy and a market economy.

Source: BTI 2012, bti-project.org

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ties to spearhead the protests. Demonstrators criticize the government, call for free elections, and demand a fight against corruption. There is little in the way of plans; nevertheless, the protests remain a challenge to the legitimacy and the performance of the Putin system.

To date, the system has reacted with restrictive methods. Before the 2012 summer break the Russian parliament (Duma), which has a majority of Putin supporters, rapidly passed a series of laws that take aim at civil society activities. Russian non-governmental organizations that are financed with Western funds are now subject to special inspection measures in their substantive work and financial reporting. In addition, they are required by law to identify themselves as "agents of the West." At the same time, Russian judicial authorities took strong measures against the feminist punk band Pussy Riot and against Alexei Navalny, one of the protests' leaders. In contrast, the Russian administration took little action during catastrophic flooding in July 2012, which claimed 170 lives in the north Caucasus city of Krimsk. In this case, the people themselves had to come to terms with the effects of the natural catastrophe. In domestic politics, the Putin system is attempting to demonstrate an autocratic system of power and to use restrictive methods to counteract society's democratic tendencies.

In terms of Russia's economic growth, current prognoses show slow-downs and stagnation. Growth in Russian GDP for 2013 and 2014 is predicted to reach no higher than 3.7 percent. As long as the Russian economy grows at least at a minimal pace, social services are provided for broad strata of the population, and no personal alternative to Putin is in sight, a wave of protests that sweep the country is not to be expected.

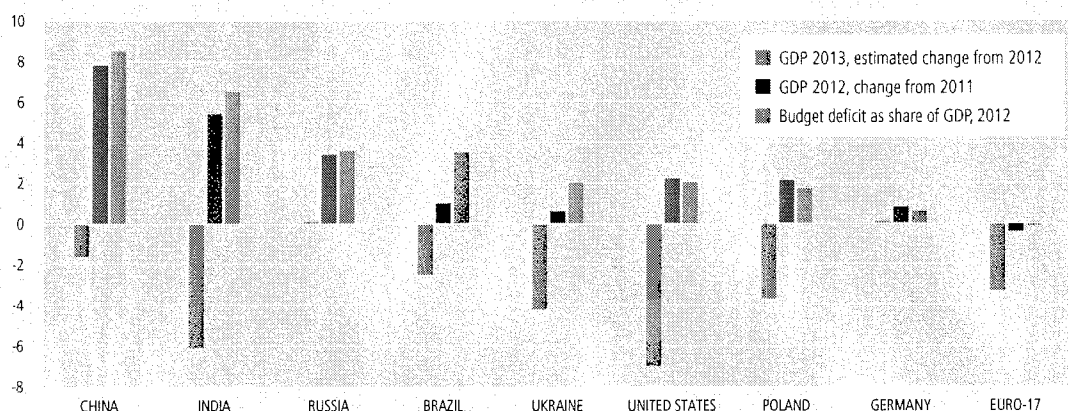
What might happen in the case of an economic and financial crisis is difficult to predict in the present circumstances. At a special session of the Russian government on 31 January 2013, Putin made clear that his administration has the key role in the country's social and economic development over the next five years.

2. Global goals

Over the last two years, Russia has pursued the two following foreign policy priorities: efforts to become a global economic player, and influence over its neighbouring countries. Russia's global efforts are visible through its membership in the G20, the G8, its accession to the WTO, its efforts to join the OECD, and its status as a BRIC state. The common denominator among these forums is economic interest; common values, by contrast, play a subordinate role.

Russia in comparison with other countries

All data in percentages



Source: The Economist, www.economist.com

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Russia is also seeking an equal role as a global partner. In August 2012, following 18 years of negotiations, it was able to ratify membership in the WTO. As a result of the obligations in the trade regulations, Russia's trading partners will see relaxation in trade conditions, although it remains to be seen how the Russian civil service will put the treaty provisions into practice.

Russia's role as a global economic actor is negatively characterized because of the prevalent corruption and the undemocratic political climate. The country is interested in using international cooperation for its technocratic approach to modernization. This method, however, runs up against the limits of Western approaches to modernization, which place democratic values in the foreground.

In its direct neighbourhood, Russia is demonstrating increasing dominance. The most important instrument in this regard is the Eurasian Union, which is supposed to be conceptually similar to the European Union. Member states are the Russian Federation, Belarus and Kazakhstan; potential members include Kyrgyzstan and Tajikistan. In contrast to the European Union's model of integration, the dynamic of integration in this region does not come from the states jointly – it is determined by Russia.

The Kremlin is attempting to create integration with the tools of economic and political dependence. Institutional and personal responsibilities are, to date, difficult to ascertain. Within this framework, at the beginning of 2010 a common customs union and a common economic space were created with Belarus, Kyrgyzstan and Tajikistan under Russia's dominance.

One problematic aspect of these post-Soviet institutions is that they hinder cooperation with the EU. This conflict of interests was the reason that Ukraine has, to date, declined to join the Eurasian integration space. Russia reacted with high prices for natural gas. At present, Ukraine pays \$430 per thousand cubic meters of gas, while Belarus only pays \$166. It remains to be seen what results will come from the direct negotiations between presidents Putin and Yanukovich. Without a transparent set of institutions and without Ukraine

as a member state, the Eurasian Union will remain a paper tiger, without the capabilities for democratic actions.

