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Letter from the editor

As Czech, German, and Irish opposition stalls the ratification of the Lisbon treaty (see page 26 and the front cover), this issue remains determined to cover the key European issues. Carl Thomson updates us on the Ukrainian situation (page 3). Asher Pirt looks into the future shape of Transdniestra (page 20). Meanwhile, Bill Cash MP and Manuel Monteiro sharpen our political wits with their concerns over sovereignty (pages 6 and 11). To provide a reflective background to those issues, our regular writer and journal loyalist, Francis Warren, asks what all this means for British democracy (page 15). Most notably, Warren gives expression to the arguments written about in this journal by Vaclav Klaus and the late John Biffen on the meaning of sovereignty and the threats posed by a European Constitution.

On financial services, the Head of Research at the Foundation, Margarida Vasconcelos, has some very interesting research on financial regulation in relation to the EU: on page 8, Vasconcelos argues that the EU's attempt to amend damaging financial regulation on the quiet and in the middle of the financial crisis was a step too late; and on page 19 and page 34, there are examples of European legislation which have potentially undermined Britain's economic competitiveness.

As I have mentioned, I am glad to have, within this issue, a contribution from the President of the Portuguese 'New Democracy Party' and adviser to the European Foundation, Manuel Monteiro, who argues that under a sovereign state, the nation decides what to share and what to grant, and without sovereignty the nation loses its very individuality and identity. It is from this reflection that he continues to recognise the profound difference between a Europe of free states and a Europe that walks towards a single state.

James McConalogue
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Editor

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Ukraine should not be allowed to join NATO any time soon



Carl Thomson argues that Ukraine's potential NATO membership should not simply be fast-tracked to provide a fillip to an upopular President. If there is one lesson we can learn from this summer's events in Georgia, it must be the sheer irrationality of giving hot-headed and often anti-democratic nationalists in far away countries the ability to drag us into their own quarrels with Moscow.

Ukraine is in the headlines once again as the country becomes increasingly paralysed by its fifth political crisis in five years. The world's attention has been drawn to the ethnically Russian enclave of Crimea, the home of Russia's Black Sea Fleet which the Ukrainian Government says must vacate the deep water port of Sevastopol after its lease expires in 2017. The recent repulsion of Georgia's attack on South Ossetia has led to speculation that tensions in Crimea may escalate into another conflict between Russia and her neighbours. The population of Crimea feels little loyalty to Kiev, and the Ukrainian government has encouraged discriminatory practices and alienated ethnic Russians by trying to impose the mandatory use of Ukrainian in an area which has historically always been Russian speaking. The peninsula has already been the scene of anti-NATO protests, and a number of Russian politicians have been declared persona non grata after calling for the region to be reincorporated back into Russia.



Meanwhile, the Orange coalition that swept to power in 2004 has fallen apart for the second time after Prime Minister Yulia Timoshenko joined with the opposition Party of the Regions to approve legislation that substantially curbed the powers of President Viktor Yushchenko. Yushchenko, lambasting these measures as a "constitutional coup", signed a decree on the 9 October dissolving the Verkhovna Rada and setting the 7 December as the date for a snap parliamentary election. This will be Ukraine's third election in the last three years and is a high-risk strategy for Yushchenko. The last two parliamentary elections have seen his Our Ukraine Party come a poor third, well behind Viktor Yanukovich's "pro-Russian" Party of the Regions and the Timoshenko Bloc. Yushchenko's credit with the Ukrainian people and his international allies is also drying up. His popularity ratings have fallen as low as 10 per cent over the last few weeks. He was treated cordially rather than warmly by President Bush during a recent visit to Washington, where there is a general feeling of "Yushchenko fatigue" and a realisation that the embattled President has not been able to deliver on the huge expectations generated by his triumph in the Orange Revolution.

David Miliband was in Kiev last month to stand shoulder to shoulder with Yushchenko and assemble a "broad coalition" against what he deemed to be "Russian aggression" in the South Caucasus. The British Government has also said it will support any bid by Georgia and Ukraine for membership of NATO. This is both foolish and short-sighted. Despite the highly charged rhetoric of the last few months, neither country should be allowed to join NATO any time soon. For a start, it is doubtful Ukraine and Georgia even meet the criteria for membership, criteria which includes a market economy, military forces accountable to elected civilian leaders, and a stable democracy. Georgia under Mikhail Saakashvili has taken a number of worrying steps towards authoritarianism and can hardly be called a perfect democracy. It was just five years ago that an election result was overturned by street protests in Tbilisi, and four years ago in Kiev. Neither the Georgian nor the Ukrainian armies meet the standard of military preparedness demanded of NATO Member States. Both countries have Russian forces stationed on their territory, and the Georgian army has been decimated by the recent hostilities in South Ossetia. Ukraine's armed forces are in serious need of modernisation and in the event of any future conflict with Russia the loyalty of many of its soldiers would be questionable. Moreover, although Timoshenko is currently the front-runner for the Ukrainian Presidency in 2010, Yushchenko's old rival in the Orange Revolution must also be considered a strong contender. Viktor Yanukovich

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has already said that Ukraine should recognise the independence of South Ossetia and Abkhazia. The prospect of this garrulous, former Soviet apparatchik and petty criminal as the commander-in-chief of a NATO army is unlikely to fill Washington or London with much enthusiasm.

The prospect of NATO membership is also highly contentious amongst many ordinary Ukrainians. NATO membership is a key foreign policy goal of Yushchenko, and he does have support for this in western Ukraine, where the population is more nationalist in outlook and feels itself closer to Europe than in the east of the country. However, according to a recent poll, just 24 per cent of Ukraine's population favour joining NATO, whereas 50 per cent of Ukrainians oppose membership altogether, 43 per cent believe the country would be better off forming some sort of union with Russia and Belarus, and 27 per cent wish to see Ukraine pursue equal relations with both Russia and the EU.

The last two parliamentary elections in Ukraine were characterised by dirty tricks and character assassination. This one already looks like it will be no different. Yushchenko has accused Timoshenko of "high treason" and of allying herself with the Kremlin, a tactic he has learned from Saakashvili, whose domestic opponents are regularly smeared as traitors and denounced as Russian spies. The most startling development was the announcement earlier this summer that Timoshenko had been summoned for questioning as a witness by prosecutors investigating the poisoning of Yushchenko during the 2004 Presidential election. The general consensus has always been that the dioxin attack which left Yushchenko's face disfigured was a clumsy attempt by the Russian security services to remove an insurmountable obstacle to their favoured candidate succeeding Leonid Kuchma as President of Ukraine. As a means of winning sympathy and public support, however, it appears the dioxin poisoning has now become the goose that laid the golden eggs for Yushchenko. Timoshenko's statement outside the entrance of the prosecutor's office on the 27th August is worth quoting here, simply because it sums up the extent to which the former hero of the Orange Revolution has cynically exploited the incident in a bid to retain his hold on power:

"A person, whom the President takes as his rival at elections, is simultaneously accused of high treason, espionage for the Kremlin and is now subpoenaed by Viktor Andreevich Yushchenko to the prosecutor's office to testify about his poisoning. So, there are no comments. Everything is clear".

The idea that war could break out between Russia and Ukraine, or that eastern Ukraine could split away from western Ukraine, has always been slightly exaggerated. Crimea is much richer, more developed and better connected to Europe than the Caucasus. It is unlikely to become another South Ossetia, although it could be the scene of similar anti-government riots to those seen in Tallinn early last year, when an infuriated Russian population erupted in anger over the removal of a monument honouring the memory of the Soviet war dead. Mikhail Saakashvili has public support for his attempts to move Georgia closer to the West, and the Georgian people have expressed their desire for NATO membership in a referendum. In Ukraine, however, public support favours the retention of close ties to Moscow and there are plenty of local and national politicians willing to argue this case. It is true that Vladimir Putin has threatened to target Ukraine with nuclear weapons should the country join NATO, but this is the same impotent bluster that Boris Yeltsin used to engage in. It actually illustrates the fact that Russia is dealing from a position of weakness, rather than strength, in this argument.

Some have argued that we have "provoked" Russia by expanding NATO up to her borders. There is certainly more we could have done over the last twenty years to bind Russia closer to the West, but Moscow cannot have a veto over her neighbours' foreign policy. If it were to become the genuine wish of the Ukrainian people to be a part of NATO, and if a broad national consensus emerged in favour of membership, then the country should be allowed to join, subject to meeting the necessary entry requirements. At the same time, NATO membership should not be fast-tracked to provide a fillip to an erratic and unpopular President, no matter how much of an ally to the West he professes himself to be. Nor should we encourage Yushchenko to think that NATO membership is a blank cheque of support from the West in any future dispute with Russia. We were foolish enough to let Saakashvili think that we would come to his aid over South Ossetia. Yushchenko must understand that just as we would not go to war for South Ossetia, rightly or wrongly, neither are we willing to fight for Crimea. If there is one lesson we can learn from this summer's events in Georgia, it must be the sheer irrationality of giving hot-headed and often anti-democratic nationalists in far away countries the ability to drag us into their own quarrels with Moscow.

Carl Thomson runs the "Kremlinology" blog and was the Conservative Party candidate for Glasgow East at the 2005 General Election.

EUROPE NEWS



EU makes compulsory low-beam daytime headlights in UK

The European Commission is to make it compulsory in Britain for cars to be fitted with automatic low-beam daylight headlights. This is to happen sooner than many analysts have claimed. On 24 September, the European Commission adopted a directive 2008/89/EC, amending Council directive 76/756/EEC, relating to the installation of lighting and light-signalling devices on motor vehicles and their trailers. There have even been many concerns in Britain that constantly running daytime lamps will produce the opposite effect – of presenting a significant harm in road safety. [*Margarida Vasconcelos*]

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Why can't Britain be more like Switzerland?



Daniel Hannan MEP looks for an alternative relationship for Britain with the European Union and discovers Switzerland.

One European country has survived the downturn pretty comfortably. Switzerland grew at 3.1 per cent last year, and is expected to grow again this year. Not bad when you bear in mind how dependent it is on banks. You'd have thought that the Swiss would be more exposed to financial crises than anyone else. So why are they doing so well?

A convincing explanation comes from Jean-Pierre Roth, the chairman of the Swiss National Bank. Switzerland's chief advantage, he argues, is that it is outside the EU, and its economy is therefore more globally balanced. Yes, the Swiss trade with their EU neighbours: it can never be repeated too often that Switzerland sells more than twice as much per capita to the EU from outside as Britain does from inside. But, being outside the Common External Tariff, they are also free to exploit the market opportunities of Asia and the Americas.

Switzerland has a unique system of government, based on the maximum dispersal of power and on regular referendums. This system serves to keep the state small, the economy prosperous and the people free. Switzers keep voting against a closer association with the EU precisely because they realise that their model of direct democracy would be the first casualty of membership.

And here, it seems to me, British Eurosceptics are missing a trick. For the truth is that the issue that matters to readers of this journal (and to me) doesn't seem to matter nearly so much to our countrymen – at least, not in the terms in which it is habitually presented to them. A full 36 years after we joined, most British people still think of "Europe" as something that takes place in Brussels: corrupt, no doubt, undemocratic, and altogether disagreeable, but none the less remote. Certainly not as important as healthcare, taxation, immigration or education.

Our objective should be to show that what we are talking about is not Europe but Britain. We must demonstrate that we are not obsessed with the manoeuvres of Eurocrats, so much as with the restoration of democracy in this country. We need to prove, in short, that national independence is not an end in itself, but a means to an end – that end being a freer and more democratic polity. The Swiss naturally make that connection. The British do not.

There is no purpose in bringing powers back from Brussels only to leave them festering in Whitehall. If we object to being governed by unaccountable Commissioners, we should equally object to being governed by unaccountable quangos.

In *The Plan: Twelve months to renew Britain*, Douglas Carswell MP and I set out a programme for the wholesale decentralisation of power in Britain. The EU cannot be tackled in isolation. Rather, it is the supreme cause, beneficiary and exemplar of a phenomenon that has vitiated democracy within nation-states, namely the shift in power from elected representatives to unelected functionaries. Elections no longer change anything. Even if we left the EU tomorrow, that problem would remain.

Douglas and I therefore propose a series of linked policies intended to unbundle the quango state: placing the police and the criminal justice system under locally elected Sheriffs; ending the government monopolies in healthcare and education; devolving real power to local councils, and making them self-financing by replacing VAT with a Local Sales Tax; transferring the Prime Minister's patronage powers to the House of Commons; holding local and national referendums; letting Parliament ratify treaties; placing social security under our counties and cities; appointing senior officials through open hearings; and, naturally, repealing the 1972 European Communities Act.

With the help of a well-disposed former parliamentary clerk, we have shown how all these things could be implemented through just 30 legal acts, in a single parliamentary session. We have tried, in other words, to anticipate the reflexive accusation that "it couldn't be done".

In a sense, though, or specific proposals matter less than the creed that infuses them: the belief that decisions should be made as closely as possible to the people they affect, and that decision-makers should be directly accountable.

I have been an MEP for nearly ten years. When I started, I saw it as my job to staunch the haemorrhage of power from elected politicians in Westminster to unelected apparatchiks in Brussels. I still see that as my job. But, over the past ten years, I have come to appreciate how much wider the problem is. We could leave the EU tomorrow, and still not be a fully functioning democracy.

Getting power back from Brussels must simply be the first step. Having recovered that power, we should push it outwards and downwards to local councils or, better yet, to individual citizens. We should offer our electorate nothing less than a restoration of representative government and individual liberty. We should hold out the promise of making elections matter again. Phrase it like that, and we will surely carry the country.

The Plan: Twelve months to renew Britain by Daniel Hannan MEP and Douglas Carswell MP is available at **www.renew-britain.com** or through **www.amazon.co.uk**

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The Sovereign State





President of the Portuguese 'New Democracy Party' and adviser to the European Foundation, **Manuel Monteiro**, argues that under a sovereign state, the nation decides what to share and what to grant, and without sovereignty the nation loses its very individuality and identity. It is from this reflection that he continues to support the profound difference between a Europe of free states and a Europe that walks towards a single state.

The state is a useful and necessary organisation and as such must be seen and defended. It is not our purpose to discuss its structure, its functioning or the areas submitted to its intervention. We just wish to understand its essential political value in the defence of human interests and important in the development of the Nation's purpose.

The state, as we understand it, must be evaluated by the utility and the necessity – nothing more than that. It is in this way that we pass from the concepts of strong or weak, great or small state, to the useful and necessary state.

Useful state

The nation state exists and maintains itself because this expresses the will of people. Even in times of an announced crisis and of alteration or emptiness of many of its traditional functions, the nation state persists and its presence, in greater or minor degree, continues to be perceived. Is this negative or positive? Our reply follows our adopted position on the analysis of the human nature. Evoking the political realism we support that the problem is not in knowing if the presence of the state, whether political organization is positive or negative, but in inquiring if it is useful or useless. For us the state remains, and must continue to remain, because this is beneficial for man in his relations of confrontation and sharing with other men, belonging or not to the same national community.

The state, as we conceive it, starts to be a manifestation of human freedom and transforms itself into the warrantor of that freedom. The assurance that the freedom continues is translated into security, defense of the territory, justice, observance of rules that allow the development of human competition, in the respect of all for all. The absence of the nation state, always faced as a product of human desire, will lead to the creation of another state or to the arbitrary force of the strongest upon the unprotected. Both situations should be removed. In the first case, because the new state, placed above the national realities, will always be distant from the concrete human and in particular of its natural relations of proximity; in the second case, because we would return to the state without law. The defense of the nation state is understood as a useful entity to the human, for its maintenance is completely justifiable.

