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FALK AUDITORIUM

FROM THE LISBON TREATY TO THE EUROZONE CRISIS:  
A NEW BEGINNING OR THE UNRAVELING OF EUROPE?  
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**PARTICIPANTS:**

PANEL 1: THE BEGINNING OF EUROPE? TRANSATLANTIC RELATIONS IN A POST-LISBON TREATY ERA

**Moderator:**

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**Panelists:**

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PANEL 2: THE BORDERS OF EUROPE? DEALING WITH UNINCORPORATED  
NEIGHBORS

**Moderator:**

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PANEL 3: THE END OF EUROPE? THE IMPACT OF THE CRISIS ON EUROPEAN  
INTEGRATION

**Moderator:**

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## PROCEEDINGS

MS. HILL: Good morning again to everybody. I'm Fiona Hill, the director of the Center on the U.S. and Europe here at Brookings.

I'm really delighted to see that all of you have (inaudible) the typically hot Washington, D.C., steamy weather to come here to the cooler climes of transatlantic relations and Europe. We are really delighted this morning to kick off the first panel on our annual conference on transatlantic relations that we organize in close partnership with the Heinrich Böll Foundation. We'd like to thank Sebastian Gräfe. These are the colleagues from Heinrich Böll, making this possible.

Today's event comes also on the heels of a workshop that we did yesterday with the people who are appearing on our panels today, a very small group who got together to brainstorm on some of the critical issues on the transatlantic agenda. We organized that in conjunction with partners from the European Council on Foreign Relations, and we're very pleased to have Mark Leonard from the Council here today on the panel and the Bertelsmann Foundation along with Heinrich Böll, our partner, at today's conference.

The meetings yesterday focused on some of the critical issues on the agenda like dealing with Russia, China, Iran, and Afghanistan, Pakistan, but what we wanted to do today in this forum with all of you here is

talk about some of the bigger issues related to Europe and the transformation of Europe.

You'll see from today's panel that we're coyly beginning with the idea of the beginning of Europe with the Lisbon Treaty, and ending with what we hope clearly is not the end of Europe or the economic crisis, but we hope to be provocative by getting people to think about these issues within the questions in the middle of the features of European enlargement and what to do with an unincorporated Europe, the neighborhoods, which, of course, includes a large number of countries that either have a prospect or at least a desire for entry into the European Union or at least, in many cases, the hope of a partnership, a close partnership with Europe moving forward.

So, what we wanted to do with this first panel is really talk about, along with you in the audience, about what the Lisbon Treaty has really meant for the development of Europe and also what the implications are of the Lisbon Treaty for relations with the United States.

And I would like to (inaudible) today, each of our panelists will have five to eight minutes of just some opening comments, and then we'll throw it open to you for comments and questions and for discussion.

We'd like to start with Heather Conley, our colleague from the CSIS, just down the road, who we've asked to give a perspective from the viewpoint of the United States, a non-government perspective on

expectations that the U.S. and the analytical community and others may have had about the developments in Europe after the Lisbon Treaty.

We'll then talk to Mark Leonard from the European Council on Foreign Relations to do the same from the European perspective. I've also asked Mark if he can comment a little bit on the implications of some of the recent elections in Europe. Mark obviously sits in London, where there have been some extremely interesting developments in the UK elections and how this may or may not be affected by the various changes within Europe.

So, Mark has a bit of a tall order here because, of course, Europe is still the conglomeration of states as well as the EU itself, and Heather just has to deal with the United States. But, anyway, we're sure that Mark can handle all of that.

We're then going to turn to Andrés Ortega, who is a representative here of the Spanish presidency of the European Union, and works actually directly in the Spanish President's office. Obviously, the Spaniards have had a rather interesting experience over the last several months of having the rotating presidency of the EU at a time of rather dramatic change, as well a crisis. They seem to have weathered it quite well, and Andrés is looking remarkably fit and healthy given the traumas over the last six months, and we asked Andrés if he could give us some observations on what it's been like from the inner workings of the EU and

the work of the Lisbon Treaty.

And then we're going to end with Jeremy Shapiro from the European Bureau of the Department of State. Many of you know Jeremy in his previous guise as one of our Brookings' colleagues. He's written a great deal about Europe, and Jeremy is now literally inside the factory of sausage-making on EU policy, and we'd like Jeremy to comment on what it looks like from this perspective. Although Jeremy, many of you will remember, used to be one of our more unrestrained commentators. So, we'll actually see what life inside the State Department has done for him, and he has a couple of minders from the State Department here, and as we want him to come back again, make sure you don't provoke him too much.