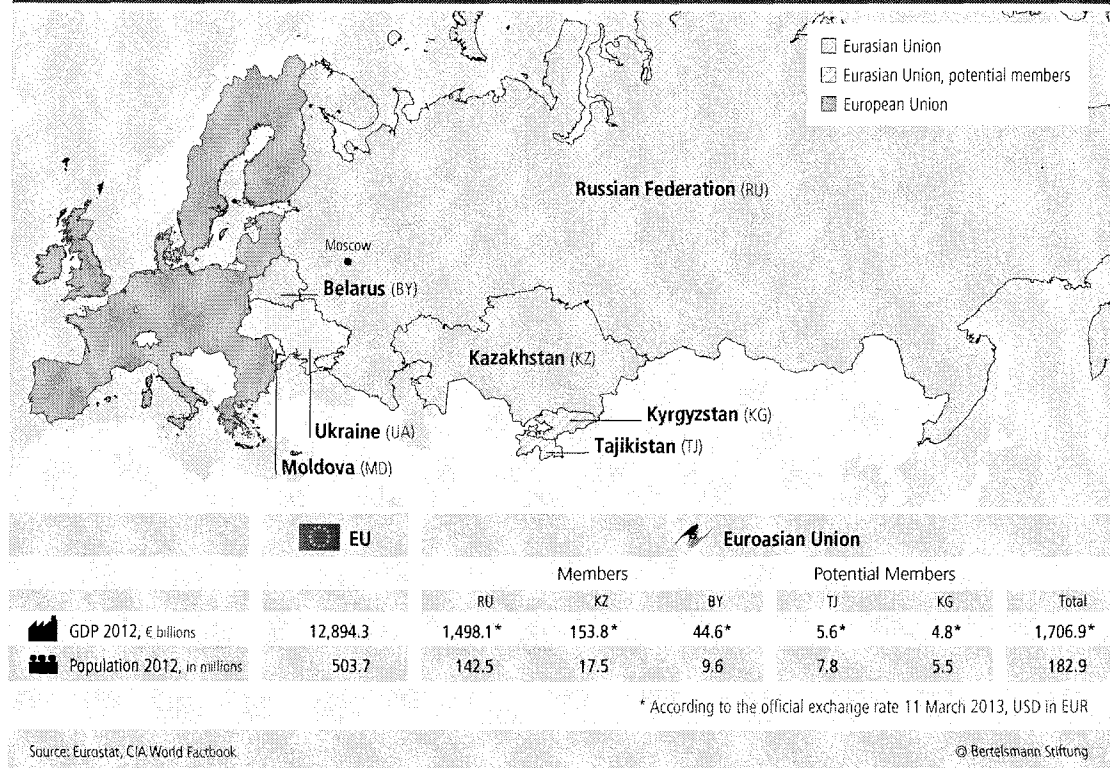
European strategies

To date, the EU has only adapted its policies to new developments in the Putin system to a limited extent. Russia is particularly interested in a partnership for modernization, and the tasks that stem from it, such as implementing WTO accession or introducing visa-free travel. In questions of visa-free travel, thanks to the engagement of Polish Foreign Minister Sikorski and support from the German government, a special regulation was signed for the Kaliningrad region and northern Poland. In March 2013, the German government announced that it would allow visa-free travel for holders of Russian service passports. In the interest of its own elites, the Putin system will welcome this development. Its usefulness for the Russian population will, however, be limited.

The EU-Russia summit in December 2012 reflected the current state, prospects and problems of bilateral relations. Currently the top of the agenda is occupied by the crisis of European integration, which has placed the community of European states under enormous pressure to act. For Russia, the euro crisis is an additional argument for why the EU remains an interesting partner to only a limited extent. Added to this is the Third European Energy Package, which is interpreted in Moscow as being set up against Russia.

For itself and its neighbours, Russia sees the Eurasian Union as an alternative to the EU. To give this Union emphasis vis-à-vis the EU, the Russian government presents itself as speaker for and framer of the Eurasian Union, which leads to incomprehension in the EU. From Brussels' point of view, the Eurasian Union remains an administrative paper tiger. Politically, the member states have criticized Russia's dominance over its neighbours. The EU only recognizes Russia's role in the Eurasian Union under the condition that Russia can only shape the Union according to the regulations of the WTO.

EU and Eurasian Union in comparison



The partnership for modernization continues to have significant meaning for European-Russian relations, in which Russia is pursuing technocratic interests and the EU emphasizes the importance of civil society as an integral part of modernization. In addition, Russian diplomacy only has a limited amount of interest in negotiations with the many-layered structure of European institutions. Instead, the Kremlin prefers to fashion its relations on a peer level with EU member states.

To date, the EU has not succeeded in negotiating a new basic agreement with Russia. Although the PCA from 1997, which remains valid, has lost its attractiveness, neither of the two sides wishes to withdraw, in order not to send any negative signals for cooperation. Compared with current political realities, the agreement does not form the foundation for a comprehensive partnership based on common values and norms. Poland, the Baltic states, and increasingly other EU states as well, are criticizing how the Russian government and its dominance over its neighbouring states breach-

es democratic values; the German parliament's resolution "Strengthen the Rule of Law and Civil Society in Russia Through Cooperation," passed on 6 November 2012, is one example.

Bilateral criticism is driving relations between the EU and Russia into a dead end. Getting out of it will require a broader political discourse, the development of networks, and academic analysis of the situation in Russia, upon which new adjustments in the relations could be made. The results of this discourse could flow into a new agreement, one whose European reach would become apparent as the EU member states examined it as part of the ratification process.

Modernization debate as a key moment

The understanding of and interest in modernization are key moments in Russian-European relations. Russia's modernization and its attrac-

tiveness as a partner for the EU are based on Russian oil and Russian gas. The Putin system has reacted to developments in the European energy market by making institutional changes. For example, BP's joint venture in Russia, BP-TNK, has agreed to sell 50 percent of its shares to the state-owned oil company Rosneft, in an equity swap. Rosneft's daily production of 10.37 million barrels puts it ahead of Arab countries and makes it the world's largest oil producer. Rosneft is administratively weak, but is nevertheless considered a major pillar of the Putin system.