Necessary state

The utility of the state leads to its necessity. The state is necessary to humans and as such is essential to the autonomous maintenance, and also freedom of the Nation. If, for us, the human has more difficulty in his realisation without the feeling of belonging to a Nation, in the same way the Nation succumbs without the possibility of individual political expression, of its collective will. It is not by chance that, presently, the majority of Nations without a state look for it and want to have it. In the Nation we concentrate our strengths, through the state we attenuate our fragilities. With the Nation, we divulge what we are and desire to be, with the state we defend what we already possess and we create conditions to safeguard what we have to possess.

The state, reflecting the manifestation of people's independence, projects its particular decision in the choice of a political destiny. The necessity of the state does not offer any doubt for its preservation, as its political value must be latent in the political action.

The state is useful and necessary with sovereignty

But if the national state is useful and necessary, it needs to be perceived that the utility and the practical manifestation of its benefits require the existence of political power. However, this political power, in what concerns the particular interests

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of the Nation, then of the humans that constitute it, must be sovereign in all its components. To abdicate the sovereignty of decisions is more than reducing the national state to an insignificant plan as it irremediably affects the affirmation of the political will of the Nation. However, we must recall, when the expression of the political will of all is removed, diminished or limited, we are harming the interests of the parts that integrate it.

A nation state with political sovereign power becomes even more useful and necessary to the open and free Nations. With sovereignty, the Nation decides what to share and what to grant, and without sovereignty the Nation loses individuality and its identity or impairs or affirms radicalization. The open Nations being essential to the progress of peoples win nothing with the loss of its sovereign political affirmation. If it is negative and even self defeating, they prevent each concrete man from deciding in a sovereign way on what is only yours – it is also harmful to restrain this possibility to the Nations. Equally, it should be left to each man, then to each Nation, the capacity to dispose upon what is unique, common and sharable. The capacity of what we speak still has to be evoked and revocable at all time, otherwise the sovereignty of the interests, individually considered or in group, would be hit.

It cannot be said that the affirmation of any sovereignty opposes or makes difficult the construction of a world without barriers. On the other hand, thinking that the sovereignty of the economically strong Nations will some day disappear, or effectively would be self-limited, passes as a mirage. And the reason is simple: to erase the sovereignty of the Nations is to oppose the nature of things and to oppose to the normal course of history. Having removed any idea that leads to the isolation or to the refusal of sharing and frank opening to the world, we must support the nation state, with sovereignty, considering it of political value to the present century. As man has developed, so has the state, as well as its sovereign function, adapting to new times. In fact, if it were not for that adaptation, no change would have been perceived. To distrust the state and to fear the sovereignty is to have a negative and pessimistic vision of humankind. It is not our case. We believe in the free man and therefore we are not suspect of its political will.

It is from this reflection that we continue to support the profound difference between a Europe of free states and a Europe that walks towards a single state. Therefore, we continue in not giving our support to the Lisbon Treaty.

Manuel Monteiro is President of the Portguese 'New Democracy Party' and adviser to the European Foundation.

EUROPE NEWS



Why David Cameron must lead a New Model Conservative Government

I feel compelled to endorse a new publication, *The Plan, Twelve Months to Renew Britain*, by Douglas Carswell MP and Daniel Hannan MEP, and I would suggest that David Cameron give serious consideration to its key proposals. It is targeted at a generation who have not yet given up with politics, but instead have given up with MPs, lying politicians, a cynical political elite, false Westminster promises and empty political initiatives. Thus, in the worst cases, those voters have ceased to believe in the ballot box. The election turnout figures have said it all – so the point does not need to be reiterated here. Carswell and Hannan bat out some honest and very real plans for a 12 month term in Parliament, which can help bring about a true restoration of faith in Westminster and our national political system. Their ambitious aim, inherent in the Tory localist agenda, amounts to "nothing less than the restoration of liberty to the individual, dignity to the legislature and purpose to the ballot box." (*The Plan*, page 44). The Conservatives must be responsible for rejecting the Big Government-knows-best approach and ensure that decisions should be taken as closely as possible to the people who are affected by them, decision-makers should be directly accountable and that the citizens should be as free as possible from state coercion (*The Plan*, page 42). It is a template for how many people would probably like their country to be run, given the completely disastrous management of Britain under New Labour and the collapse of trust in Parliament and its representatives. It is essential that David Cameron endorses its key proposals, as specified in *The Plan* because it may prove essential to support important proposals from within his own Party in order to win the next General Election. In this book, there is a vast array of proposals to lend support to. Within the next two years, it may well be upon the shoulders of the Conservative leader to commit his leadership to:

• Assert direct democracy, including the right to popular legislative initiative, the right to initiate a referendum to block new laws, local referendums and referendums for proposed constitutional changes;

• Clean up Westminster for good by abolishing MPs' perks, ensuring MPs are bound by the same laws as the rest of the people, shrinking the House of Commons bureaucracy, ensuring parliamentary officials are elected and therefore, accountable;

• Demand the Supremacy of Parliament, so that we can scrap the destructive Human Rights Act, withdraw from the European Convention on Human Rights, pass a new Act to ensure the supremacy of Parliament over authoritarian EU Treaty requirements and appoint senior judges through a transparent parliamentary process (who currently appear to be running the country on behalf of some ancient Islamic fundamentalist sect);

• Repeal the Acts that provide the basis for costly UK regulations, including the worst of all, the necessary amendment/repeal of sections 2 and 3 of the European Communities Act 1972;

• Create an independent Britain which will be achieved by scrapping Crown Prerogative Powers and replace the existing terms of EU membership with a Swiss-style bilateral free trade agreement. [*Jim McConalogue*]

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A step too late? EU amends damaging financial regulation in middle of financial crisis

Margarida Vasconcelos argues that the EU's attempt to amend damaging financial regulation on the quiet and in the middle of the financial crisis was a step too late.

The present credit crisis has revealed the failure of the EU's Capital Requirements Directives based on the so-called Basel accord. The European Commission has recently adopted a proposal for a Directive (amending Directives 2006/48/EC and 2006/49/EC) establishing an amended supervisory legal framework for credit institutions and investment firms in the EU. It attempts to amend old failing EU regulations and set up new stricter rules for banks with regards to lending and risk engagement.

Given the financial crisis and the role of failed European regulation within that crisis, the European Commission has spelt out its new changes. The Commission believes that its amending proposal will reinforce the stability of the financial system, reduce risk exposure and improve supervision of banks that operate in more than one EU country. Internal Market Commissioner Charlie McCreevy has said that the proposals on the Capital Requirements Directive (CRD) "will improve the management of large exposures and improve quality of capital through harmonising treatment of hybrid capital." This is the first proposal of a regulatory package which will also include proposals on the regulation of ratings agencies.

John Purvis, the UK Conservative vice-chair of the European Parliament's Economic and Monetary Affairs committee has said "The EU should be taking action to ensure [the] systemic failures are never allowed to happen again, but excessive and intrusive regulation will only damage the smooth working of the financial system."

The Capital Requirements Directive laid down rules on how much capital a bank must hold in order to ensure it can meet customer deposits at any given time. Capital is split, in the Capital Requirements Directive, into two important types: 'tier one' and 'tier two'. Whereas T2 capital is considered less secure, T1 is secure and can be counted on to fully absorb losses of a going concern. A bank can have both types, but in order to satisfy the adequacy rules, it must have a certain amount of T1 capital. However, the Capital Requirements Directive does not rule on the hybrid capital instrument (HCI) – therefore, those instruments are not presently within the EU harmonized rules on how supervisors should deal with them. (Hybrid capital instruments are securities that contain features of both equity and debt).

Older legislation is being amended to assess whether hybrid capital is eligible to be counted as part of the overall capital of a bank. In 1998, the Basel Committee on Banking Supervision adopted an agreement on the eligibility criteria and limits to inclusion of certain types of hybrid capital instruments into original own funds of credit institutions. These criteria have not yet been transposed into EU legislation. The Commission's new proposal looks to set up EU-wide criteria for assessing whether hybrid capital is eligible to be counted as part of the overall capital of a bank, meaning the amount of capital determines how much the bank can lend and to align the old provisions in Directive 2006/48/EC to this agreement.

The existing regulatory system has created problems over exposure. The EU regime on large exposure dates back to 1992 so the Commission has decided to review the current requirements on large exposure, set out in Directive 2006/48/EC and Directive 2006/49/EC, on the capital adequacy of investment firms and credit institutions. The Commission has pointed out that the present regime "does not effectively address market failure pertaining to certain exposure types (e.g. exposures to institutions), implying a higher burden for taxpayers and capital inefficiencies." The Commission wants to further harmonize the essential rules for monitoring and control of large exposures of credit institutions. The Commission has proposed to reduce the number of options for Members States on large exposures in order to reduce administrative burden for credit institutions.

The present CRD's "large exposures" regime confines the size of these exposures to a percentage of the banks' own funds. According to the Commission the existing regime which is "based on a complex mix of risk weights and differentiation on maturity, is not sufficiently prudent." The Commission has proposed to limit all inter-bank exposures to

Fact: The EU's Common Consolidated Corporate Tax Base will reduce the GDP of the fragile UK economy by £73 billion over the next 10 years

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25 per cent of own funds or an alternative threshold of EUR 150 million, whichever is higher. Under the Commission's proposal, banks would be required to hold at least 25 per cent of their own funds in order to ensure their lending operations to other banks.

A new College of Supervisors is to be set up. The Commission has stressed that in order to strengthen the crisis management framework of the Community, it is important that competent authorities coordinate their actions with other competent authorities and, where suitable, with central banks in an efficient way. The Commission has proposed the establishment of College of Supervisors with the aim of strengthening the supervision of parent credit institutions, to allow competent authorities to better carry out, on a consolidated basis, the supervision of a banking group and to better coordinated supervisory activities. The overall aim is to reinforce the supervision of 'cross-border' banking groups. According to the Commission the establishment of a college of supervisors would be an instrument for stronger cooperation through which competent authorities reach agreement on important supervisory tasks. The Commission believes that such college would improve co-operation and transparency in the EU cross border banking sector. The college would also be given a role in crisis management situation. The liquidity risk management of banking groups that operate in multiple EU countries will also be discussed and coordinated within colleges of supervisors. According to the Commission's proposal, national supervisors may have to take into account in their mandates a Community dimension. Hence, financial regulators are required to take into account "the effect of their decisions on the stability of the financial system in all other Member States."

The Commission's new proposals look to lower the capital requirements for less risky assets. With regards to the Treatment of Collective Investment Undertakings (CIUs) under the Internal Ratings Based (IRB) Approach, the Commission pointed out that a sound and risk sensitive alternative treatment of exposures in CIUs would be provided by applying more targeted increases to the standardized risk-weights, through which the percentage increase in risk weights would be lower for well-rated exposures and higher for lower-rated and unrated exposures. The Commission pointed out that the capital requirements for investments in CIU "were too strict under the IRB approach in those cases where banks cannot or do not want to provide internal rating for the exposure held by the CIU." The Commission has proposed to lower the capital requirements for less risky assets held by the CIU – however it retains high capital charges where the assets are either high risk or the actual risk is not known.

The Commission now also wants to tighten rules on securitised debt. The Commission wants to address potential conflict of interests in the 'originate to distribute' model. Under the Commission proposal, firms known as "originators" that re-package' loans into tradable securities and other financial instruments would be required to retain a proportion of the risk that is being transfer to investors. Under the Commission's proposal, investors are required to ensure that originators effectively retain a material share, not less than 5 per cent of the risks. The Commission has therefore proposed a 5 per cent securitisation charge that issuers of securitised loans must make on their own balance sheets.

On the other hand, firms that invest in the securities, particularly where credit risk is transferred by securitisation, would be allowed to make their decisions only after conducting comprehensive due diligence. According to the Commission "A stronger and more rigorous securitization framework including more rigorous due diligence should contribute towards more responsible underwriting and avoidance of a repeat of the enormous costs that have been borne by investors and financial institutions over the past 18 months."

According to John Purvis "Five per cent retention is being billed as a panacea, but it could also make securities less attractive, potentially pushing up the cost of credit further still."

In order to legislate for these amended regulations during the turbulent crisis, the Commission would be empowered to adopt the so called technical amendments of Directive 2006/48/EC on the taking up and pursuit of the business of credit institutions under the legislative 'comitology' procedure.

The Commission's proposals will have to be approved by the EU Member States and the European Parliament under the co-decision procedure. The Council on Economic and Financial affairs welcomed on 7 October the Commission proposals for amendments to the Capital Requirement Directive (CRD). The Commission's proposal is not expected to enter into effect before 2010 – therefore as the Commission itself has recognised they will not solve the present financial crises. The Commission has said that "the legislative process is such that it is not possible for the Commission's proposals to solve the current meltdown" but they are planning to "strengthen the framework for moving forward."

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Global Warming: The Greatest Threat to Human Civilisation?

Or are our climate mitigation policies a greater threat?

Roger Helmer, MEP looks forward to a new Conservative Energy Minister going to Brussels and saying: "We are going to keep our power stations going beyond 2015. We know we shall be in breach of EU law, but we can't help that. We will accept no penalty and pay no fine". For Roger Helmer, this might solve the energy problem and the EU problem at a stroke.

A familiar theme which seems to exert huge traction over the popular imagination is the idea of an existential threat to the future of civilisation as we know it. And we have no shortage of candidates. For decades, nuclear annihilation and mutually assured destruction promised Armageddon, perhaps accompanied by the "nuclear winter" which would have destroyed not only civilisation, but crops and plant growth, putting life itself at risk.

Since the demise of the USSR, terrorism has emerged as a major threat. We have had a bundle of minor threats including bird flu ("twenty million deaths"); mad cow disease ("millions at risk"); and asteroid strikes (thank you, Lembit Opik). We have seen the Millennium Bug, once described by Tony Blair as "perhaps the greatest threat to British Business", which totally failed to materialise – an excellent example of the way that the media, and politicians, and a few self-interested experts, can build a threat out of nothing.

But the Granddaddy of all scares is surely Global Warming. Indeed it is a package of scares. Major cities and islands drowned by sea level rise. Food shortages as rains fail. Forest fires. The ten plagues of Egypt. Extreme weather events (I even saw the Asian Tsunami blamed on climate change – in fact it was caused by seismic activity, nothing to do with climate).

I am not going to make the case here against climate alarmism, as I have done so extensively elsewhere. Sufficient to say that we have seen a regular pattern of long-term (1000-years plus) climate cycles – the Holocene Maxima, the Roman Optimum, the Mediaeval Warm period – separated by cooler periods, most recently the Little Ice Age (15th to 18th century). The very modest and irregular warming observed over the last 150 years is entirely consistent with well-established, long-term, natural climate cycles, as we move into a new 21st Century Optimum (although the world has cooled since 1998).

We hear the siren voices saying "You may be right about climate change – but just in case, isn't it worth having an insurance policy?" Not if the premium is greater than the risk. Meantime we have the Stern report, which claims that "The cost of inaction is greater than the cost of mitigation", and this seems to have seeped into the awareness of the media, if not the public.

But Stern is an outlier. Other economists, notably William Nordhaus of Yale, have done the sums and come to a different answer, suggesting that the cost of climate mitigation may well exceed any potential benefit – even if you accept the alarmist scenario. (If you don't accept the alarmist position, mitigation costs are simply billions down the drain).

How can Stern have got it so wrong? By exaggerating the down-sides of climate change, ignoring the up-sides (yes, there are up-sides!), and above all by using a derisory discount-rate when assessing the current value of long-term costs and benefits. Simply plugging in a realistic discount-rate of 3.5 or 4 per cent reverses the outcome.