Anyway, we'll turn over to Heather and get things started, and thank you again to everyone for joining us.

MS. CONLEY: Thank you very much, Fiona. I am ready, Jeremy, for your liberation.

MR. SHAPIRO: That makes one of us.

MS. CONLEY: Thank you again, and thank you so much both to Brookings and the organizing partners. It is a privilege to be here, it is a privilege to be among such good colleagues and experts and friends, and I have to say here in Washington, we don't speak enough about Europe. We don't study Europe anymore. Our graduate programs are very small, our

transatlantic programs are very small, and we need to understand, have a better understanding of the fundamental transformation that is occurring in Europe today, and this conference is a very important part of what I see as a continuing education process that needs to occur here in Washington. So, I am delighted to be with you all today.

I have to say I have to quarrel a little bit with the title of our panel, "The Beginning of Europe," because my argument is it is not the beginning of Europe. We're actually closing a very important historic chapter in Trans-Atlantic relations, the post-Cold War chapter, and we haven't yet started to write the next chapter. And I think there are a couple of questions to this: Who writes this next chapter? Is it a transatlantic co-authorship where both are writing it? Does Europe write this narrative of what the next chapter in transatlantic relations, U.S.-European, U.S.-EU relations look like? Does the U.S. even have the energy and the focus and the enthusiasm to actually write a chapter? And what do we want this transatlantic story to say, how do we want it to continue? And I'm afraid it's going to be a very new narrative, and we have to have the courage, and I think particularly Europe has to have the courage to realize that this relationship, the narrative to the story, is going to be far different today and in the future as it was for the last 60 years, and we have to have the courage to rewrite that chapter.



I would argue that the chapter basically closed in 2004, and I just want to step a moment back. 2001, the first time an Article 5 commitment was ever made, and this was the twist to this narrative, no one ever thought that the first time an Article 5 commitment would be made, it would be in the defense of the United States. That was never even thought of. We had the EU-NATO Big Bang in 2004, when, really, the historic transformation of Central and Eastern Europe occurred, and it was a great transatlantic project. We had, obviously, the constitutional process that began in Europe, a longer road than many thought. It took some twists and turns on its own narrative, but finally concluded in the Lisbon process.

We also had at the very end of that chapter a rock in the divisiveness between the United States and Europe, and I would argue we also saw some very historic actions in Russia with the Khodorkovsky trial and really the transformation of President Putin in his role in Russia.

And I think we've been without a narrative for the last six years. We've been trying to determine what that narrative is. Some have argued well, it was the Iraq War and President Bush and unilateralism, and that was sort of the defining narrative of the last six years. Some would argue no, the new narrative is looking at 2008 and President Sarkozy and the role of the EU presidency and the EU negotiating the ceasefire agreement, and Georgia, the Georgia-Russian conflict, redefining this

narrative of transatlantic relations.

I'm not sure of that. I think, again, we were absent of the narrative and we needed to try to point to directions because we hadn't defined what this new relationship would look like. Certainly, Europe had hoped and had the greatest expectation that the Lisbon Treaty would be that new narrative, and as of December 1 of last year, this would be truly the beginning of Europe, which is quite right, as the panel title suggests.

But look what happened after December 1. And, Andrés, I'm going to steal from you a little bit and some comments you have made earlier. Two weeks later, the Copenhagen Climate Change Conference occurred, and when Europe was at its greatest moment of expectation, it had arrived, this was the new narrative, it found itself not in the room at the table on an issue that it found to be the most important issue, an issue of national security to Europe, which is climate change. And every European political leader that had a visit to Washington and met with President Obama made a beeline to Capitol Hill. Why? Because they wanted Congress to pass substantial climate change legislation.

European leadership. This was Europe articulating a position, a far-reaching position, and wanting to bring the rest of the world along. And what happened? They were excluded from the room, a deal was made without them on an issue of great importance. What a great blow.

Several months later, obviously, the cancellation of the U.S.-EU Summit. Another great blow. Maybe perhaps not unexpected, it wasn't a ripe time for an agenda, but how it was communicated, I think, was extremely disturbing to Europe that it was sort of discovered in a leaked press story. That's unfortunate.

And, then, finally, the eurozone Crisis, another extraordinary challenge to the EU. Europe's beginning has not been very smooth or easy, and this has now created what is our new narrative.

Perhaps, the United States is beginning to spell out its new narrative, and if you haven't had a chance to look at the new national security strategy, I recommend it. You can zoom to page 40 or 41. That's sort of where Europe is mentioned in the national security strategy. I haven't read the whole thing, true confession, but I will suggest that there's not a lot of Europe in it specifically. It does talk about the critical nature of allies. There's some very nice language. It's a beautifully written document about the importance of allies, and I want to read you one sentence from it, page 41. "The foundation of the United States' regional and global security will remain America's relations with our allies and our commitment to their security is unshakeable. These relationships must be constantly cultivated." And it goes on.