The ability of the Russian state to take action depends on prices in global energy markets. Russia is an important partner in delivering oil and gas to Europe. In addition, opportunities for import and export are not exhausted. To make Russia attractive for small and medium-sized enterprises, to use renewable energy and the human capital of the Russian population, will require a comprehensive approach to modernization. In this regard, Russia's interests and those of the West overlap. Russian society must take an active role in these processes in order to profit from them.

The modernization of Russia and the country's conspicuous shortcomings on the path to being a global shaper of politics and economics remain challenges on Russia's political agenda, as well as for its European partners. This results from the country's geopolitical and economic importance. A key moment on the way to these goals would be pluralistic discourse about modernization within the country, combined with Western expertise. In addition, there is a need for international experience, which is available in international organizations such as the World Bank and the IMF. However, Russia is much too independent and energy-rich to let itself be influenced by demands from the outside.

Western actors would be well advised to develop approaches together with Russian partners. The key to success is in the discourse and in the cooperation between Europe and Russia. Strategically, the course of action cannot always proceed in a peer-to-peer fashion, but it is a matter of joining diverging interests into a common roadmap. Russia must develop from a rent-

seeking state into one with a modern economy and a strong middle class. To do that, the Putin system must enlarge the space for societal participation and strengthen its economic success sustainably to enable the country to undertake sustainable modernization. This process is not a matter of a change of regime that is supported from the outside, but rather of breaking down the lags in modernization.

The Russian government views the EU as having limited usefulness as a partner in modernization, because the EU has its hands full with the euro crisis, and because the decision-making processes among 27 member states are at a standstill. In the search for partners in modernization, Russia is turning instead to the institutions of globalization. Since August 2012, Russia has been a member in the WTO; the government is signalling its interest in full membership in the OECD; and Russia has already acceded to the OECD anti-corruption convention. Full membership would oblige Russia to live up to important basic principles of a modern state with responsibility to its population: free trade; an independent judiciary; science and technology; an effective system of education; social policy; competitive governmental leadership; as well as obligations in governmental development aid according to standards set by the United Nations.

The OECD standards can be used as guidelines for Russia's modernization. The Russian government uses membership in the G8 and G20 to help shape the global agenda. Holding the presidency of the various groupings is particularly useful in this regard. In 2013, Russia holds the presidency of the G20; of the G8 in 2014. In 2015, Germany will take over presidency of the G8 from Russia. From this succession and from the various groupings arise opportunities to shape the global agenda for both Brussels and the Kremlin.

On the other hand, Russia is challenged to prove the viability of its approach to modernization. The limits of the technocratic approach can be seen in the public protests as well as in the extractive nature of the economy. The EU is well advised to make use of Russia's interests in the global institutions; they open opportunities

for new forms of dialogue. From that can arise points of contact to reshape the understanding of modernization, and to reduce the current gap between the common interests and diverging values of Russia and the EU. The shortfall in common value is increasingly turning into a lack of knowledge about each other – including actors, processes and policy areas.

One important task for Europe is the establishment of think tanks in policy-oriented analysis of Russia. These centres, with participation from Russia and the other post-Soviet states, would work on a realignment of relations: From a new institutional approach, from analyses, and from newly constructed networks a road map to a new basic agreement between Russia and Europe that is attractive and gives directions to both sides can be developed.

Successful realignment of the EU's relations with Russia is a contemporary question of Europe's ability to act. As a global actor, the European Union must speak with one voice if it is to be capable of taking action in questions of energy and security that involve Russia. The EU will only be an attractive partner for a modern Russia if the Union is capable of overcoming its finance crisis. To reach that goal, the EU must develop and implement new forms of institutional cooperation, such as tiered integration through partial membership in a free-trade zone.

Viewed historically, the dynamic between deepening and broadening the European Union has been a successful recipe for prosperity and security on the European continent. The trailblazers for developing innovative European-Russia relations should be the EU member states that are tied to Russia through common interests and values: Germany, Finland and Poland. ■

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From: JANZEN Jan (CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 19 April 2013 11:21
To: CAB REDING ARCHIVES BIS
Subject: FW: New Study Released: Intergenerational Justice in Aging Societies - A Cross-national Comparison of 29 OECD countries

From: SGI
Sent: Friday, April 19, 2013 11:11 AM
To: REDING Viviane (CAB-REDING)
Subject: New Study Released: Intergenerational Justice in Aging Societies - A Cross-national Comparison of 29 OECD countries

Ladies and Gentlemen, dear colleagues and friends,

How well do OECD member states live up to the principles of intergenerational justice? How clearly can such principles be measured? And how can cross-national comparisons help foster improved strategizing in policymaking?

A new study conducted by the Bertelsmann Stiftung and authored by Dr. Pieter Vanhuysse European Centre for Social Welfare Policy and Research provides answers to these questions. The indicators comprising the new Intergenerational Justice Index (IJI) (IJI) represent important environmental, economic-fiscal and social aspects of this highly complex subject.

The IJI study was conducted within the context of the Bertelsmann Stiftung's Sustainable Governance Indicators (SGI) project, which has been examining since 2009 OECD member states' performance in sustainable governance. Focusing on intergenerational justice exclusively, the IJI addresses an important topic within the broader discussion of sustainability. It does so by assessing policy outcomes and the legacies – that is, the unfair burdens – they entail for future generations. At the same time, it also examines the extent to which current socioeconomic policies in OECD countries reflect a bias toward today's older or younger generations. Given the fact that demographic developments in most OECD countries involve an increasingly larger and thus more powerful cohort of older voters, the findings and insights of this study are also highly relevant as regards the question of democracy itself.