We currently have two major pieces of legislation in process – the UK's Climate Change Bill, and the EU's Climate and Energy package. In the case of the UK Bill, the government has conveniently done an economic impact assessment. And guess what? Both costs and benefits are expressed within a range of uncertainty, and the two ranges overlap. But on every measure – top, bottom and average – the cost range is higher than the benefit range, implying a strong probability that costs exceed benefits.

I wrote to Ed Miliband to ask why the government is pressing ahead with the measure against the clear verdict of its own impact assessment, and received a very evasive reply.

In the case of the EU Climate Package, we have the excellent assessment by Open Europe which concludes that it will cost the British economy an extraordinary £9 billion a year (www.openeurope.org.uk). It will drive a million more British people into fuel poverty. It is rank folly as the EU teeters on the brink of recession. And above all, it is simply not the most cost-effective way of reducing CO2 emissions (if that's what you want to do).

EU targets commit Britain to 15 per cent of total energy consumption from renewables by 2020, which in practice means at least 35 per cent of electricity generation from wind. Hence our government's "dash for wind".

There are problems with wind: it is hugely expensive – already adding 14 per cent to domestic bills, more to commercial bills. Its environmental benefits are debateable, especially in the UK where most wind farms will be on peat-lands in Wales and Scotland. The foundations for a wind turbine on peat land involve digging up large amounts of carboniferous material that have been buried for tens of thousands of years. The release of this carbon into the

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atmosphere eliminates any net carbon benefit from the wind-farm.

It gets worse. The government's plans for wind simply cannot be delivered. The resource to build and install around 8000 wind farms by 2020 is not in place – especially the offshore component. And the grid infrastructure is not designed for high volumes of widely distributed and randomly unpredictable power.

Experts (notably Professor Ian Fells of Newcastle University, and the House of Lords Energy Committee chaired by Lord Freeman) are already warning of problems. Beyond around 15 per cent, variable wind generation simply cannot be balanced and accommodated in a national grid. Denmark is already finding that it is producing too much wind-power at the wrong times and being obliged to sell to neighbouring countries below cost. To support wind, conventional power stations must run at sub-optimal capacity to provide back-up when the wind drops. These extra costs (both economic and environmental) are rarely factored in to the "savings" claimed by the wind industry.

There is a real danger that the government will believe its own forecasts, and will therefore fail to invest in the necessary conventional capacity to keep the lights on.

We then add to this toxic mix the EU's Large Combustion Plant Directive. This will require probably half a dozen major UK coal-fired power stations to close by 2015. Some experts are predicting power cuts by 2012.

We need to get serious and to recognise that wind power is the icing, not the cake. We need to build new coal and nuclear generating capacity now. One possible silver lining: imagine in 2010 a new Conservative Energy Minister going to Brussels and saying: "We are going to keep our power stations going beyond 2015. We know we shall be in breach of EU law, but we can't help that. We will accept no penalty and pay no fine". We might solve the energy problem and the EU problem at a stroke.

Roger Helmer is a Conservative MEP representing the East Midlands. He is a member of the European Foundation's Advisory Board, and is Hon. Chairman of The Freedom Association.

A salute to a great Victorian radical

We need again the spirit of John Bright

Bill Cash, MP, wrote for *The Birmingham Post* and *The Times* on 27 October, celeberating the fact that 150 years ago, John Bright launched in Birmingham Town Hall his historic campaign for parliamentary reform and the vote for working men. Here follows a reprint of *The Times* article.

Today, 150 years ago, John Bright launched in Birmingham Town Hall his historic campaign for parliamentary reform and the vote for working men. The Liberal MP wrote to his wife that "The Times reporter called this morning to ask when I thought the meeting would be over that he might arrange for their special engine! Other men, I mean our public men, must be very little if I am so great." The meeting ran late but *The Times*'s special train still ensured the journalist met his deadline.

Bright, with Richard Cobden, his fellow believer in free trade, had in 1846 saved the masses from starvation by forcing Peel to repeal the Corn Laws. He turned his attention on October 27, 1858, to reducing "the fabric of privilege" by campaigning for the vote for all working men.

As G.M. Trevelyan noted: "That great audience swayed, like a cornfield beneath the wind, under the gusts of cheering and laughter that shook them as he spoke... And the magic that swayed them was not some hard appeal to the lower part of their nature, but drew its compelling virtue from the simplest invocation of moral principles in words which survive the speaker as part of the wealth of our mother tongue. No class ever had nobler teaching than the working men of this island during the years while Bright was their champion."

Bright's speech culminated in the 1867 Reform Act which greatly expanded male suffrage. He had changed Britain so that unlike much of Europe we avoided revolution.

So if Bright were alive today what would he be fighting for? His absolute priority would be to restore respect and authority to the Commons. The man who coined the phrase "the Mother of Parliaments" believed that the most precious thing that a person possessed was the right to vote for the laws that governed him and his country. He would be our foremost euro-realist railing against the imposition of European laws.

Bright's first allegiance was to his conscience. He would have no truck with the modern whips system and the surrender of parliamentary business to the executive, nor the fixing of timetables to prevent debate – such as the mere nine minutes given to the third reading of the Embryology Bill last week.

Bright's interest in parliamentary reform arose from his firm belief that it was the best route to seeing his principles fulfilled: of promoting free trade that brings peace and prosperity, reducing taxation and unnecessary public expenditure and preventing entanglements in foreign wars. These are causes that still demand a champion. We need the spirit of John Bright to walk the corridors of Westminster again.

Bill Cash is Conservative MP for Stone.

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Whatever happened to the Lisbon Strategy?

Technology analyst, **Armand van Dormael**, asks: what happened to the EU Lisbon Strategy, drawn up in 2000, intending to make the European Union "the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion" within ten years?

Introduction

On 23-24 March 2000, at the Lisbon Summit, the EU heads of states and governments drew up a blueprint intended to make the European Union within ten years "the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion." António Guterres, Prime Minister of Portugal, proclaimed that "the European Union faces a true revolution in the way it works; this new attitude represents the triumph of prioritising the social-political over the economic-financial."

Nicole Fontaine, President of the European Parliament, delivered the opening speech:

"The European Community began as an economic one… Europeans are now looking to this European Council meeting to give shape to a social Europe... They are scandalised by untrammelled capitalism whose relocations, social dumping, ruthless exploitation of the disparities between the social and fiscal legislation of the Member States and remorseless pursuit of profit at the expense of working men and women have a direct and traumatic impact on their lives, both as communities and as individuals. For these reasons their expectations of this Council meeting are extremely high. You must not let them down."

Was it the oozing charm of Lisbon? Or the vapours of the Douro wine? The EU leaders were in a euphoric and combative mood. This Summit was to be Europe's great leap forward. They foreshadowed the dawn of a golden age for the European economy. The man in charge of orhestrating the implementation of the Lisbon Strategy was Günter Verheugen. He studied history, sociology and politics. After a stint as journalist, he was an SPD member of the Bundestag until 1999, when he became Vice-President of the European Commission.

Philippe Busquin, commissioner for science and research, was responsible for the administration, planning, budgeting and day-to-day operations. He had studied physics, but opted for a policical career. Member of the socialist party, he filled a number of posts in successive Belgian governments. In September 2004, he resigned to give Louis Michel an opportunity to serve on the Commission. Louis Michel started out as a school teacher. Elected to the Belgian Parliament, he occupied several ministerial posts. The current commissioner is Janez Potočnik. As Minister of European Affairs, he headed the negotiating team for accession of Slovenia to the EU.

These are the policymakers in charge of turning the European Union into "the most competitive and dynamic knowledge-based economy in the world." The political poker game and the struggle for power tends to put run-of-the-mill people into positions of responsibility for which they are not qualified. A commissioner responsible for science, research and development who doles out astronomical amounts of taxpayers' money should at least have some understanding of the technicalities and be able to assess which avenues of research are relevant and promise economic payoffs.

It is obvious that none of these officials has any notion of how technological innovation comes about. The mental model that supports the Commission's research and development programme is based on popular, simplistic, counter-productive and misconceived ideas: the idea that basic science is the primary source of innovation and of economic development; the idea that the state must intervene as a provider of funds when industry is unable to compete on its own; the idea that invention, rather than industrial innovation and management, is the major source of technological progress. In fact, creative imitation and the exploitation of the existing stock of knowledge accounts for most innovative economic development. The Lisbon Strategy is a telling symptom of the ineptness and self-deception that pervades the Commission's approach to technological and economic problems. If the Lisbon Strategy really was the miracle-working recipe its spin doctors make it out to be, one would expect to see some evidence. The results are depressing.

The Lisbon Legacy

Billed as a historic watershed, the Lisbon Strategy has become the basic tenet upon which the European Union intends to build its economic and industrial future. In political circles, research and development became the catchword. In Brussels, at the annual spring meetings of the European Council, ministers make an all-encompassing review of the state of the European Union. These Councils are mandated to follow up the implementation of the Strategy and to assess how much has been achieved. The President of the European Parliament presents an exposé which is discussed by the ministers.

The Council Presidency then writes up a Communication. Year after year, these Communications are larded with the same truisms about the importance of productivity and growth, the challenge and opportunities of globalisation, the importance of external competition, of long-term sustainbility, and so on. They sound weighty, but are empty of

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substance and too good to be true.

Following the European Council of 8-9 March 2007, the Presidency concluded:

Europe is currently enjoying an economic upswing and reforms are starting to translate into growth and jobs. The renewed Lisbon Strategy for Growth and Jobs is beginning to deliver results. It is contributing to the favourable overall economic upturn, as exemplified by the present economic forecasts: an expected growth rate of 2,7 per cent in 2007 and expected positive developments on the labour markets with seven million new jobs created during the 2007/2008 period…The European Council reiterates the importance of spending 3 per cent of GDP on research and development by 2010.

At the 2008 spring European Council, the Commission announced that "we are on the right track: in recent years we have created 6.5 million new jobs, the unemployment rate has fallen to less than 7 per cent and the foundations of the European economy are sound." No mention was made of the jobs that had been destroyed. Despite the creation of new jobs, unemployment is on the rise and the wealth-creating sector keeps shrinking. Industrial production in the euro area is down 1.7 per cent against last year. In Switzerland it is up 6.1 per cent; in Norway 2.4 per cent.

The Lisbon Strategy is at the centre of European economic policy. It is a telling symptom of groupthink and collective incompetence. Its major attribute is the extent of self-deception. The oracular predictions that come out of these Councils are out of touch with reality. Words have no precise meaning. Despite the lack of results to achieve its goals, its proponents reaffirm them time and again, hiding their failure behind a façade of misinformation. The EU establishment takes comfort in the fact that the "silent majority" has no way to make its voice heard. Any democratic government that manifestly fails to carry out its proclaimed mandate would be voted out of ofice. The European institutions – legislative, executive and judicial – constitute an unelected and unaccountable super-government immune from the pressures of public opinion. A self-centred, self-serving and self-perpetuating political class commutes between national politics and European institutions, and vice versa.

It is commonplace for governments to hold forth clear views on what is economically best for the country. When they do not succeed, they are generally unable or unwilling to readjust their strategy and reflexively redouble their unsuccessful approach. Authoritarian regimes do not have to justify their legitimacy by proving their competence.

The European Union functions in a virtual world of make-believe. The introduction of new and massive spending, taxation, regulation and redistribution schemes, on top of national legislation, imposes a heavy burden on the productive sector. The pursuit of political-ideological goals, such as equalisation and the distribution of wealth, turns a blind eye to the difference between what is socially desirable and economically feasible. The expectations prognosticated in Lisbon cannot materialise. After decades of working less and less for more and more, the European industry has priced itself out of the market, currently leaving 19 million people unemployed, unable – or unwilling – to take a job. In the euro area, according to the latest official figures, the unemployment rate is 7.2 per cent. In Switzerland it is 2.6 per cent and in Norway 2.4 per cent.

The Problem with European R&D

At the heart of the Lisbon Strategy is the belief that scientific research is the major source of technological and economic progress. Financing research and development is one of the most important and least understood items of the Commission's budget. The approach is based on false premises and a misunderstanding of how R&D works. Common wisdom holds that the more money is put into the research pipeline, the more products will come out at the other end. The relationship between research and innovation is far more complex. No one can foresee what will result from a scientific discovery. Technological creativity is a key ingredient on the way to economic growth. Once a new invention rolls off the production line, management and some luck become the decisive factors of success.

Academic research at the cutting edge of knowledge seldom has an immediate applicability. The transfer of knowledge requires capabilities, infrastructures and relationships that extend beyond the traditional academic domains of research, scholarship, learning and teaching. We should not expect much cutting-edge scientific discoveries to emanate from Europe's ivory towers. New knowledge is mostly produced in industrial research laboratories where scientists are confronted with specific problems and research is results-oriented.

Research conducted at the technological frontier is global, expensive and risky. To be of any value, it must have world class. The backwardness of European universities in the hard sciences leads most capable and ambitious students to complete their education in an American university. Very few come back. In a knowledge-based economy, losing the best and the brightest is proof of failure.

The culture of corporate America is integrated into its educational culture. Research is concentrated in a limited number of institutions with ample resources to invest in the best teachers and the most advanced facilities. The Commission scatters enormous amounts of public resources over a broad field of mediocre institutions and private projects. Programmes are evaluated in terms of expenditures rather than in terms of results.

Random financing thousands of projects and SME's when only a few can be expected to be profitable, is a pure waste of taxpayers' money. The potential benefits are overwhelmingly outweighed by the huge expense of it all. Science Magazine recently published an article stating that a lot of research is being conducted in the EU for which there is no demand. The Seventh Framework Programme runs from 2007 to 2013 and has a budget of €54 billion. Thousands of researchers keep lining up to get their part of the manna. One should not expect any epoch-making

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invention to come out of it.

Hyperion's Sean McCarthy advertises on the web three-day courses which he teaches all over Europe. He lectures researchers about how to write a proposal, how to negotiate, manage, administer and audit a contract, how to identify the best research topics, how to select the most receptive evaluator, the best partners, the best instrument, and much more. The cost per participant is €475. His advice: never go to Brussels asking for money. Instead, present them with the probable solution to a problem. The trick is to fill out a grant application that interests the evaluators. Thus astronomical amounts ultimately evaporate into the pockets of smart researchers.

Private money goes where it is sensible to spend it. The Commission distributes research funds on the basis of the most cursory vetting. To qualify, there must be at least three participants from three countries. The Commission's bureaucrats have no way to evaluate the potential of the research applications they approve. The duration of an integrated project runs between 3 and 5 years. The problems of communication and coordination involved in multinational and joint research are obvious. Issues about the ownership of patents relating to jointly generated knowledge and the transfer of such knowledge for industrial or commercial applications require endless negotiations. The main result is a mountain of unread paperwork: 38 per cent of world scientific publications originate in the EU, 31 per cent in the US and 9 per cent in Japan.

Entrepreneurs unwelcome

Setting up a business in Europe requires stamina, patience and a savings account. Entrepreneurs who have a dream and a project face countless obstacles. They must devote precious time to comply with the paperwork imposed by their government and by EU legislation. Wages and social charges are the highest in the world. The balance between risk and reward is skewed toward risk. Profits are blunted by punitive taxes.

This is not a recipe for a growing economy. An entrepreneurial society and an innovative culture require a competitive industrial infrastructure and a competitive workforce; tax policies that allow saving and investment; a favourable business climate and an educational system that incubates enterprising individuals and welfare arrangements that provide a safety net but do not stifle initiative and personal responsibility. The European Union scores badly on all these fundamentals.