So, perhaps, the next chapter is how we cultivate because I

think if you want to use a chapter analogy, maybe we have to go to gardening. Think about how we cultivate allies that we've known for awhile. They aren't growing powers, they aren't emerging economies, but they're our allies. We know them well. Perhaps, we know them so well, we don't need to focus our attention and our time on them. And, so, perhaps, the U.S. is trying to understand how we cultivate Europe today. How do you cultivate the EU at a time when it's under extraordinary institutional transformation?

But the problem with cultivation is that transatlantic relations has now become transactional relations because the U.S. agenda is comprised of Afghanistan, Iran, arms control, nonproliferation, would be the four that I would tease out. Europe is part of those priorities, but they are by no means the focus of those priorities. There are a contributor, but they are not an essential partner, and that makes that cultivation that much more challenging.

I've heard over the last several days that Europe just doesn't understand U.S. policy. This is a psychological phenomenon of Europe. They're very concerned, and they're anxiety-ridden. We have to focus on substance, not format. Again, I'm trying to understand how we cultivate the U.S.-EU relationship amongst all of this because we have to be very realistic about the next chapter that we are going to, I hope, jointly write together.

We have to realize our limitations. The incredible domestic distractions that we face today here in Washington, obviously, the oil spill, upcoming midterm elections, an economy, high unemployment, that's a huge domestic focus, and the national security strategy underscores that if we are not great at home, we cannot be great abroad, and that's an important message, but it also will be a focus domestically. Europe is increasingly domestically focused and challenged because of the economic crisis and the political fallout from that.

The U.S. is a global actor, and Europe is not. And that is a fundamental challenge that we have to face. So, when we talk about China, when we talk about rising powers, it's very difficult to have that conversation with the EU because they have not defined that policy per se.

We have to understand that there is amazing transformations going on in Europe; not just the Lisbon Treaty, which it is, but I would argue that, here in Washington, it's very difficult to find even a handful of people who know and understand the difference between the Council, the Commission, Lady Ashton's new role. I defy you to find more than 10 people who can articulate that triangle.

So, if we don't understand it, if we don't have people to explore it, and it seems so complicated, and we're so busy, the reaction, and it's completely understandable, is "when you get it together, let me know. Let

me know.” And that just causes the frustration and the anxiety to grow because Europe feels as if, perhaps, they understand U.S. policy, but I think the fear from Europe is Washington doesn’t understand where Europe is and where it’s evolving.

We have to realize that Europe is changing. We have to manage together transatlantically the devolution of Russia and the evolution of Turkey, and that's a very difficult conversation to have between the U.S. and the EU. There’s no consensus within the EU on those two, and there’s certainly not necessarily transatlantic unity on that.

Beware when we start waxing nostalgic about the U.S.-European relationship. That means we’re a little empty on the intellectual rigor that we need to provide that next chapter, that next narrative. We wax about how devoted we are to the transatlantic relationship, but we have to start formulating the strategic thought to get there.

And then, finally, I would argue that probably the best place to start with this new narrative, which I think it’s a new paradigm for the U.S.-EU relationship in a post-Lisbon Treaty framework is, in fact, what the next panel is going to talk about, and that's the Eastern Partnership. The most successful transatlantic policy was the enlargement of NATO and EU to include the transformation of Central and Eastern Europe, and after about 2008, arguably 2009, that policy has now run out of intellectual gas, and we

haven't defined where we go from here.

We have some architecture, which is known as the Eastern Partnership. I don't believe the United States has defined its own forward-looking strategy for the post-Soviet space and the Western Balkans, that is a great place to begin a successful narrative, I believe, for U.S.-EU cooperation. And let's not focus on necessarily the photo-op or the summit meeting, but I agree, let's focus on the substance, but let's also understand this is not about just the U.S. agenda of Afghanistan, Iran, other issues, it's about true partnership and making sure we're also understanding where Europe's needs and concerns are, and that, to me, is an exciting chapter that I'd to see be seen written, but we have to have the courage to do that.

Thank you.

MS. HILL: Thanks, Heather.

Mark?

MR. LEONARD: Thank you. I'm going to start by reading you an unsolicited e-mail I got yesterday.