The indicators used in the index are: debt per child, ecological footprint, child poverty in relation to elderly poverty and a new elderly-bias indicator of social spending (EBISS).

Among the 29 OECD countries included in the study, Estonia ranks highest overall in terms of intergenerational justice. The United States, Japan, Italy and Greece rank at the bottom of the index.

Full report available [here](#)

With best regards,

Daniel Schraad-Tischler

Dr. Daniel Schraad-Tischler
 Senior Project Manager
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spotlight europe

2013/02 — February 2013

Syria: From Rebellion to All-Out War

Christian-P. Hanelt

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Kristin Helberg

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The situation in Syria at the beginning of 2013 could hardly be worse. Dead, wounded, refugees, a humanitarian disaster. President Assad is destroying his country and waging war against his own people. Russia and Iran back the regime. The West wants regime change without intervening militarily. The political opposition is now more united but overwhelmed with the situation at hand. The armed resistance, partially dominated by Jihadists, is difficult to size up.

spotlight europe # 2013/02

The rebels are backed by Saudi Arabia, Qatar, and Turkey. The killing continues. The population of Syria is being brutalized. It is becoming impoverished. It is falling apart. And it desperately needs help. A negotiated settlement does not seem to be in the cards; the opposition continues to insist on a political transition without Assad, and the latter is not prepared to relinquish power. This means that there is an urgent need for policy recommendations that can suggest a way of resolving this conflict, which has now acquired an international dimension.

Syria: the Country, its Regime, and its Society

"Suriyya al-Assad." Assad's Syria. This terse slogan was adopted by the Syrian regime and

leaves no one in doubt about who actually owns the country. It belongs to the Assad clan, and not to its 23 million inhabitants. The Assads have ruled Syria since a military coup in 1970, and their power has been based on three pillars: the armed forces, the intelligence services, and the Ba'ath party, which is based on Arab nationalism, and originally had a number of socialist elements. The regime makes adroit use of the fragile religious, denominational and ethnic composition of the population in order to retain its hold on power. In contrast to the fairly homogeneous societies in North Africa, in Syria there are 18 different religious and ethnic groups. 70% are Sunnites, 12% are Alawis, 12% are Christians, and 2% are Druse. In ethnic terms the Arabs are in the majority, followed by the second largest ethnic group, the Kurds. There are also Armenian, Circassian, Turkmen,

Aramaic, Assyrian and Palestinian minorities. Most of the Alawis settle on the coast, whereas the Druse are found in the south, and the Kurds in the north-east along the border with Turkey and Iraq. But in general, the ethnic and religious groups live in close proximity to each other. The fact that the Sunnites are the majority, whereas the people in key positions of power tend to be Alawis, is a sensitive matter. It means that conflicts can easily escalate in ethnic and sectarian terms. The Assads are in fact Alawis, and over the years the regime has robbed the latter of their denominational identity and turned them into accomplices of a dictatorship. The support of the Sunni business elite in Damascus and Aleppo was economically secured by means of corruption and clientelism. On the economic front the regime has secured the support of the Sunni business elite in Damascus and Aleppo by means of corruption and clientelism. The same is true of Christian entrepreneurs.

Top political positions are filled with representatives of all of Syria's sects. Thus none of the religious communities feels excluded, even though the country is actually being governed by a small group of powerful people close to the president. This hallowed circle is open above all to members of the Assad family and loyal supporters of long standing. Anyone who dares to voice public criticism is arrested, imprisoned and maltreated, no matter which ethnic or religious group the person comes from. Syria's dissidents include prominent Alawis, Christians, Druse, and Kurds. Thus it cannot be said that the Assad regime protects the minorities. In fact, it uses them for its own purposes. And it did this so adroitly that in the ongoing conflict the Alawis fear that the Sunnis will wreak revenge upon them; the Christians are terrified of the Islamists, whereas the Syrian Kurds, like their fellow countrymen in Iraq, have now set their sights on autonomy.