The EU makes it hard to be an entrepreneur. Economic growth is related to freedom from the constraint of bureaucracy. This postulate is not understood by European policymakers. Slow growth rates are linked to command and control bureaucracies, especially those that seek to impose social goals. The EU experience provides a chilling reflection: bureaucracy, when it takes command, defaults to interests and goals that are not congenial to productivity or to the operation of efficient firms in a global capitalist system.

Much of the European economy has gradually come apart at its industrial seams, largely because of the Commission's mistaken policies. The Commission-knows-best approach ignores the process of, and the benefits from, creating long-term wealth through competition. The entrepreneur is the prime mover of economic growth that delivers the social goals. Case studies prove that economic vitality results mainly from the creative, disruptive and unpredictable action of entrepreneurs who bring new products and business methods to market. Entrepreneurial capitalism is competitive, dynamic and ruthless.

The governments of the "Asian Tigers" had enough commonsense to limit their role to the creation of industrial and educational infrastructures and to let the business community take care of employment, growth and development. Asian countries increasingly set the technological and industrial pace, because they have acquired the most advanced technologies and work harder for less. Decades of socialist rule inflicted untold misery upon the Russian and Chinese population. The changeover to unbridled capitalism produced a tectonic shift in global economic power while lifting millions of people out of abject poverty.

Globalisation augurs a new age in which emerging market companies are increasingly out-competing European competitors. Work flows to places where it is done most advantageously. Obviously, Europe isn't working as it should. Its social model is in serious trouble. The failure lies in the attempt to merge two competing and incompatible moral-political creeds: the liberal belief that the market economy is the most efficient to produce prosperity for all and the socialist doctrine that the state is responsible for the well-being of its citizens and for the protection of the working class against exploiting capitalists.

Two centuries ago, the Industrial Revolution put Europe at the centre of the global economy. The mechanisation of production did not require any scientific research. Entrepreneurs were free to build and use their machinery and workforce so as to provide maximum profit. In a knowledge-driven economy, knowledge is the asset that makes the difference between success and failure. The IT Revolution has relegated the European Union to the fringes of cutting-edge knowledge. The accelerated development of technology and the shorter life-cycle of products require novel knowledge-management tools. We stand at a moment in history when new learning and dramatic change are needed to rise to the next performance level. Miss the moment and decline is inevitable.

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The Death of Democracy

Francis Warren looks into a small corner within the history of European art to ask how the British Government could have possibly missed the death of democracy resulting from Parliament's vote to accept the deceitful Lisbon Treaty.

A fascinating 16th Century painting confronts us with a ploughman filling the foreground. Beyond is a shepherd, then the sea, and ships and on the horizon there is a city. But none of these is the subject of the picture. To the right, in a dark corner, a pair of almost indiscernible legs are disappearing into the sea. This is the subject – for it is Brughel's *The Death of Icarus*. A god-like figure, his miraculous waxen wings melted, plunges from the heavens into the sea. But the people, immersed in their everyday activities, are completely unaware. In his poem, *Musee des Beaux Arts*, W.H. Auden is moved to comment: 'How everything turns away / Quite leisuredly from the disaster.'

This parable of ignorance is profoundly relevant today. Commentators vociferously belabour Britain's exit from the ERM as its 'Black Wednesday', yet the massive tragedy of the truly Black Wednesday, 5 March 2008, barely rippled the surface of British politics. This is despite the fact that the former saved Britain from the straitjacket of the euro (therefore termed by the perceptive as 'White' or even 'Golden' Wednesday), while the latter was the humiliating tragedy of Parliament voting to accept the deceitful Lisbon Treaty – which, despite the British Government's denials and as all the continental leaders have trumpeted, is the original Constitution in all but name.

Indeed, it finally clinches the overarching powers of Brussels. Gisela Stuart, from her unique point of vantage, provides a stark summary of these: "The EU can now use one tool or another provided by this Treaty if it wishes to do something in any member state because, where it does not have a complete 'competence' [EU euphemism for 'power'], it has a shared 'competence' or it is by 'co-decision'" (Lecture to the Fabian Society, 31 March 2008). Stuart has the authority of having been a member of the inner 'Praesidium' [sic!] of Giscard d'Estaing's EU Constitution Convention. She was the supreme whistleblower. In her booklet, The Making of Europe's Constitution (December 2003), she shares her first-hand experience of the process and tactics of the EU. She was daily exposed in the concentrated atmosphere of the Convention to its implementing the Machiavellian interpretation of policies, which could be intricately timed for the greatest shifts of power from the nation states. This process of endless, unperceived transformations, she was very proudly told by a former Italian prime minister, is indeed 'organic' in is pervasive effect (page 27).

For decades there has been the process of death by a thousand cuts. Now we have its culmination. This is epitomised in the treaty's Passerelle clause [1] whereby ministers, acting as EU representatives, with unelected civil servants, will be able, behind closed doors, to modify any policies at will and because the national veto is anathema to the EU this is intended to be through QMV. Here Britain's voting is in a decreasing minority (currently 9 per cent) and with it there is the ever-increasing group pressure on Britain to suppress its very different requirements in order, it will be insisted, to portray itself a 'good European' by displaying a 'united' EU.

This process will ensure there will never again be any question of referendums. Anyway, the parroting of our having a 'representative' in lieu of them is now completely bogus, since obviously, the historic originators of this concept never envisaged a Parliament which would pay to have its powers taken from it by a foreign body.

So on that fateful Wednesday in March, democracy died in Britain; an act of treason lost in the chatter of an apparently uncomprehending media – and with the grotesque irony that the same British government continued to speak of spreading democracy across the world.

There are a complexity of reasons why the political 'elite's' aim to make "the inconceivable shade into avoidable" have now been achieved. The chilling phrase is that of the late John Biffen in his most prescient article, the title of which referred to an EC Constitution as 'An Evil Which Must Be Prevented'. [2]

Overall there has been a costly EEC/EC/EU propaganda process of continuous zealotry which has used every device to keep the people in ignorance of the truth:

(a) This was clearly exposed in the EC's de Clercq report, March 1993, which insisted: "the European identity must be engrained in people's minds" with women and youth, newscasters and reporters "priority targets". [3]

(b) The national political oligarchies readily co-operated as they enjoy the preening and lavish entertaining of the EU 'Club'.

(c) The BBC has assisted in the process, having been described as having an "institutional mindset" of "Ignorance" concerning the EU (paragraphs i & iv), where "presenters often appear to be ill briefed ….. reflecting a lack of understanding by programme researchers and producers." (Lord Wilson's independent report: 'BBC News Coverage of the EU', page 7, January 2005). Thus by its uncritical acceptance of the EC/EU utterances it has helped fulfil Delors' insistence in his speech to MEPs as Commission President in 1985: "We have to build a powerful European culture industry that will enable us to be in control of both

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the medium and its content". [4]

(d) Indeed, this conspiracy of deceit was the policy from the very beginning, as demonstrated on 30 April 1952 by Jean Monnet [*sic*], an EU founding father at the UN: "The peoples of Europe should be guided towards a superstate without the people understanding what is happening, with each successive step disguised as having an economic purpose." [5] Hence, the implementation of the grandiose EC/EU project is normally referred to by EU zealot's as being merely a technical, indeed 'boring' matter best left to the 'experts' in Brussels.

(e) Backing this up, continuously and endemically, there have been the so-called 'think tanks'/'lobbyists' aka pressure groups, working their influence on officials in Brussels behind the scenes, progressively destroying democracy. This is encapsulated by Ninan and Miller in the sub-title they have given to their recent publication *Thinker, Faker, Spinner* (Pluto Press, 2008), namely 'Coporate PPR and the Assault on Democracy.' Professor Miller related this accusation to the EU in a Radio 4 interview on 3 September 2008. [6]

(f) Now the deception has been blatantly capped by the German Chancellor, Angela Merkel, "Let's bring about the EU Constitution, but simply use different terminology without changing the legal substance – without a referendum." (Her personal memo, quoted by Andrew Neil, *The Daily Politics*). [7] That there was no democratic outcry against such grotesque chicanery indicates how far the success of the EU's propaganda has now enabled it to act with impunity.

To try to counter this mass of deception we have vital publications as the *The European Journal* itself and eurofacts together with the varied groups fighting for EU realism. We have had warnings from insiders in Brussels itself. There is, widespread, the veritable library of closely argued and researched books exposing the lies/prevarications and myths of the EU. All of this is well known to readers of *The European Journal*. What is lacking is for all of these forces to work together in this Herculean task to give the people the truth about the contrived EU of the Regions as distinct from the historic Europe of the Cultures. In this work, they are fortunate to be inspired by such leaders as President Václav Klaus with his intimate and bitter experience of the past and present fragility of democracy (vide his article 'Lisbon Treaty and Czech Republic as a Sovereign State'). [8]

The irony here is that our strength has been our weakness. In this country we have experienced continuous democracy, unthreatened except in wartime, and so we have been lulled into a sense of false security unable or unwilling to face the treachery within. Without a massive co-operative renewal of effort, the EU-philiacs, with so much power and with so much of our money, will continue to anaesthetise the public.

And so, reflecting on Brughel's painting, *The Death of Icarus*, the disappearance of democracy itself will continue unnoticed by the majority of the people.

Francis Warren is a regular writer in The European Journal

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4. Idem.
5. *The European Journal*, March/April 2006, page 12.
6. See also such articles as Andrew Bound's report on the Commissioner's "refusal to divulge details of meetings they and their staff have had with lobbyists" (*Financial Times*, 25 July 2007).
7. BBC TV Channel, 26 June 2007.
8. *The European Journal*, August 2008, pp. 4-6.

EUROPE NEWS



Knee-jerk calls for more regulation

Of course the crisis has generated knee-jerk calls for more regulation. So let's remember two things. First, European rules played a large part in getting us into this mess. Why did the Bank of England last year deal with Northern Rock as it would have years ago? Because Brussels rules on state aid and transparency prevented it from doing so and created panic amongst depositors. And EU rules on capital adequacy ratios, requiring market valuation on assets, while perfectly sensible and prudent in normal times, lead to perverse consequences when, as today, the market has seized up and there is no realistic valuation available. Brussels did not create the global crisis, but EU rules have made it much more difficult to cope with. Secondly, knee-jerk calls for more regulation usually end up doing more harm than good. The US Sarbanes-Oxley legislation, perfectly well-intentioned, in fact drove business out of New York -- to the great benefit of London. Before we create new regulations, we should ask if existing rules are working properly, and whether the implementation -- the behaviour of the regulators -- has been up to the mark. [*Roger Helmer, MEP*]

EUROPE NEWS



In praise of The Plan

Douglas Carswell MP and Daniel Hannan MEP have produced an interesting book entitled *The Plan, Twelve months to renew Britain*' I recommend it to anyone who wants to see democracy restored and people empowered in these islands. *The Plan* includes a proposal for a big repeal Bill, to get governemnt off our backs in those many areas where it has strayed without good reason. The authors want us to reassert Parliamentary sovereignty by clarifying the power of Westminster vis a vis Brussels. It is gripping material , and well worth a read. [*John Redwood MP*]

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The spreading word

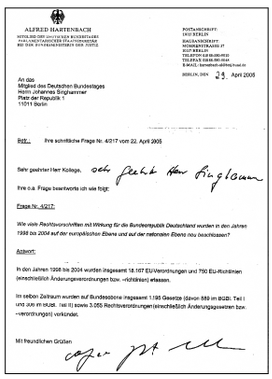


Conservative MEP candidate, **Rupert Matthews** argues that we need to continue to ask how much law comes from the European Union and how a British cost-benefit analysis would stack up.

Openness, transparency, accountability. Three words that are not generally used when writing about the European Union, unless the word 'not' is also in the sentence.

It used to be thought that it was only in Britain that people got worked up about this sort of thing. The argument went along the lines that Germany was so hung up about its recent past that they would put up with anything to be accepted back into the community of nations, France was pretty much running the EU and most other states were doing so well out of the EU gravy train that they weren't going to ask questions. To illustrate the point, *The Times* reported that Nicholas Sarkozy's reaction to the Irish "No" vote on the Lisbon Treaty was "The Irish are bloody fools. They have been stuffing their faces at Europe's expense for years, and now they dump us in the s**t".

It was only Britain that was in the invidious position of being forced to pay the bills without getting anything very much in return. Only Britain, it was thought, was the one likely to be asking awkward questions.



ALFRED HARTENBACH

An das
Mitglied des Deutschen Bundestages
Herrn Johannes Singhammer
Platz der Republik 1
11011 Berlin

Bezug: Ihre schriftliche Frage Nr. 4/217 vom 22. April 2005

Sehr geehrter Herr Kollege,

Ihre o.a. Frage beantworte ich wie folgt:

Frage Nr. 4/217:

Wie viele Rechtsvorschriften mit Wirkung für die Bundesrepublik Deutschland wurden in den Jahren 1998 bis 2004 auf der europäischen Ebene und auf der nationalen Ebene neu beschlossen?

Antwort:

In den Jahren 1998 bis 2004 wurden insgesamt 18.107 EU-Verordnungen und 790 EU-Richtlinien (einschließlich Änderungsverordnungen bzw. -richtlinien) erlassen.

Im selben Zeitraum wurden auf Bundesebene insgesamt 1.195 Gesetze (davon 869 im BGBl. Teil I und 326 im BGBl. Teil II) sowie 3.055 Rechtsverordnungen (einschließlich Änderungsgesetzen bzw. -verordnungen) verkündet.

Mit freundlichen Grüßen

But things are changing. One German recently asked his Ministry of Justice how much new German law originates in the EU. The answer was 80 per cent. When this figure was raised in our House of Commons, Denis MacShane MP brushed it aside implying that it was a figure concocted by some obscure German EUsceptic.

And just recently our own government imposed a three line whip to vote down a Bill that would have gone a long way to revealing the same data for Britain. Mark Harper MP put down the Bill that would have made the Government declare when each Bill was brought forward to Parliament whether or not it had its origins in EU measures.

Why was our government so keen to knock this idea on the head? Well they didn't say, but we can guess. They don't want anyone to know.

Now news comes out of Italy that a political party there has woken up to the fact that being on a gravy train is not necessarily the best place to be. The Movimento Libero may be only a small party with its roots in the business community of northern Italy, but it is a vocal one that is rising in the polls. It has called for the Italian government to carry out a cost-benefit analysis of Italy's membership of the EU.

Speaking recently in Varese, Gianluigi Premazzi said "After all, Italy is the fourth contributor to the EU budget and she gives by far more than what she receives from Brussels unlike the other countries from our region [south Europe]. For example, 'sponge Spain' even gains a net contribution from Brussels of more or less 8 billion of euros. Why on earth?? This looks quite unfair."

He went on to make the point that EU-based regulations and rules are having a detrimental effect on smaller businesses. A similar point is being made by some in Malta and even in Greece. These are not countries we might think of as being critical of the EU. As President Sarkozy said of the Irish, they have been recipients of oodles of EU cash and might be expected to be suitably grateful.

But they are chaffing under the need to impose EU regulations. After all, these are countries with a long tradition of viewing a new government regulation as being an ideal to aspire toward, not something to obey now. That is one reason why MEPs and commissioners from such countries have been happy to vote so many regulations into being at EU level. They never expected anyone to take them terribly seriously.

Now that we strange northern barbarians are expecting them to follow the rules, the Greeks, Italians and others are beginning to question whether there should be quite so many regulations. On 16 October 2008, Snr Berlusconi objected to a new tranche of red tape saying "Our businesses are in absolutely no position at the moment to absorb the costs of the regulations that have been proposed." Good for him.