The Revolution: From Peaceful Uprising to Open War

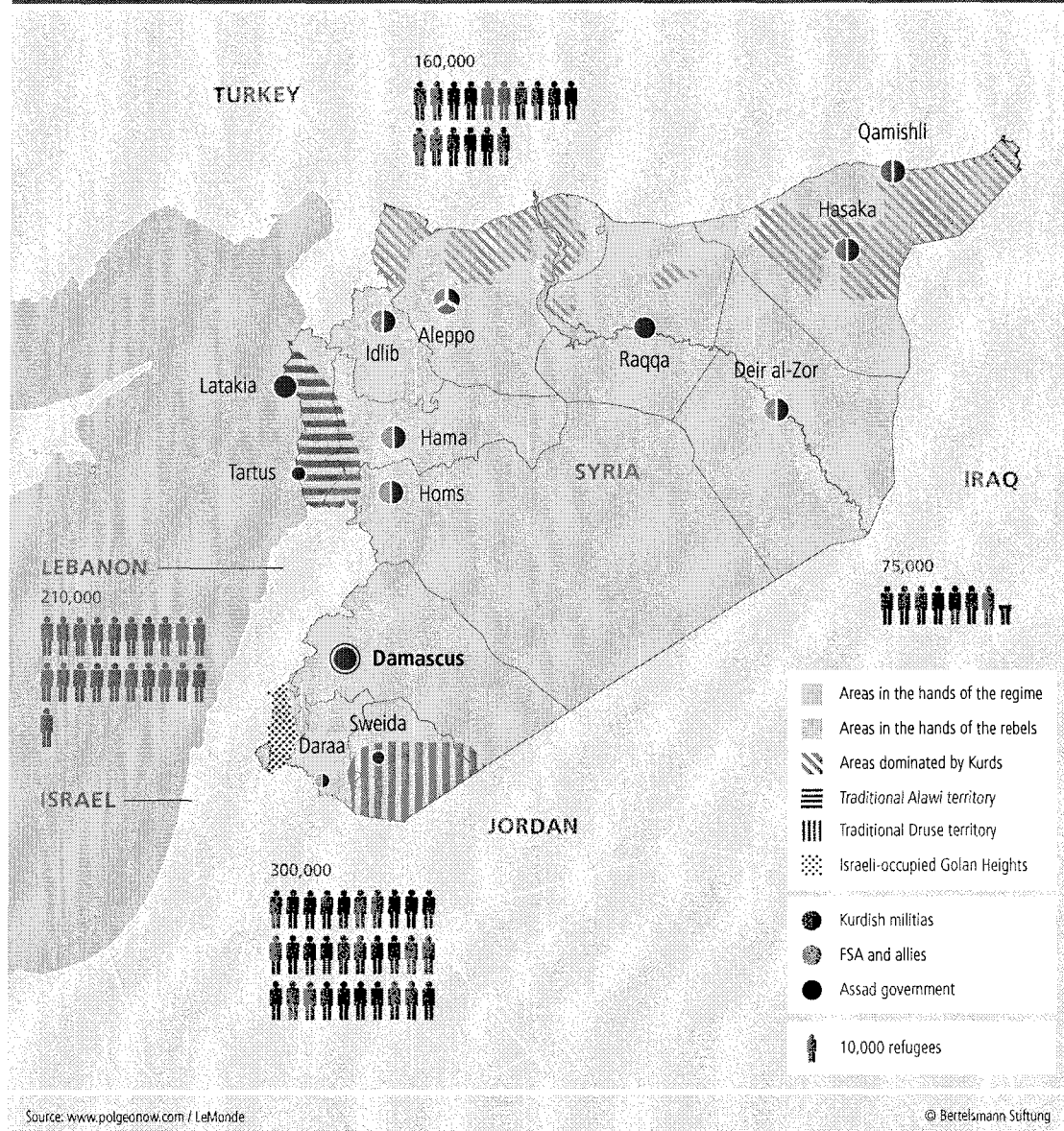
In contrast to the uprisings in Egypt, Libya, and Yemen, the Syrian revolution, which began in March 2011, first broke out in provincial areas.

The reason for this was the fact that the rural population had been neglected in the wake of an economic liberalization that worked in favour of Damascus and Aleppo, which were trade-based cities. In the countryside the memory of decades of oppression and the arbitrary activities of the intelligence services therefore mingled with a general feeling of hopelessness, a deeply felt sense of social injustice, and hatred of the corrupt elites. The demonstrators called on President Assad to introduce meaningful socio-economic reforms and a more open political system.

However, instead of spearheading this popular movement, Assad decided from the very beginning to crush the protests with the help of the armed forces. This prompted people throughout the country to express their solidarity with the victims, and it helped the revolution to spread. The strategy of fighting resistance wherever it reared its head and doing everything possible to prevent the protests from reaching the capital led to a situation in which activists started to form committees and took the work of local government into their own hands. In this way a grassroots movement emerged, and it turned Syria into a patchwork of protest hotspots. The regime was fighting back with heavy weapons and the shabiha (or "ghost") militias. These mostly Alawi mercenaries are extremely brutal, and they regularly persecute, maim, and kill civilians. There has been a growing need for protection, and this has made people willing to countenance armed resistance.

In June 2011 deserters from the regular armed forces who refused to shoot at their own people founded the Free Syrian Army (FSA). Ever more volunteers have joined them, and they include agricultural labourers, craftsmen, teachers, unemployed men, and students. However their requests for foreign assistance went virtually unheeded. The United Nations Security Council was in a state of paralysis. Meanwhile, Western states argued that the political opposition was far too fragmented and that armed resistance was far too confused to warrant their support. For this reason the FSA started to arm itself with the help of Saudi Arabia, Qatar, and Turkey. Bombing runs on residential

The Fragile Coexistence of Religions, Sects and Ethnic Groups



areas, horrendous massacres among the civilian population, and the general atmosphere of distress and despair were the breeding ground for radical ideas. These acquired greater currency in Syria in the course of 2012. The unequal struggle increasingly attracted the attention of internationally active jihadists. These experienced, well-organized and well-networked extremists came to the assistance of the Syrians wherever they were fighting a losing battle for freedom, democracy, and the downfall of the regime. Some of them come from other countries, but they operate primar-

ily with the help of Syrian fighters. Although they are still not very numerous, they have notched up a number of impressive military victories over the regime forces. The most well-known groups are "al-Nusra Front", which is said to have close links with al-Qaeda in Iraq (and has already been put on the US list of terrorists), and "Ahrar al-Sham", which draws its inspiration from the salafists. The two groups are not integrated into FSA command structures, though they take part in joint military operations. The FSA is confronted with a dilemma. It badly needs the professionalism of

the jihadists in its struggle against the regime, though at the same time it cannot go so far as to adopt their ideology. This is a fine line to tread, for while radical Islamic views may seem repugnant to the majority of Syrians, they are quite useful when it comes to persuading men to fight against a powerful and daunting enemy.

The steady increase in the number of deserters and defectors – among them high-ranking members of the armed forces, diplomats and politicians – means that a dwindling group of people at the head of the regime are fighting for survival. They include President Bashar al-Assad, who bears political responsibility for what is happening; his younger brother Maher as the leading figure in the military command; his cousin Rami Makhlouf, who wields considerable economic power; and the latter's brother Hafiz Makhlouf, who orchestrates the intelligence services.

Even though a political solution to the conflict, an end to the violence, and a new beginning in political terms is certainly desirable, it seems unlikely to materialize in the immediate future.

All opposition groups – even moderate critics of the regime in Damascus – reject a future with Bashar al-Assad in power. They are willing though to negotiate with representatives of the regime on an orderly transition of power. Founded in November 2012, the National Coalition of the Syrian Revolution and Opposition Forces urge direct talks with Syria's vice-president. Instead of making Assad's resignation a precondition for negotiations, this is now the aim of a political solution. However since Assad himself rules out a transfer of power there is almost no basis for talks. Both parties to the conflict – the regime and the rebels – are still confident that they can win the war and are therefore determined to fight to the end.

The National Coalition is trying to build alternative governance structures in order to be prepared for a change of government brought about by military action. Up to now it is the broadest opposition alliance; and because of its leadership it enjoys some credibility in the country. However, it lacks political experience and organizational skills.

Other Countries: Regional and International Interests

In strategic terms, virtually all of the lines of conflict in the Middle East intersect somewhere in Syria. As the map on p.5 demonstrates, Damascus is at the centre of a complex regional line-up of power and interests. On the international level this has even led to what seems like a resumption of the Cold War. In the UN Security Council, Russia and China have consistently been on the side of the Assad regime, whereas Western members have supported the opposition.

Russia wants to prevent a repetition of what happened in Libya, where a UN Security Council resolution that was motivated by the internationally disputed legal principal of "responsibility to protect" led to a regime change brought about by foreign military intervention. It fears that Syria could become yet another example of this scenario.

On the other hand, the US and Europe believe that peace and democracy will come to Syria only if Assad is removed from power. Apart from this, a regime change in Damascus could force Iran to pull out of the Levant and weaken its resolve with regard to the nuclear conflict. However, the West is unwilling to take military action without a UN mandate. Many people believe, and so does Israel, that Islamist groups will be strengthened and, if worst came to worst, Syria will turn into a safe haven for international terrorists. In this connection, Assad's chemical weapons are also a cause for concern.

On a regional level Iran and Saudi Arabia (which has the backing of Qatar and Turkey) are competing for influence. Tehran continues to assist the Assad regime in military, logistic and financial terms, whereas Doha, Riyadh, and Ankara primarily support the various Sunnite rebel groups. This stokes Shiite-Sunni tensions in Lebanon, Syria, Iraq, and Bahrain. Furthermore, the Kurdish question is once more in the regional limelight – something that is a source of anxiety in Ankara. On top of everything else, Syria's neighbours are having to cope with hundreds of thousands of Syrian refugees, and are being destabilized in

the process. This is especially true of Lebanon and Jordan. The regional initiative of Cairo's new president Mohammed Mursi, namely to negotiate a solution for Syria through talks between Egypt, Iran, Saudi Arabia and Turkey, is on ice. The core problem in all political approaches is the controversial role of Assad in a transition. The meetings in early February 2013 in Munich between Russia, Iran, and the National Coalition brought some movement into the muddled situation and could give new life to the efforts of the Special Envoy of the UN and the Arab League, Lakhdar Brahimi.

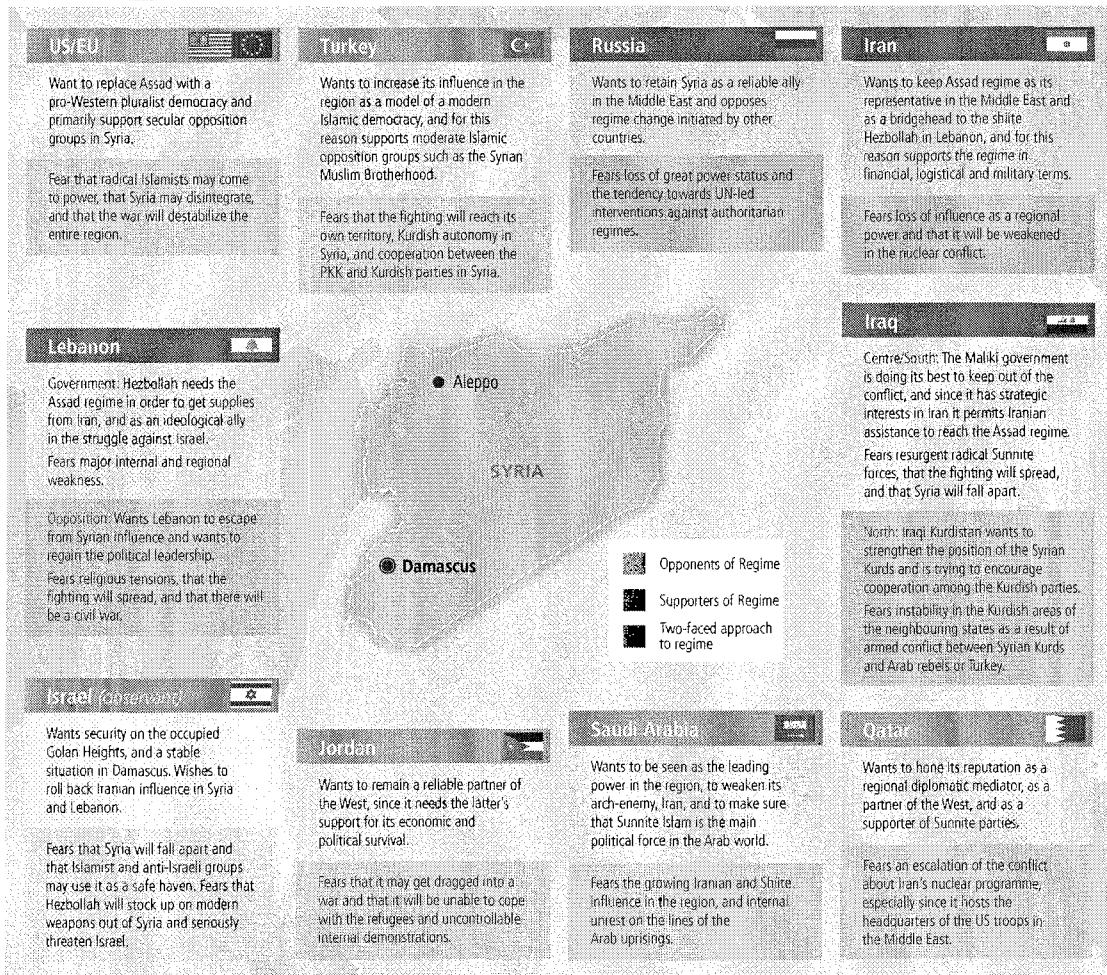
The reluctance of the West and the Arab League as well as the blockade of the UN let the Syrian regime so far free hand to suppress his