Which brings us back to "openness, transparency, accountability". There is a good reason why the EU authorities talk about these things so often, but so very rarely put them into practice. If the peoples of Europe really knew and understood what was going on they might not accept it all so readily.

Which is why we should continue to push for honesty in the whole EU debate. Mark Harper may have failed this time, but that is no reason why we should give up. We need to continue to ask how much law comes from the EU and how a cost-benefit analysis would stack up.

It will not be easy, but worthwhile things never are.

Rupert Matthews is a freelance historian and is currently one of the MEP candidates for the Conservative Party in the East Midlands Region.

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Trouble with the Foreign Office



"What side is the Foreign Office on?" asks the tourist in Whitehall. "That's a very good question, sir" replies the policeman.

Old jokes aside, why's the FCO so blatantly partisan in its support for the European Union? It's a question I ponder each time I meet a British diplomat – as I did in Toronto last night – and I think I'm starting to work out the answer.

Part of it's down to what the French call *déformation professionnelle* – or the tendency to look at things from the point of view of one's own profession. Diplomats, being diplomats, favour giving more responsibility to .... er ... diplomats. The EU, being a supranational institution, has a big role for diplomats – so naturally they rather like it.

But I've recently discovered that there's far more to it than that.

The Foreign Office also has its career structures deliberately built in such a way as actively create a pro-EU diplomatic cadre. The FCO's brightest and best are often sent to Brussels to work for EU institutions very early in their careers.

Before landing plum posts as ambassadors, they're often seconded to work for the institutions of the EU – including the Commission. Indeed, the one I was talking to last night had done precisely that.

When you create momentum towards ever closer integration with Europe within institutions such as the FCO, you don't really need to wait for an elected government to agree to it all. It just happens. Political scientists call it functionalism – and its sly, but clever.

Incidentally, it explains why for the past 30 years we've ended up with the same integrationist Europe policy regardless of which MP happens to be playing the role of being Foreign Secretary, or who is actually in government.

Those of us who've come to conclude that Britain's membership of the European Union is no longer in our national interest need to think seriously about how to deal with the Foreign Office. Any new minister wandering into the Foreign Office is going to be left in charge of little more than the wine list, unless they have a plan to address this problem.

Somehow, democratically obtained executive power needs to be excersized in a way that decouples our domestic diplomatic corp and civil servants from EU institutions.

Douglas Carswell is Conservative Member of Parliament for Harwich and Clacton.

EU regulations on pesticides: the path of the developing world to hunger and disease

Jim McConalogue reports: On 9 October, a huge crowd (160) of senior scientists from around the world released a petition against proposed EU pesticide regulations. They are doing this because they believe it will shrink the global insecticide markets, leaving millions of people in poor countries at an increased risk of malaria (and other insect-borne diseases). If current EU regulations are enacted, as seems likely, the market and supply of effective insecticides would shrink, resulting in price rises for public health insecticides. The production of certain insecticides, such as those used in malaria control, may well cease altogether.

According to Professor Donald Roberts, a medical entomologist with decades of experience, the proposed new regulations set a dangerous precedent for the regulation of chemicals around the world. "It seems that EU regulators have no idea about the real risks to health and development to which most people in developing countries are exposed."

Some malarial countries have halted the use of DDT (a highly effective disease control insecticide banned in the EU) because they fear that even the tiniest of residues on export produce would result in rejection of entire shipments. The legislation has harmed malaria control – and, as is often the case, it is the poor people who pay the price for EU regulations.

Since the European Union's new regulations could remove up to 85 per cent of chemicals currently used in farming, this is of concern to the 75 million people suffering from hunger in the world. Importantly, people in Africa need insecticides to defend themselves against vector-borne diseases such as malaria, which were eradicated in European Union states decades ago.

Talking on Monday 13 October of their concerns in a room in Covent Garden, London, were Emeritus Professor of Pathology at Queen Mary College, London, Professor Sir Colin Berry along with Richard Tren, director of Africa Fighting Malaria. I was amazed that even they and other eminent scientists – and everyone else in the room – felt that there was nothing they could do. Some had tried desperately hard to halt or amend the revisions and original proposals at the European Parliament but without any success. The process is unstoppable: the legislation will go through.

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Treaty of Lisbon challenges United Nations Charter

One claimant at the German Constitutional Court against the law consenting to the Treaty of Lisbon, **Sarah Luzia Hassel-Reusing**, argues that Winston Churchill's vision of a united family of the European peoples, which would be "within" and "below" the United Nations, but not above or besides the UN, has been abandoned. The Treaty of Lisbon would, for the first time at the level of written EU primary law, entrench a legal basis for a preeminence of all EU law over any other law in Europe, over the UN Charter and even over the national Constitutions of the Member States.

The former British Prime Minister, Winston Churchill, had the vision of a united family of the European peoples, which would be "within" and "below" the United Nations, but not above or besides the UN.

The Treaty of Lisbon, however, would, for the first time at the level of written EU primary law, entrench a legal basis for a preeminence of all EU law over any other law in Europe, even over the national Constitutions of the Member States. Declaration 17 to the Treaty of Lisbon states, that the ECJ judgement on "Costa/ENEL" has no legal basis in the EU primary law, and would at the same time create such legal basis by postulating that there was one, and by being made binding over Article 49b TEU.

The UN Charter is the highest international treaty (Article 103 UN Charter), directly followed by the human rights of the United Nations (Article 28 and 29 No. 3 Universal Declaration of Human Rights, preamble and Article 1 No. 3, UN Charter). At the same time, the UN law is below the national Constitutions of its members, which it has never claimed to be above.

If, now, the Treaty of Lisbon puts the EU law above the national Constitutions, then it is also put above the UN law. This is incompatible with Churchill's vision and with Article 28 UDHR and Article 103 UN Charter, and with the ECJ judgement to "Kadi" and "Al Barakaat" [C-402/05].

The most dramatical effect would be that the EU law, in contrast to the Article 2 paragraph 1, UN Charter, does not contain a prohibition of the aggressive war; at the same time, military interventions would be allowed into (legally undefined) "crises" (Article 28b TEU), for basical strategical interests and for the values of the EU (Article 28a TEU). By means of the strategical interests, the door would be opened for interventions into (legally undefined) "failed states" (European Safety Strategy). The Member States would even be obliged to progressive armament (Article 28a TEU). Any jurisdiction on the joint foreign and safety policy would be prohibited (Article 240a TFEU). Even military interventions in the interior would be allowed (Article 188r TFEU) – without consent of the national Parliaments.

The UNs human rights are indivisible and inalienable (preamble UDHR, Article 5 Declaration of Vienna, Article 6 of the resolution for the right to development, preamble of the resolution creating the office of the High Commissioner of Human Rights). Putting them below the EU law alienates those rights. Not only all national and UN human rights, but also those of the EU would be put below the joint foreign and safety policy (Article 52 paragraph 2, EU Basic Rights Charter). The control over the national and UN human rights would be drastically restricted by giving the control over all collisions with the EU law to the ECJ (Article 9f TEU, Article 8 Protocol on Subsidiarity and Proportionality).

Sarah Luzia Hassel-Reusing is a human rights activist, psychologist and politician (focusing on economical and foreign policy) and plaintiff at the German Constitutional Court against the law consenting to the Treaty of Lisbon.

EUROPE NEWS



The failure of UK financial services: the Capital Requirements Directive

The Directive aims to ensure the consistent application of the new international guidelines for capital requirements adopted by the Basel Committee on Banking Supervision ('Basel II') in June 2004. The supervisory authorities assess the amount of capital which investment firms must have at their disposal in order to cover their risks. Investment firms and credit institutions must have a minimum capital of 125,000 euros if they hold clients' money and/or securities, receive, transmit and/or execute investors' orders, manage portfolios of investments or financial instruments. All other investment firms must have an initial capital of 730,000 euros. The UK implemented the Capital Requirements Directive in 2007. The Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and Council Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions are commonly referred to as the Capital Requirements Directive (CRD). The CRD directly affects banks and building societies and certain types of investment firms. The Government has estimated the one off costs of applying for recognition from £50,000–£250,000 for the initial application and £12,500-£200,000 for ongoing compliance. According to Keith Boyfield, the CRD/Basel II will cost the UK 2.5-7bn by 2010. [*Margarida Vasconcelos*]

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Transdniestria's future after the tragedy of Tskhinvili

Specialist in Transdniestrian affairs, **Asher Pirt**, suggests that the recent recognition of independence of Kosovo by Europe and the West and now those of South Ossetia and Abkhazia within the Republic of Georgia by the Russian President begs the question of whether other disputed territories or 'breakaway republics' such as Transdniestria will be recognised next?

The recent recognition of independence of Kosovo by the West and now those of South Ossetia and Abkhazia within the Republic of Georgia by the Russian President Dmitrii Medvedev after resounding support from the Russia's Parliament begs the question will Transdniestria be recognised next?

In a 31 January 2006 press conference, when the Russian Prime Minister Vladimir Putin was still President, he stated "If someone believes that Kosovo can be granted full state independence, then why should we refuse the same to the Abkhaz or the South Ossetians". Although he did not mention Transdniestria, many analysts linked Kosovo's then proposed recognition with Russia acting to recognise South Ossetia, Abkhazia and equally Transdniestria.

Transdniestria (or Pridnestrovyan Moldavskaya Respublika) is an unrecognised country within the internationally recognised – member of the United Nations – the Republic of Moldova. Its capital is Tiraspol and the unrecognised country occupies mainly the East side of the River Dnestr and the town of Bender and some small villages on the West side. The recognition of South Ossetia and Abkhazia may well put pressure on Russia to recognise Transdniestria and also Nagorno-Karabakh as these unrecognised countries have previously formally recognised one another as independent entities.

On 2 September 1990, in the face of anti-Russian language reforms enacted in the capital of Moldovan Soviet Socialist Republic (MSSR) Chisinau the pro-Soviet industrial region known as Transdniestria declared independence from the Republic but not the Soviet Union. The elites led by Igor Smirnov wanted the area to be a new republic within the USSR. In addition, there was a fear that the M.S.S.R. would be annexed by Romania in the break up of the Soviet Union.

The Transdniestrian authorities see the territory as an independent country and are keen to point out that Transdniestria has all the attributes of a properly recognised one. Indeed, it is fortunate to have the industrial heartland of the former M.S.S.R., a higher employment rate and higher living standards than the part it wishes to secede from. Since 1990, Transdniestria has adopted its own constitution, 'elected' its own President and Assembly and its armed forces has had a pre-modern war with Chisinau for the de facto right to the territory. Ironically, it is perhaps better functioning than some internationally recognised countries.

In recent years, there have been efforts to describe the population as a Nation or a distinct people in order for it to gain recognition as an independent country. The problem with the region is that no matter what its leaders claim Transdniestria is not a historic homeland nor is there a Transdniestrian nation that can be compared to the Abkhaz or Ossetian example. According to the *Atlas* – Dniester Moldavian Republic (2000), the ethnic make up of the population is Moldovan (33 per cent), Russian (29 per cent) and Ukrainian (29 per cent). Many of the population moved to the area such as the ethnic Russian Transdniestria President in 1987 for industrial work. In 2006, according to the then Russian Parliament Chairman of the Commonwealth of Independent States (CIS) Affairs Andrei Kokoshin, some 80 per cent of the population can be described as 'compatriots' of Russia.

The brutal onslaught ordered by the Georgian President Mikhail Saakashvili against the Tskhinvali on 7 August is similar to what happened in Bender by Moldova troops against the separatist inhabitants in 1992 in order to regain territory. In both cases Russian forces intervened on the side of the 'underdog' and largely Russo population.

The reason for Russian intervention in both cases was not about building a larger Russian country but a humanitarian impulse by the commanders who made the decision. In Moldova, it was the Russian military commander on the ground, but in South Ossetia it was the Putin/Medvedev partnership that made the decision. It is true, as the former Soviet leader Mikhail Gorbachev, writing in the *Washington Post*, has recently pointed out in the case of South Ossetia, Russia had to intervene.

Russia's leaders have pursued a formal policy of protection for citizens of the Russian Federation since Putin came to power in 2000. One of the recent 12 July 2008 foreign policy concept's key objectives is clearly 'to provide comprehensive protection of rights and legitimate interests of Russian citizens and compatriots abroad'. The invasion of South Ossetia and stationing of more troops in Abkhazia appears to

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be fulfilling this pledge.

If Moscow had not intervened there would have been outcry among Russia's general population. This is especially the case in Russia's North Ossetia whose inhabitants are closely related to those in Georgia's South Ossetia. It is sometimes forgotten that Putin learnt a costly lesson over the sinking of the submarine Kursk in his early days as President. In Russia, Presidents are expected to do something in times of crisis. In addition, a nightmare scenario would be for Russian extremists or co-ethnic Ossetians to have found a gun and just joined the fighting. This would have meant that the fighting would not have been easily controlled by Moscow.

There is a significant number within Russia who dream for the return of the Soviet Union or even the pre 1917 Russian Empire. Many analysts point out Putin's speech, when he once described the Soviet collapse as the 'greatest geopolitical catastrophe'. However this does not mean he is an expansionist like Vladimir Zhirinovsky who, in the mid-1990s wanted 'Russian troops washing their feet in the Indian Ocean'. Neither Putin nor Medvedev are imperialists wanting to expand Russian borders. Putin may share the nostalgia but is aware that many of the challenges faced today have been caused by the collapse of the Union.

President Medvedev's recognition of South Ossetia and Abkhazia is more about giving up dealing with the Republic of Georgia in their efforts to find a meaningful resolution to the conflict. The recognition of the two secessionist countries may never have happened had it not been for the Western recognition of Kosovo and recent bloody events in South Ossetia. The move can be seen as 'tit for tat', but really it is doubtful the recognition move would have been taken had it not been for Saakashvili's pre-modern actions. This is due to the fact that Russia would have continued to hold the moral high ground over recognition of secessionist movements.

Like South Ossetia and Abkhazia, in the past, the Kremlin under El'stin and Putin has never wanted to annex Transdniestria or even to recognise it. This despite calls by hardliners in the Russian Parliament. This is mainly because Russia has regions such as Chechnya and Tartarstan that have had historic secessionist movements and there was fear that recognition of one group's secessionist claim would lead to other claims. In addition, Transdniestria has not always been kind to Russia's leaders. Transdniestria's President Igor Smirnov supported the 1991 coup against Gorbachev and even some Transdniestrians deployed to fight in Moscow against El'stin in the 1993 crisis. There are allegations that Chechnya was given support by the unrecognised country. Transdniestria's continuing pro Soviet image did not fit in with Putin's new Russia image.

The Russian General Alexander Lebed described Transdniestria as 'a key to the Balkans' and it is still argued to be the main reason for keeping the area as a forward operating military base. Russian hardliners, according to the Russian foreign policy expert Professor Andrei P. Tsygankov, advise assistance to unrecognised countries in the Former Soviet Union region as a way of keeping American influence at bay. In 2004, some 46 per cent of Russian citizens polled by the Levada Institute clearly wanted the military base to remain in Transdniestria. It is a fact that as long as the Republic of Moldova does not have complete control of its territory it cannot become a member of NATO. Transdniestria's leadership shares Russia's opposition to NATO expansion.

When President Putin came to power he ordered Russia's finest experts such as Evgenii Primakov and later in 2003 his close colleague Dmitrii Kozak to find a resolution to Transdniestria's status. As an academic from Moscow's CIS Institute pointed out, Russia continues to make special efforts to integrate the region into the rest of the Republic of Moldova. Indeed, within the Russian Ministry of Foreign Affairs there is a special department dedicated to Transdniestria led by the diplomat Mister Fomin.

The academic also pointed out that in November 2003 the so-called Kozak federalisation plan was extremely close to securing a deal and some sort of closure to a frozen conflict respecting the territorial integrity of the former MSSR. After Moldova's President Voronin discussed this plan with some EU countries, the plan was rejected mainly because of Russian attempts to secure a military base on Moldova's soil for the next twenty years and this was seen as an 'Imperialistic' project. It must be understood that Transdniestria would never sign an agreement that did not guarantee Russian troops to remain there as it sees the military as "the main guarantor of peace and stability".

After the tragedy of Tskhinvili, President Medvedev has warned the Moldovan President against trying a similar military solution for gaining Transdniestria. Russia has also (like in South Ossetia) given passports to many of those living in the disputed territory. It also allows Transdniestria's Russian citizens to participate in the Russian elections arranging for polling booths. However, Russia still formally respects the territorial integrity of the Republic of Moldova and it seems that if Voronin makes the same mistake as the Georgian leader he could 'kiss goodbye to any integration attempts'.

At first glance, it seems that Transdniestria's Russian speaking population would be happy with any future as long as there are guarantees that their rights, as being able to find work, do not restrict the fact they have never bothered to learn Moldovan. Also Transdniestria still needs the guarantee that Moldova once united does not become part of Romania. The Transdniestria business elites need to have a competitive market for their goods. There has not been a proper study of what the population really wants, but the longer Russia is seen as good cop and the EU as bad cop, it may well be persuaded that a future without Chisinau is Transdniestria's destiny.

The Putin/Medvedev partnership is not happy about any allegation of annexing South Ossetia and according to well-informed sources Abkhazia still wants independence rather

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than annexation. Ironically, Abkhazia might well have territorial claims within Russia's borders and can remember the treatment that it has experienced from the Russians. The Transdniestrian plebiscite on the 17 September 2006 showed the population seems happy with the idea of being absorbed into the Russian Federation. The Russian Parliament adopted a law in July 2001 that allows parts of foreign countries to become part of Russia. However, it is unlikely these newly recognised countries are going to be swallowed up by Russia as the partnership has an obsession of not expanding Russia's borders and are not imperialists in the old sense.

There is a possibility that South Ossetia and Abkhazia may now join the Belarus – Russia Union as 'independent' countries, which will give them the benefits of equal trading. If Medvedev chooses to recognise Transdniestria then it might well want to join this Union leaving the rest of Moldova behind. This would truly divide Moldova into two. The bigger question is whether these previously unrecognised countries would be accepted into the CIS. The problem for Transdniestria is its location, any goods it produces need to be sent through Ukraine and for now Kiev is unhappy about assisting Tiraspol. Even if it was recognised and became part of some sort of Union like Armenia it is a long way from Moscow.

In a worse case scenario, if Transdniestria is recognised by the Russian President, this could lead to the heating up of a frozen situation in country. A conflict would draw in the peacekeepers and irregular forces. As the Kremlin has recognised Transdniestria it would have to intervene – this would put Ukraine into a difficult situation. Would Kiev's armed forces want, let alone be able to stop over flights and troop movements to reinforce the 1200 Russian troops in Transdniestria. It is easy to predict an escalation to a violent regional conflict. Significantly, judging by the reaction of NATO to Russia's war with Georgia there may not be any official involvement. As the tour guide of the tragedy of Bender museum will point out some Romanian 'hotheads' may like to get involved once again.

Transdniestria is not in the same category as South Ossetia and Abkhazia. A resolution that integrates Moldova's divided community does need Russia more than ever and the European Union should be aware of this. The Putin/Medvedev partnership can communicate and reassure the Transdniestrians with their expertise, persuading them that they have no need of recognition like South Ossetia and Abkhazia and they can become a useful and integral part of Moldova. After the events in Georgia, isolating Russia will not help Moldova's future. The fall out for Moldova is that it might never gain EU and NATO membership but is that really a bad thing in return for a solution to the problem of a divided community.

Asher CJ Pirt is a specialist in Transdniestrian affairs and holds a Masters in Russian Studies from the University College London School of Slavonic and East European Studies.

Conditions worsen for fishermen as European Commission proposes drastic cut in fishing quotas next year

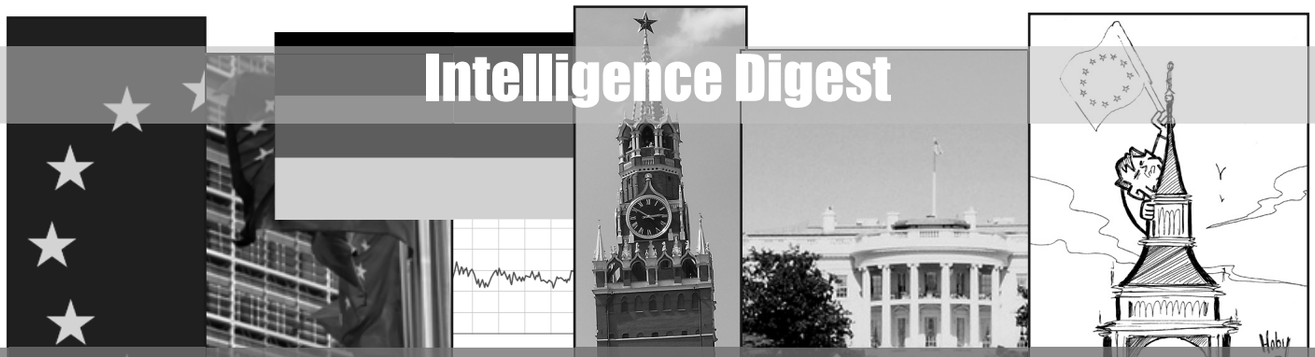
The British fishing industry has been quietly disintegrating. EU catch restrictions have been leading to millions of tons of dead fish being thrown back into the sea. The measures for fishery resources management, the total allowable catch (TAC) and quota system are not operating effectively. It is clear that the CFP does not work and that fisheries policies should be repatriated to Westminster.

On 10 November 2008, the European Commission presented its proposal on fishing possibilities and fishing effort for 2009 for the main stocks in the North-East Atlantic, including the North Sea. The Commission has pointed out that "Most stocks of fish continue to be overfished in 2008" therefore "in order to build a healthy industry for the future, we need to fish less in the short term."

The Commission has stressed that the stocks of cod, haddock and whiting are overfished in the area west of Scotland hence it called for a targeted ban on fishing of these species. The Commission has proposed 25 per cent reductions in both quotas and fishing intensity on those stocks. The Commission also introduced a system of effort limitations for cod fisheries measured by kilowatt-day ceilings as a replacement of the 'days-at-sea' system applied in 2008. The Commission has also proposed a 25 per cent reduction in herring quotas for the West Scotland stock and a zero TAC for spurdog and porbeagl deep-water sharks. The Commission proposed to introduce two protection zones in the area west of Scotland to protect blue ling spawning aggregations. The Commission also recommended that anchovy fishing in the Bay of Biscay to remain closed next year.

As Struan Stevenson MEP, Conservative fisheries spokesman said "For the past decade, the European Commission has resorted to tougher and tougher regulations and controls to save dwindling fish stocks (…)" which "(…) have served only to destroy thousands of jobs in the fishing industry, while fish stocks have continued to plummet." Therefore, according to Mr Stevenson "It is time the commission realised that micro-managing a complex fisheries sector from behind a desk in Brussels is the problem, not the solution." The Fisheries Council will discuss the Commission's proposal on 17-19 December when it will agree on TACs for 2009. [*Margarida Vasconcelos*]

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Intelligence Digest

European Director of the European Foundation, John Laughland, provides an essential round-up of European political events in his regular Intelligence Digest. To receive the Intelligence Digest by e-mail, please log on to our website at www.europeanfoundation.org/digests or e-mail the editor at: mcconalogue@e-f.org.uk

I. Europe's new President

Czechs to invite US President to EU summit

There has been an outpouring of Obamania in the European press. The American President-elect's every move is reported in the papers; European politicians compete with one another to express their delight at his election; everyone is talking of a new era in trans-Atlantic relations. The Bush years, indeed, have been very difficult for the EU's fundamentally pro-American elite. They have wanted to have friendly relations with Washington but even they found George W. Bush too much to stomach, and in any case they knew he was hated by their electorates (and by the American electorate too). Now that is all in the past and America can once again stand for all the values the EU leaders hold dear – youth, progress, even ethnic diversity.

For example, the Czech government has indicated that it will invite President Barack Obama to the EU summit in Prague at the beginning of April. [*Der Standard*, 13 November 2008] This invitation follows an invitation, issued before the election, to the future American President to address the European Parliament. The EU summit takes place one day before a NATO summit in Strasbourg and Baden-Baden and Obama will presumably be attending that. The Czechs are also planning to use the EU summit for meetings with six Eastern neighbours of the EU – Ukraine, Moldova, Georgia, Armenia, Azerbaijan and even Belarus. The purpose of these invitations, which is an initiative of Sweden and Poland, is to reduce yet further the importance of France's Mediterranean initiative by beefing up the current fledgling arrangements with these states. The big absentee in this list is obviously Russia, even though it is a direct geographical neighbour of the EU (unlike the Caucasus states) and even though it is (also unlike them) an unquestionably European country.

US to participate in EU foreign policy

The US government has announced that it will participate in the EULEX mission which has set itself up to govern Kosovo. EULEX's presence in Kosovo is contested by the Serbian government, which does not recognise the independence of its Southern territory and which insists that only the United Nations has the legal right to administer it. Now the Americans have said that they will participate in this, one of the main initiatives taken under the auspices of the EU's common foreign and security policy. Some 80 American policemen, and eight judges and prosecutors, will assist the 1,900 administrators from the 27 EU states. The US has said that it too has an interest in "the development of democratic standards in Kosovo" – the official line of both Brussels and Washington, even though experts agree that the human rights situation in the province has been catastrophic, and getting worse, for many years now since the province was wrested from Belgrade's control in 1999. The situation with ethnic minorities is particularly shocking. [*Handelsblatt*, 22 October 2008]

Berlusconi calls Obama "tanned"

Not all European politicians have joined in the Obamania unequivocally. The irrepressible Italian Prime Minister, Silvio Berlusconi, has once again caused outrage in Italy and the rest of Europe by referring to Obama as "tanned". Speaking in Moscow, where he had met the Russian President, Dmitri Medvedev, Berlusconi was asked whether he thought the new American President would be able to work well with his Russian counterpart. Berlusconi replied, "Well, he is young, handsome… " - here he paused and smiled so that the joke would be understood – "and tanned, so I am sure that he a good cooperation will be able to develop." [www.youtube.com] Medvedev joined in the joke, as did the journalists in the room, but numerous politicians in Italy have expressed outrage at the remark, which they have dismissed as another "gaffe" by the colourful Prime Minister.

One person who says she was very shocked at Berlusconi's remark is Carla Bruni-Sarkozy, the wife of the French President. Madame Sarkozy has only recently become a French citizen: following her marriage to the President, she abandoned the Italian passport with which she was born. Following Berlusconi's remark, she said that she was very glad that she was no longer an Italian citizen, a comment which itself elicited a sharp rebuke from the former President of Italy, Francesco Cossiga, who retorted that that the Italians were delighted too that Carla Bruni was no longer one of

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them: she recently intervened with her husband to prevent the extradition to Italy of a former Red Brigade terrorist, Marina Petrella, wanted in Italy for the murder of a policeman. "Who knows?" Cossiga mused, referring to Bruni's notorious sexual adventurousness, "with her eventful life, Carla Bruni might one day be forced to ask for her Italian citizenship back again." [*Le Figaro*, 12 November 2008]

II. Pipeline politics and the relationship with Russia

Nabucco project on verge of collapse

Europe has been seeking to reduce its dependency on Russian gas pipelines by building yet another pipeline which bypasses the territory of its biggest supplier and transports gas from Central Asia via Turkey. This is known as the Nabucco pipelines – but it is on the verge of collapse. Kazakhstan and Azerbaijan have showed little interest in cooperating with the West on the project and that is why it is unlikely to get anywhere. The German Chancellor, Angela Merkel, has recently been trying to woo the President of Turkmenistan, one of the other supplier countries on the Caspian Sea, but with little success. While the EU is trying to set up a consortium of European buyers in order to strengthen Europe's market power, Russia has instead negotiated agreements with the Caspian states to buy gas directly from them and then ship it to Europe through its own networks. Gazprom, for instance, has offered to buy the whole of Azerbaijan's gas production and it seems that Baku is ready to accept the deal. Naturally, the events in the Caucasus over the summer have shown that American influence in the region is in fact a chimera and that only Moscow can protect the security of the pipelines. Azerbaijan does not apparently intend to supply any further Western pipelines which bypass Russia (there are currently two). Kazakh government sources (the economics minister) have also told Western newspapers (the Handelsblatt) that they are under great pressure from Moscow not to supply gas for the Nabucco pipeline. The same goes for Turkmenistan, where the EU energy commissar (a Lithuanian) was recently rebuffed in his request for Turkmen gas for Nabucco. The only way of making the gas pipeline viable is therefore now for Iran to supply it, but that is considered political undesirable. There are also problems within the Nabucco consortium itself. The Turkish gas company Botas, which is part of the Austrian-led consortium, does not want Turkey to be a mere transit country: it wants 15 per cent of the gas for itself, and it wants it at a special low price. Given the pipeline's capacity, this represents some 4.5 billion cubic metres a year, two thirds of which Ankara will use and one third of which it will sell. Naturally, the other members of the consortium are not happy with this proposal, since it means they would have to subsidise the special Turkish prices. According to the Hungarian Nabucco delegate, the whole project would be simply unviable under such circumstances. The same EU energy commissar, the hapless Mr Piebalgs, also recently failed to persuade the Turks to change their minds on this. [Matthias Brüggmann & Gerd Höhler, *Handelsblatt*, 12 November 2008]

> **" Kazakhstan and Azerbaijan have showed little interest in cooperating with the West on the project and that is why it is unlikely to get anywhere. "**

Baltic pipeline in question too

Russia has now also called into question the construction of the trans-Baltic pipeline which is supposed to bring gas directly from Russia to Germany by passing under the Baltic Sea. The Russian Prime Minister, Vladimir Putin, has said that Europe must decide first whether it really needs as much gas as Russia can deliver through the pipeline. If it does not, he said, "Then we will not build the pipeline". Russia, he said, would not force the decision. "We do not need these pipeline as much as Europe does," said Putin. Moscow could just as easily convert the gas into liquid and transport it by tanker. The plan is for a 1,200 km pipeline to take gas from the Russian city of Vyborg to Greifswald in Germany. The plan is for the pipeline to deliver 27.5 billion cubic metres of gas by 2011. The plan was initially mooted by Putin himself when he was President, and the consortium is currently chaired by the former German Chancellor, Gerhard Schröder. Putin said that the tanker option would make the gas more expensive and that the two sides had to come to a common conclusion on the basis of responsible discussions about the best way to ensure Europe's "energy security". [Sonja Zekri, *Süddeutsche Zeitung*, 13 November 2008]

EU pumps money into Georgia

The EU's bad relations with Russia are perhaps explained by the fact that the EU has rushed to pour money and troops into Georgia, whose President the Russian President has accused of being a war criminal following the attack on South Ossetia in August. At the end of October, a donor conference was held in Brussels at which 2.8 billion euros in state aid was pledged to Georgia. Never mind that the country has been awash with Western aid since the collapse of the Soviet Union and that much of it has been stolen while the victims of the country's various wars languish in poverty. Most of the money came from EU states and $1 billion came from the US. The EU foreign affairs commissar, Benita Ferrero-Waldner, said that these pledges were a "sign of true solidarity with Georgia". Germany promised 34 million euros for 2008 and 2009, which will come from the existing aid budget. The total amount pledged exceeds the 2.7 billion

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euros which the World Bank has said is needed in Georgia. Mrs Ferrero-Waldner also said – and this is obviously the key – that the aid money should also be spent on the "reform process", i.e. that it is not humanitarian aid at all but instead that it is money being spent for political purposes. [*Frankfurter Allgemeine Zeitung*, 22 October 2008]

Another reason why the EU is so keen to give money to Georgia is that it has deployed a military patrol there, thereby beefing up its foreign and security policy (rather as in the Balkans, where it has also constituted mini-colonies). Troops wearing EU armbands now patrol the border between South Ossetia and Georgia, in order especially to observe the Russian troop presence. The mutual suspicion with which the EU observers and the Russian soldiers regard each other is an eloquent symbol for the state of relations between the EU and its Eastern neighbour.