opponents. The brutal force used against the Syrian people by the Assad regime has made many Syrian's feel defenseless and caused them to lose confidence in the international community's ability to protect them.

Impending Threats and Policy Recommendations

Whether or not the current regime is removed from power, Syria is going to be faced with four significant threats: 1) A humanitarian catastrophe and the ongoing destruction of the country; 2) A society that has become brutal and militarized, which may lead to acts of revenge and

For and Against Assad in Global Terms



massacres; 3) A disunited or badly organized opposition, the weak leadership of which rules out an orderly political transition and makes it much easier for the state to disintegrate and collapse; 4) The growing influence of radical Islamic groups. The nature of these threats shows that the people of Syria need the support of other countries. Such assistance should be made available on a multilateral basis, coordinated by the National Coalition, and channelled as quickly as possible to where it is needed with the help of a legitimate body inside Syria.

1. Humanitarian assistance, Reconstruction, Prospects for the Future

There is clearly a need for far more practical assistance for the three million or so refugees (2.3 million displaced in Syria, and 700,000 in neighbouring countries). Creative and unbureaucratic procedures will have to be devised in order to reach the people inside Syria who are suffering and in need of help. Assistance should be sent primarily to the liberated parts of the country since many Syrians have fled to these areas; government services have ceased to function, and opposition groups find it difficult to provide the services that people need. Apart from this, these regions could demonstrate to the rest of the country that Assad will be followed by a stable and much better political system – and not by chaos.

The infrastructure that the regime has destroyed as part of its scorched-earth strategy, especially hospitals and schools, must be reconstructed as quickly as possible. A major challenge will be the provision of medical, social and welfare services for the war wounded, trauma patients, widows and orphans.

As long as there are no internationally recognized government structures in the areas controlled by the rebels that allow bilateral projects, donor countries should work together with NGOs that are already active in Syria and able to assess the situation on the ground (Doctors Without Borders, Grünhelme e.V., Syrian aid organizations in exile, etc.).

Furthermore, the new civilian self-rule structures should receive recognition and encouragement. Local councils have been set up in

many places; they enable activists, deserters, and volunteer combatants to cooperate. They are well aware of what the population needs, and in the course of the conflict they have developed a remarkable ability to cope with logistical problems. A functioning public sector, noticeably improved living conditions, and the prospect of employment opportunities in the postwar era will make life difficult for the proponents of radical Islamic ideas. And, they will make a decisive contribution to the pacification of the country.

The office of the working group on economic recovery and development in Berlin set up by the "Friends of Syria" with the support of Germany and the United Arab Emirates should pursue similar goals. This multilateral project ought to be upgraded in political terms and workforce.

2. An End to the Fighting, a Central Military Command, and No UN Troops

The FSA should set up central command structures as quickly as possible with the help of the National Coalition, so that when the regime is finally toppled they can form the nucleus of a new military leadership and a new defence ministry. The Higher Military Council, an alliance of various brigades that are prepared to work together with the National Coalition, will be able to assert its authority over the jihadist groups and attract the support of other rebel units only if it receives more money and better weapons. The ultimate goal must be to gradually establish political control over the armed resistance groups so that the end of the Assad regime will also signify the end of the fighting.

On the other hand, the deployment of an international security assistance force after the regime has been overthrown will be unpopular. The international community has watched the violence against civilians for two years and has left the Syrians to topple the dictatorship on their own. It is thus unacceptable, from a Syrian point of view, to then send UN Blue Helmets to help with "stabilization" and "the protection of minorities." The right course of action would be to give Syria's new military leadership the support it needs in order to

restore the state's monopoly on violence, to disarm society, to stabilize the country, and to provide security for all of its inhabitants. The EU could offer to help with the restructuring and realignment of the police force by providing appropriate training courses.

3. Transitional Justice, Reconciliation, and Messages to the Minorities

In order to pave the way for social reconciliation and the peaceful coexistence of all of Syria's religious groups, there is a need on the one hand for the speedy conviction and punishment of those primarily responsible for the violence perpetrated by the state, and on the other hand for an amnesty for the majority of Assad supporters. In the case of members of the security forces, it will be necessary to distinguish between the ringleaders and those who were merely fellow travellers. The earlier the opposition publicizes plans for a transitional judiciary, the better. A legal framework must reassure the minorities in general and the Alawis in particular that the purpose of the battle against the Assad regime is not to annihilate the Alawis or anyone else who happens to have different beliefs, and that they will have a place in the Syria of the future.