Two Belgian MPs accuse Georgia of war crimes

Before the BBC Newsnight programme raised the issue, two Belgian parliamentarians accused the Georgian President, Mikheil Saakashvili, of "war crimes" during the invasion of South Ossetia he organised in August. An ecologist senator, Josy Dubié, and his colleague Christine Defraigne, have called for an international enquiry into the matter, saying that they believe that war crimes were indeed committed by the Georgian forces. They made their statement after a five-day mission to South Ossetia. "We have concluded without any ambiguity that the Georgians were the aggressors," they said. [*Belga*, 25 September 2008]

Ukraine closes down Russian TV

The Ukrainian authorities have banned the transmission of Russian TV channels which are allegedly not adapted to Ukrainian television. The ban took effect on 1 November. The Ukrainian state requires that all broadcasts be in the national language, Ukrainian, even though huge swathes of this historic Russian territory naturally speak Russian. The Russian Foreign Minister has promised to work to restore what he called the rights of the Russian speakers in Ukraine. The ban is the latest in a long series of problems which have bedevilled the relationship between Kiev and Moscow. Some circles in Russia are calling for the reclamation of the Crimea, a predominantly Russian-speaking part of the old Soviet Socialist Republic of Ukraine which was transferred from the Soviet Russian Federation to Soviet Ukraine by Nikita Khruschev in 1954 – and where Russia' Black Sea fleet continues to be housed. [*RIA Novosti*, 1 November 2005]

III. Other EU news

Eurozone in recession

A victim of the worldwide financial crisis, the euro zone has entered recession for the first time since it came into being in 1999.

According to Eurostat, the GDP of the euro zone countries shrank by 0.2 per cent in the third quarter of 2008 with respect to the same period in 2007. For the time being, this counts only "technically" as a recession because normally there has to be economic contraction for at least six months. In some countries, however, this is already the case: Germany and Italy contracted in both the second and third quarters of 2008. In Germany's case, the figures are -0.5 per cent for the third quarter and –0.4 per cent for the second quarter. France and Spain are also contracting but only in the third quarter. The Netherlands has had zero growth for two consecutive quarters but the Dutch government thinks that the economy could well enter recession in 2009. Funnily enough, the EU as a whole is not in recession – no doubt because the non-euro countries are less badly off than the euro ones. The EU as a whole shrank by 0.2 per cent in the third quarter after zero growth in the second. [*Le Monde*, 14 November 2008; Eurostat http:// epp.eurostat.ec.europa.eu]

EU wastes billions

The yearly report on the activities of the European Union submitted by the Court of Accounts is the usual litany of complaints about the massive amount of money wasted and stolen from the EU's vast budget. There are also many mistakes, especially in the administration of the structural funds. Out of the 42 billion euros in the structural fund budget, some 11 per cent should not have been paid out. Some of the mistakes are relatively harmless – people who have received EU subsidies without having filled in the forms properly. Others are more structural and therefore more serious: where the agricultural budget is concerned (51 billion euros a year) the Court of Accounts has again said that there is a "substantial level of mistakes". Unreliable data about olive groves are one of the key areas which lead to excess payments. [*Frankfurter Allgemeine Zeitung*, 10 November 2008]

'Joke' earns man 100,000 euros from Brussels

A man who filed a joke application to create a ski slope on the Danish island of Bornholm was surprised when his application was accepted and he found 100,000 euros in his bank account. He used the money as required and built the ski slope but since the island is flat and known mainly for its sunny beaches, it has been used only for one and a half days since it was created in 2007. Ole Harild decided to make the application one year because he was cross that he and his girlfriend could not go ski-ing in the Alps. But he comments, "I never though that they would ever support anything so absurd." This is just one example of the way in which structural funds are wasted. Other examples include the millions given to the renovation of a luxury hotel in Slovenia – on the basis that the structural funds are supposed to support tourism and that the hotel in question is a historical monument. [Christoph Schlitz, *Die Welt*, 21 October 2008]

Klaus annoys his Irish hosts

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The President of the Czech Republic, Václav Klaus, has annoyed his Irish hosts during his recent state visit to the Republic of Ireland by attending a private dinner at the Shelburne Hotel in Dublin hosted by the anti-Lisbon campaigner, Declan Ganley. Ganley is determined to create a pan-European anti-Lisbon political party and his alliance and friendship with the French anti-EU campaigner, Philippe de Villiers, is for instance already quite advanced. Klaus was happy to accept an invitation to the dinner, which was attended by other anti-EU campaigners including Anthony Coughlan of Trinity College, Dublin. He was attacked for this the next day by the Irish Foreign Minister, Michael Martin, who described Klaus' reported comments at the dinner as "inappropriate". However, Dublin has made no official protest at this use of Mr Klaus' free time.

In any case, it is quite possible that it will be the Czech Republic, and not just Ireland, which prevents the ratification of the Lisbon treaty. Klaus is certainly determined to do all he can to prevent its ratification. The Czech senate has already asked the Czech constitutional court to rule on ratification and this has already resulted in a delay. The way that Klaus might be able to engineer the end of Lisbon is by getting rid of the current Prime Minister, Mirek Topolánek. Topolánek recently led the ODS into severe defeat in regional elections and it is quite possible that he will be replaced as Prime Minister by a more pro-Klaus and anti-EU politician. [*Der Standard*, 7 November 2008]

Köhler approves Lisbon

The President of the Federal Republic of Germany, Horst Köhler, has said that he approves of the content of the Lisbon treaty, even though there are currently several appeals against it before the German federal constitutional court. (These have been lodged both by conservative anti-EU campaigners and by the new left-wing political party led by Oskar Lafontaine, Die Linke.) Normal constitutional etiquette requires that the Federal President await the ruling of the court before signing the treaty – this is what happened with Maastricht and the European Constitution, which Germany never ratified. Indeed, he will also wait until the court rules on Lisbon before formally signing it, and there is almost no chance that this will occur this year. Nonetheless, the Presidential spokesman said that the President had studied the treaty very thoroughly and that he saw no serious constitutional implications. The purpose of this statement is obviously to influence the court itself, which will now have to take into account the approval of both houses of the German parliament and now the federal President himself. Köhler has already spoken of Germany's "responsibility to lead in Europe". (The text of his address on the day of German unity [3 October] this year was wrongly translated on the Presidential web site: unsere Führungsverantwortung in Europa does not mean "providing responsible leadership" as the web site says [*www.bundespraesident.de*].) No doubt he means that this leadership should apply to the Lisbon treaty too, which was of course an invention of the German Chancellor, Angela Merkel. [*Frankfurter Allgemeine Zeitung*, 8 October 2008]

Euro even more unpopular in Scandinavia

Leading politicians in Denmark and Sweden have used the financial crisis as an excuse for starting a new campaign in favour of the euro. Public opinion, however, is unimpressed and the single currency remains as unpopular as before. More people remain opposed to abolishing the national currencies in both countries than those who support this. Both countries would need to have a referendum before adopting the euro; neither country now seems likely to hold one. In Denmark the polls show 42 per cent against the euro and 40 per cent in favour but that is not enough for the government to win a referendum, at least according to the current Prime Minister, Anders Fogh Rasmussen, who is trying to hold out the prospect of a new euro referendum by 2011. In Sweden the latest figures are 53 per cent against. (as opposed to 56 per cent when the Swedes voted against the euro in 2003). The reason for the continuing opposition to the euro is not difficult to discern: it is that Sweden and Denmark have continued to fare better outside the euro zone than inside it. [Helmut Steuer, *Handelsblatt*, 12 November 2008]

EU fights pirates

The European Union is sending soldiers and battleships to try to fight pirates off the coast of Somalia. The decision to deploy these armed forces was taken by the EU foreign ministers at a meeting in Brussels on 10th November 2008. The operation goes by the name of "Operation Atlanta" and it is to start in the middle of December with the deployment of one frigate. "Operation Atlanta" will start in mid-December. Germany will send one frigate. The total deployment will be of between five and seven frigates and several sea-reconnaissance aircraft. Nine European countries have said that they will participate: they include the United Kingdom, France, Spain and Germany. The intention is not only to fight the pirates but also to prosecute them as criminals. The deployment is in reaction to a sharp increase in attacks by pirates against cargo ships trying to dock at Mogadishu. The EU has decided that force should be used if necessary. The force is to be under the command of a British admiral. NATO ships are already patrolling the coast off the Horn of Africa and the EU wants to demonstrate that it can cooperate with the alliance. [*Frankfurter Allgemeine Zeitung*, 10 November 2008]

Berlusconi calls for quick accession of Turkey

The Italian Prime Minister has said that he is in favour of Turkey quickly becoming a member of the European Union. Turkey, Berlusconi said, was a member of NATO and played a "very important role" in the Middle East. For this reason, the accession of Turkey was in the EU's own interests, he claimed. He was speaking after a meeting in Izmir with the Turkish Prime Minister, Recep Tayyip Erdogan, and he said

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that the process by which states become EU members needed to be speeded up. He added that the two next holders of the EU presidency, the Czech Republic and Sweden, were supporters of Turkish accession and that they too would want to make quick progress. So far, Turkey has closed 8 out of the 35 so-called "chapters" of the EU accession process: the pace is very slow, since the talks have been going on since 2005. The talks are currently stalled over Cyprus. Ankara however remains determined to become a member of the EU by 2013. [*Der Standard*, 13 November 2008]

Hungary "like a third world country"

All of Europe has suffered in the financial crisis but no country more so than Hungary, which has been forced to the International Monetary Fund for a bailout. Normally this is something one associated with Third World states, not members of the European Union. The recourse to the IMF is very humiliating for the Hungarian government, not least because only two weeks beforehand the head of the Hungarian national bank was saying that the country did not need any special credit lines from anyone. More importantly, in a recent advertising campaign, he government of Ferenc Gyurcsány boasted of the country's strong economy. (Gyurcsány famously boasted in 2006, albeit in private, that he and his colleagues had lied brazenly about the state of the economy in order to get re-elected.) Now Hungary has taken 20 billion euros in credit from the European Central Bank, the World Bank and the IMF, and the country is facing a severe recession. Salaries will be frozen or even cut; pensions will be slashed. Thus will the conditions be fulfilled which the IMF has attached to its loan. [Reinhard Olt, *Frankfurter Allgemeine Zeitung*, 30 October 2008]

Switzerland rejects Kosovo envoy

The Swiss government has informed Kosovo that its newly appointed ambassador is not welcome. Mr Naim Mala is one of ten envoys sent to European states after they recognised Kosovo's independence but he has been rejected by the Swiss authorities because he has a police record in the country, i.e. because he is a criminal. [*Focus Magazine*, 25 September 2008]

The race for jobs in Brussels

A dozen top jobs are up for grabs in Brussels as Commission President José Manuel Barroso prepares to appoint new people at the head of the European Commission. The Germans feel that they are short-changed and that they do not get enough of these top posts. (The nationality of the commissars themselves is regulated by treaty; the same is not true for all the other jobs in the Brussels bureaucracy.) Chancellor Merkel has made it clear that she wants this to change. For instance, she has told her colleagues that she wants the next General Director of the Environment Directorate to be a German. But the Germans have a funny way of going about it: two Germans have applied for the job, whereas the British and the French, when they want one of their nationals to get a post, generally support only one candidate who is in turn supported by all sides of the political spectrum. Not so the Germans, whose government is itself composed of two opposing parties in coalition for the time being but in fact both looking to the next elections in 2009. Worse for this particular job, neither of the two German applicants has much experience in environmental policy. And worse still, the commissar, Stavros Dimas (Greece) does not want either of them. As a result, the Germans are convinced that their influence over the Commission is quite inadequate, particularly in comparison with … that of the British. This is in spite of the fact that no fewer than seven directors-general are Germans, more than any other member state. The Germans argue that their jobs have little influence, however – even though the holders of them are paid 16,000 euros a month – since they involve things like humanitarian aid or research. At director level, there are 29 Germans against 39 Brits and 34 French. There are 24 Germans as political advisers in the cabinets of commissars but not in the important ones like energy, the economy and consumer protection. It is only over foreign policy (especially enlargement) that the Germans feel they have the clout they deserve. [Christoph B. Schiltz, *Die Welt*, 13 November 2008]

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Through the EU Labyrinth

Margarida Vasconcelos of the European Foundation provides a regular assessment on what is happening in and around the EU institutions, the European Scrutiny Committee at Westminster and of the legal and political importance of recent decisions, regulations, directives and law.

Directive creates new burdens for road safety agency and UK police force

The European Commission adopted last March a proposal for a Directive facilitating cross-border enforcement in the field of road safety. According to the Commission, traffic offences are not often sanctioned if they are committed by a vehicle registered in a Member State which is not the one where the offence has taken place because of the difficulty of identifying them. The draft Directive would set up a system aimed to help Member States to recover financial penalties for road traffic offences that are committed by non-resident offenders, if enforcement does not take place while they are in the country where the offence occurred. The draft proposal covers offences such as speeding, driving under the influence of alcohol, not using a seat belt, and failing to stop at a red light.

The UK Government supports the Commission's overall proposal. However, Jim Fitzpatrick, the Parliamentary Under Secretary of State, Department for Transport, has explained to the European Scrutiny Committee that the UK does not have a higher proportion of non-resident traffic from neighbouring countries as other Member States. Hence, the Government believes that the Commission's proposal would bring more benefits to Member States which have a greater proportion of transit traffic and non-resident offenders than the UK.

The Commission has proposed the creation of an EU electronic data exchange network with the aim of identifying the holder of a vehicle in order to allow the authorities in a Member State, where an offence has been committed, to send out a notification to the holder of the vehicle involved in the offence. If the offence had been committed by a driver other than the holder, the state of offence should decide whether or not to subsequently pursue the driver. The exchanges will be carried out by the national authorities in charge of the vehicle registration documents. Member States would be therefore required to take all measures to make sure that an EU electronic network based on common rules is created, which, obviously, entails an administrative burden for the Government.

The Draft proposal provides for provisions of an administrative nature and it would apply to offences without distinguishing between criminal or administrative law which differs between the Member States. Jim Fitzpatrick has pointed out to the European Scrutiny Committee that "the proposal recognises that some Member States impose penalties on vehicle keepers regardless of circumstances, while others, including the UK, impose penalties on the driver. (…) The details of the proposal are intended to accommodate such a procedure, but it is not yet clear that they would work in practice as drafted."

According to the Government draft impact assessment it is estimated that set-up costs for the Driver and Vehicle Licensing Agency (DVLA) and UK police forces would be around £4.50 million and around £5.70 million for the annual enforcement cost for pursuing non-resident offenders for offences in the UK. The Government has estimated annual costs of £40,000 for the DVLA in providing information to other Member States where UK-registered vehicles are detected committing offences in other Member States. In the meantime the European Parliament Transport Committee has approved the Commission proposal. The Members of the Transport Committee are already considering the possibility of extending the new rules to other road traffic infringements such as using mobile phones while driving as well as driving whilst under the influence of drugs.

The draft proposal is to be adopted under the co-decision procedure with QMV required at the Council. Although the EU transport ministers agreed on the aims of

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the Commission proposal, several Member States, including the UK, are not convinced of the appropriateness of the legal basis chosen by the Commission. They believe that there is no Community competence on the basis of which the proposed Directive could be adopted and that several aspects of the proposal fall under the third pillar. Consequently, such proposal should be adopted by the justice and home affairs council, unanimously, and under the consultation procedure. Obviously, if the legal basis is changed the European Parliament would be removed from the decision making procedure as it would lose its co-decision power and the Commission would be unable to refer to the ECJ in case of failure to respect the obligation by Member States.

Commission seeks regulation of credit rating agencies

On 12 November the European Commission adopted a proposal for a regulation on credit rating agencies which is part of a package of proposals to deal with the financial crisis. The Commission has stressed that "credit rating agencies contributed significantly to recent market turmoil by underestimating the credit risk of structured credit products." The Commission's proposal puts down rigorous conditions for the issuance of credit ratings.

The Commission proposal introduces a registration procedure for credit rating agencies to allow European supervisors to control the activities of rating agencies whose ratings are used by credit institutions, investment firms, insurance, assurance and reinsurance undertakings, collective investment schemes and pension funds within the Community. The proposal establishes the conditions and the procedure for granting or withdrawing that registration. The Commission has proposed a single entry point for the registration, the Committee of European Securities Regulators (CESR) and the responsibility for registration and surveillance of the credit rating agency rests with the competent authority of the home Member State, where the credit rating agency has its registered office.

Under the new rules proposed by the Commission credit rating agencies would be prohibited from providing consultancy or advisory services, they would not be allowed to rate financial instruments if they do not have sufficient quality information to base their ratings on. In order to ensure that internal processes and procedures are sufficiently transparent, credit rating agencies would be obliged to publicly disclose some important information such as on conflicts of interest, methodologies and key rating assumptions and the general nature of their compensation policy. They would also have to publish an annual transparency report. Such report would have to feature internal governance, disclosure practices and remuneration.

At corporate governance level CRAs would be obliged to include at least three independent directors, on their boards, and one would have to be an expert in securitisation and structured finance. They would be appointed for a single term of office which can be no longer than five years and their remuneration cannot depend on the business performance of the rating agency.

If a competent authority of a Member State believes that a registered credit rating agency acting within its territory is in breach of the regulation's obligations it must inform the competent authority of the home Member State. In case of the competent authority of the home Member State refuses to act or is unable to adopt effective measures, the competent authority may take all appropriate measures to protect the interests of its investors. National regulators would be empowered to act and apply efficient sanctions where CRAs do not comply with the rules; they could lose their licence to operate. In order to ensure effective surveillance, the draft regulation would require specific forms of cooperation between Member States competent authorities, to promote a "common supervisory culture."

The Commission believes that self-regulation, based on voluntary compliance with the International Organisation of Securities Commissions (IOSCO) code of conduct, is not adequate. The Commission has stressed that the international IOSCO code was the reference point but it has decided to go "beyond these standards in those areas where we felt that more exacting measures would be appropriate."

There are concerns that the rules proposed by the Commission would jeopardise the independence of the CRA. The proposal imposes excessive requirements. It will create administrative costs for the CRAs, especially the compliance costs with transparency obligations such as the annual transparency report. The Commission has stressed "Since the administrative obligations are comparable with those in the US, they are also comparable in terms of administrative cost" hence the Commission has estimated the administrative costs for CRAs based on the studies carried out by the US Securities and Exchange Commission. The Commission has estimated the combined one time administrative burdens at around €313.743,57 and the combined reoccurring administrative burdens around €18.416,75 per year.

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Agency Workers Directive to become EU law next year

The draft Directive on temporary agency work has been on the EU agenda since 2002 mainly due to the UK opposition. The UK Government had previously believed that the draft Directive requirements would harm the country's deregulated labour market. The Agency Workers Directive providing further rights for temporary workers is another piece of EU legislation that will make the labour market less flexible.

The main controversial issue has been the so-called "grace period", after which the same conditions shall apply to the temporary agency workers as to permanent workers.

The Employment Council on 9 June 2008 reached a political agreement on the temporary agency work directive in parallel with a political agreement on the working time directive. The deal between the Trades Union Congress (TUC), the Confederation of British Industry (CBI), and the UK Government reached last May on granting equal treatment to workers employed via temporary work agencies has opened the door for an EU agreement on the issue. Gordon Brown has agreed to provide temporary workers with the same rights as permanent workers as regards general pay, overtime arrangements, and holidays, after 12 weeks of employment in exchange of the UK being allowed to kept the working time directive opt-out from the 48 hours working week cap.

The Council Common Position responds to the European Parliament's wish to guarantee that the principle of equal treatment, as regards employment conditions, between temporary agency workers and the workers directly recruited by user companies should have effect from the first day of employment. Moreover, this principle's exceptions will be very limited and must be agreed by the social partners, either through collective bargaining or through social partner agreements concluded at national level.

On 22 October the European Parliament adopted the Council Common Position on temporary work without amendments at the second reading vote. The UK is allowed to implement the agreement between CBI and TUC therefore the UK employers will be required to provide to agency workers the same treatment as regards working and employment conditions as permanent staff after 12 weeks in a job.

The new Directive might not improve temporary workers pay and conditions. In fact, it would be harder for temporary workers to find a job. The Temporary Agency Workers Directive will impose further administrative burdens and costs on companies that employ temporary workers consequently they would take on fewer of these workers. Kevin Green, chief executive of the Recruitment and Employment Confederation, has called for a delay on the UK implementation of the Directive. According to Kevin Green "In the current downturn, temporary jobs are a vital resource for employers who are unwilling to take on permanent staff as well a providing opportunities for jobseekers." Moreover, he said "It is essential therefore that we avoid adding any unnecessary bureaucracy and cost to the provision of agency workers."

A final version of the Directive will be adopted after the Council's second reading. It is expected that the Directive will become EU law in spring 2009 at the latest. All the EU Member States will have three years to implement this directive into their national legislations after the entry into force.

EU Committee say "No" to UK's opt-out of Working Time Directive

EU Ministers have been failing to reach an agreement on the Working Time Directive for several years. The 1993 Working Time Directive provides that workers must not work more than an average of 48 hours a week although it allows for derogations. The UK has got an "opt-out" clause successfully negotiated by the Conservative government. In 2004 the European Commission has decided to revise the text and put forward a proposal to amend the Directive. The Working Time Directive should not be amended but abolished, rules on working time should be dealt at national and company level and not at EU level.

Last June, the Employment Council reached a political agreement on the Directive on working time and on the Directive regulating the working conditions of temporary agency workers. Obviously, the main controversial issue has been the so-called 'opt-out." It was a second compromise proposal that made the deal possible which was reached in the early hours of the morning. The EU's Member States have agreed to keep the UK's opt out from the 48 hours working week cap. However, the Commission may eight years after the date of entry into force of this Directive submit a proposal to the European Parliament and the Council to amend this Directive, including the opt-out.

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According to the Commission the Council's Common Position includes a number of aspects which differ from its amended proposal and it does not take on board several amendments proposed by the European Parliament. However, the Commission took the view that supporting the common position is the best way of allowing the legislative procedure to continue.

On 5 November, the European Parliament Committee on Employment and Social Affairs adopted Alejandro Cercas's report with 35 votes for, 13 against and 2 abstentions. It is important to mention that Labour MEPs voted against the deal agreed by Gordon Brown.

Presently, the Working Time Directive limits working time to 48 hours per week on average, including any overtime. Nevertheless, under the 'opt-out' a worker may agree with the employer to work hours exceeding that limit. But, the Directive does not set any explicit working time limit. The Commission's amended proposal has provided that the 'opt-out' would be repealed three years after the proposed Directive entered into force. According to the Council's common position the standard maximum limit continues to be 48 working hours per week unless an individual worker chooses otherwise. There is a new protective limit for opted-out workers which would be 60 hours on average a week when calculated over a period of three months unless collective agreements provide otherwise or 65 hours if inactive periods of on-call time is considered as working time and if no collective agreements applies. The Commission has stressed that the Council's common position introduced a new protective framework for the opt-out as it expands the protection already proposed by the Commission. However, the MEPs have, therefore, reaffirmed their first reading vote by adopting an amendment which provides that the "opt-out" should come to an end three years after the amended Directive enters into force.

Whereas the Council's common position provides that the inactive period of on-call time should not be considered as working time except national legislation or an agreement between the social partners provides for it, the Committee members believe that the full period of on-call time, inactive or not, should be considered as working time.

The Council's common position has left to the Member States to decide the reasonable period within which compensatory rest periods should be granted. However, the European Parliament committee believes that such periods should be granted at the end of the working period according to the applicable legislation or a social partner's agreement.

Taking into account the economic slowdown, scrapping the "opt out" would be bad for businesses and for workers who want to increase their salaries to face the crisis. According to BusinessEurope "The changes proposed by the employment committee would significantly hamper the flexibility that is necessary for workers and companies to operate in today's global economy and therefore negatively affect Europe's competitiveness at a time where Europe can simply not afford to put further breaks on growth and employment."

The outcome of the vote at the Employment Committee has made clear that there would be tough negotiations ahead with the Council. The informal trialogues aiming at reaching a compromise before the European Parliament adopts its position are set to start. Such negotiations between the European Parliament's rapporteur, the French presidency and the Commission will take place behind close doors. The European Parliament will vote on the Directive on 17 December. The Employment Council will meet on 15-16 December. If an agreement is not reached the revision of the Working Time Directive will go through the conciliation procedure. It remains to be seen which compromises will come out from the second reading. According to Europolitics, Alejandro Cercas has said that he is willing to negotiate with the Council but he will not move from the "principles behind the text." He said: "We can talk about the content of the report. But for us it will be impossible to discuss the principles behind the report."

Gordon Brown has agreed to provide temporary workers with the same rights as permanent workers in exchange of the UK being allowed to keep the Working Time Directive opt-out from the 48 hours working week cap. However, he might end up with nothing. Gordon Brown might see the UK "opt-out" scraped at the table of negotiations and the UK will not be able to veto such proposal. The UK might not be able to build a blocking minority and the proposal will reach the necessary qualified majority voting.

EUROPE NEWS



The failure of UK financial services: the Insurance Mediation Directive

The Insurance Mediation Directive introduced an EU framework for the authorization and regulation of intermediaries and brokers who sell insurance products. The Directive established a system of registration for all insurance or reinsurance intermediaries in the Member State of origin (where the insurance firm's registered office is located), enabling them to carry on business in other Member States. The Directive was implemented by the UK in January 2005.The FSA has estimated one off costs for implementing the Directive between £58.8m and £62.7m and recurring costs between £61m and £120.4m. The FSA has estimated that its costs for the development and implementation of the new regimes, from policy making to the design and roll-out of the authorisation and post mortgage and general insurance supervision processes are around £33 million. According to analyst, Keith Boyfield, the Directive will cost the UK around 2bn by 2010. [*Margarida Vasconcelos*]

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Court of Auditors has not signed EU accounts for 14th year in a row

The European Court of Auditors has been issuing a negative assessment as it has never found that the EU funds were perfectly used in the Member States as regards all the EU's areas of expenditure and 2007 was not an exception. The EU money had not been spent well and according to the rules. In 2007, the EU budget totalled 114 billion euro of payments.

The European Court of Auditors presented on 10 November its Annual Report for the 2007 financial year. Vitor Caldeira, president of the European Court of Auditors, said "Overall, the Court's audit opinion on the EU accounts is now unqualified while the opinion on underlying transactions remains broadly similar to that of last year." As regards the legality and regularity of the transactions underlying the accounts the Court also gave unqualified opinions for revenue, commitments and payments for economic and financial affairs and Administrative spending. However, it could not provide a clean opinion for most spending areas. According to the Court payments for Agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, and education and citizenship continue to be materially affected by errors and these areas supervisory and control systems are considered to be only partially effective.

The Court continues to find that payments made to final beneficiaries do not comply with the rules. Cohesion policies (€42 billion) continue to be the area most affected by errors. According to the Court "at least 11 per cent of the total amount reimbursed should not have been reimbursed." The leading causes of errors are the overestimation of needs by the final beneficiaries and misinterpretation of the rules governing the Structural Funds.

The Court estimated that the level of error in agriculture and natural resources is not considerably different from last year. According to the Court "In agriculture and natural resources (51 billion euro) the estimated overall error rate is still material. Rural development, with its often complex rules, accounts for a disproportionately large part of this error rate." For the other areas such as external aid, development and enlargement, research, energy and transport, education and citizenship the error rate was estimated between 2 per cent and 5 per cent. The Court has stressed "The estimated error rates in some spending, notably that previously covered under the headings "internal policies" and "external actions" have fallen - however not enough to affect the overall picture."

The Court acknowledged the Commission's efforts to address the existing weaknesses in supervision and control systems particularly in the area of monitoring and reporting but further progress is needed. The Commission, since 2000, has been working on a reform program to improve the management of the EU budget. It adopted an Action Plan to address the recommendations of the Court on how the Commission should improve its supervisory role of management and control systems in Member States for structural actions. The Commission was expecting that its Action Plan would help it to reach its dream that before the end of its term the Court issue a positive Declaration of Assurance. Although the overall accounts have been approved without qualification for the first time since present accounting rules were adopted the Court of Auditors could not issue a Statement of Assurance as the underlying payments in most spending areas have a too high level of error.

Moreover, the Court has called for simplification of the regulatory framework. According to Vitor Caldeira "Well designed rules and regulations which are clear to interpret and simple to apply decrease the risk of error, streamline the required controls and consequently also reduce their cost."

EUROPE NEWS



The failure of UK financial services: the Prospectus Directive

The Prospectus Directive harmonises requirements for the drafting, approval and distribution of the prospectus to be published when securities are offered to the public and/or admitted to trading on a regulated market situated or operating within a Member State. The Prospectus Directive provides a 'single passport' for issuers of equity and debt securities. The Directive requires that any prospectus shall meet specified disclosure standards and that all prospectuses must be approved by a competent authority (the Financial Services Authority in the UK) when produced. The Prospectus Regulations 2005 implemented the prospectus directive. The FSA has estimated that the incremental costs of preparing an approved prospectus compared to an unapproved prospectus are around £50,000 for 115 public offers. Under the Directive, issuers are required to annually provide the FSA with a document that contains or refers to all information the issuer has been required by the regulation to publish over the preceding 12 months within and outside the EU. The requirement compliance costs have been estimated by the FSA to be around £1.85m and total recurring costs around £1.7m. The FSA has estimated for companies that already fall within the scope of the prospectuses regulation one off compliance costs of £2.3m and ongoing costs of £1.9m. But for companies that were brought into regulation by the Prospectuses Directive compliance costs were estimated around £17.2m. According to Keith Boyfield the directive will cost for the UK around 50m by 2010. [*Margarida Vasconcelos*]