At this point in time such a plan could help to harmonize the judiciary in the liberated areas, convince the silent majority in Syria that the opposition is serious about setting up rule-of-law structures, and encourage members of the regime to defect.

4. Provisional Government, Retention of State Structures, and Reform of the Institutions

The National Coalition should begin with preparations for a provisional government. This is the only way in which it can gradually take over the administration in the liberated areas, establish confidence in the opposition's institutions, become a credible partner for donor countries, and thus provide an answer to the all-important question of what will come after Assad has been removed from power. Since a functioning bureaucracy is of crucial importance during the transitional phase, steps must be taken to

prevent state structures from disintegrating. Millions of Syrians are on government payrolls, and are dependent on public services. Only an opposition that has done its homework will be able to ensure that if and when there is a power vacuum the institutions will not dissolve into thin air, and that they will continue to operate and incorporate reforms that are socially acceptable. In this context, it is important to distinguish between the government and the ruling clique.

Such a provisional government could also serve as a stepping stone to a transitional government of national unity. This should consist of credible representatives of the revolution and of the opposition, individuals capable of promoting social integration, and leading representatives of the regime who were clearly not implicated in crimes or acts of violence. People should not be chosen because they are members of a certain religious group or sect, but on account of their personal integrity and their involvement in civil society. The establishment of a proportional system based on religion and denomination like the one existing in Lebanon should be avoided in Syria.

Time is of the essence. The recommendations described above should be implemented immediately and at the same time. As the conflict drags on, the likelihood of an orderly transition and a pacification of the country looks increasingly remote. And there is a growing risk that Syria will become mired in an ongoing war that will destabilize the entire region. The Israeli air force is already launching air strikes in order to prevent that Hezbollah is supplied with weapons out of Syrian arsenals.

In order to speed up the change in the political leadership, it will be necessary to put more military and diplomatic pressure on Assad's immediate entourage, to strengthen the National Coalition, and to make it clear to international supporters in general and to Russia in particular that a transitional solution without Assad, which is led by the Syrians without outside interference, is in everybody's interest. This basic agreement should be hammered out quickly in the course of face-to-face negotiations between Russia and the US. ■

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From: (CAB-REDING) on behalf of REDING Viviane (CAB-REDING)
Sent: 18 June 2013 12:09
To: CAB REDING ARCHIVES BIS
Subject: FW: GED - Global Economic Dynamics
Attachments: GED.JPG

From: Spotlight Europe ST-EZ [<mailto:spotlight.europe@bertelsmann-stiftung.de>]
Sent: Tuesday, June 18, 2013 12:04 PM
To: REDING Viviane (CAB-REDING)
Subject: GED - Global Economic Dynamics

Dear Mrs Reding,

US-European relations are to take a decisif next step with President Obama visiting Europe and negotiations for the "Transatlantic Trade and Investment Partnership" (TTIP) about to open.

Our co-worker from the economics departement will follow the negotiations closely and therefore launched GED (Global Economic Dynamics). Please check out their website www.ged-shorts.org and if you wish to hear more about GED in the future, consider getting in touch with Ulrich Schoof at ulrich.schoof@bertelsmann-stiftung.de

Wishing you an interesting read.

Yours sincerly,
 Isabell Hoffmann

Isabell Hoffmann

Project Manager
 Program Europe's Future

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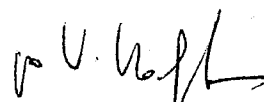
Brussels, 02 May 2013
MS/DTZ/rb Ares (2013) link 722130

Dear Dr. Schraad-Tischler,

On behalf of Vice-President Viviane Reding, I would like to thank you for your email dated 19 April 2013 and for the new study release on the Intergenerational Justice in Aging Societies - A Cross-national Comparison of 29 OECD countries.

The Vice-President read the report with interest.

Yours sincerely,


Martin SELMAYR

Dr Daniel Schraad-Tischler
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**EUROPEAN COMMISSION**

Cabinet of Vice-President Viviane Reding,
Commissioner for Justice, Fundamental Rights and Citizenship

Head of Cabinet

Brussels, 2 July 2013
MS/RS/fin ares(2013)2262243

Dear Ms Hoffmann

Thank you very much for your e-Mail of 18 June 2013 to Vice-President Viviane Reding sending Global Economic Dynamics website concerning Transatlantic Trade and Investment Partnership (TTIP).

Yours sincerely

Martin SELMAYR

Ms Isabell HOFFMANN
Project Manager
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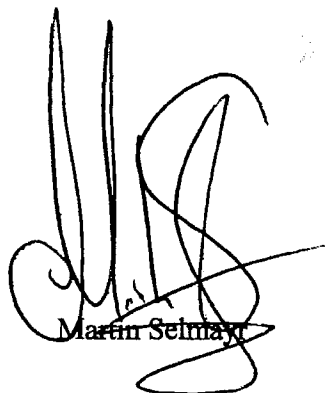
EUROPEAN COMMISSION
Cabinet of Vice-President Viviane Reding,
Commissioner for Justice, Fundamental Rights and Citizenship
Head of Cabinet

Brussels, 12 December 2013
MS/CM/jm Ares Lien: A (2013)3655464

Dear Mr Esche and Mr García Schmidt,

On behalf of Vice-President Viviane Reding, thank you for your letter of 29 November 2013 and for sending her a copy of the study entitled "Winning Strategies for a Sustainable Future".

Yours sincerely,



Martin Selmayr

Mr Andreas Esche
Director
Mr Armando García Schmidt
Senior Project Manager
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