"Dear Mark: Yesterday, I saw a large stack of your first book, *Why Europe Will Run the 21st Century*, at a bookstore in Corona, California. They're on sale for \$1." (Laughter)

"Another customer and I laughed at the title. I've been to Europe several times and love it, but why can't you just face it? The U.S.

will always be the most powerful country in the world. Samuel Martinez Stager, proud fifth generation Mexican-American.” (Laughter)

So, luckily, I gave myself a whole century for the prediction in the title (Laughter) to be borne out, and I’m not going to go into the complexities of my argument about the changing nature of political power and how I should argue that Europe would be the most powerful economic or political power, but the European way of doing things is well-suited to the world’s way of doing things, but the e-mail kind of reminded me a bit about the thinking behind this event when we first started talking about it, and we did think that this was going to be Europe’s moment, that the Lisbon Treaty was going to be a moment of triumph. We’ve been through this painful process of institutional status, and we thought that the next few months would be marked by hope and by audacity and all sorts of other wonderful things, and, instead, we’re meeting at a time of real existential crisis, a deeper one than we’ve had for a long period of time.

I know that the third session’s going to go into much more detail on the euro and those sorts of problems, but I think it’s slightly artificial not to mention it at all, so, I’m going to try and do four things in my remarks.

First of all, just to remind ourselves why we were excited about Lisbon. Secondly, to talk about some of the effects that the crisis might have on Europe as a foreign policy actor, in particular in the world of the



economics. Thirdly, to talk a little bit about the politics and the outlook of the EU leaders, as Fiona asked me to do, and, finally, to look at some of the implications for the transatlantic relationship.

So, the first point is yes, why were people excited about Lisbon, and the backdrop is really quite straightforward. If you look at the European Union in terms of its power against other powers in the world, its capacity is actually pretty significant. The European market is the biggest single market in the world.

The European Union spends more on defense than anyone else on the planet, 10 times what the -- well, 12 times what the Russians spend on defense every year. Two-thirds of global development aid comes from Europeans. We have more diplomats than anybody else, over 50,000 stationed in different places and, you know, peacekeepers in every continent on the planet.

And yet there is an obvious fact that the European Union continues to punch well below its weight, its power is fragmented, it's unable to turn this economic heft into real political influence and I think the idea behind Lisbon was actually to start helping the European Union translate some of these power resources into real influence. And there was a big fuss made about the Presidency of the Council because Tony Blair flirted with the -- well, more than flirted, was quite keen to get the job. But I think that was

quite a big distraction.

The interesting thing about the Lisbon Treaty and the real innovation was the creation of this double-hatted High Representative, sometimes called the European Foreign Minister. And what was exciting about that post was that it brought together two existing roles, one which had political legitimacy role, a role which Javier Solana used to do, which had the political legitimacy of representing the member states and the backing of the member states with the financial clout and the ability to integrate different strands of policy which the European Commission had.

And just as important was the creation of a European diplomatic service, the External Action Service, with thousands of people, European embassies all over the globe, which will be quite a transformative change to European foreign policy. I discovered recently that there are 70 countries in the world where less than three European member states have embassies. So, 90 percent of the European Union doesn't have a presence on the ground in a third of the world's countries.

So, actually having European embassies will actually feedback and create more of a strategic culture. But also I think, even more importantly than that, is the way that these embassies will work on the ground. I remember talking to Chris Patton when these ideas first came out and he had just left Brussels, but he said that people have underestimated

the way that having a single person on the ground in somewhere like Kiev or Cairo, who local people talk to about trade, about aid, about foreign policy, about human rights, will totally transform the nature of the European Union as an actor because in these countries the European Union is a hyper power. We are the biggest source of trade, of aid, it's our neighborhood, And yet it's completely easy to ignore the European Union on anything because you speak to different people about these different portfolios, so there's no way that power could be leveraged. And Patton used the example of Bosnia where all these things were brought together under a High Rep, and showed that there's a sort of Darwinian struggle going on between the national embassies and the European High Rep where eventually it became clear that the go-to person was not the British ambassador or the French ambassador or the German ambassador, it was the European Union Special Representative. And he kind of argued that that's what would happen to the European Union.

That sort of process of creating that is well under way. Cathy Ashton, the High Rep, came up with a plan, presented it to member states. We've signed it off and we're now going through the kind of usual bureaucratic processes which will carry on for many months, as like a presidential transition over here. It's going to be quite a long time before people are in place and, in the meantime, you'll get all of their fun and

games and bureaucratic shenanigans which people here are probably more familiar with than anywhere else in the world.

But what is interesting is how all of those issues and those events seem slightly beside the point at the moment. These are super structural issues at a time where the structure of the European Union is changing and is under greater pressure than it has been, probably in my lifetime. And that is the result of the financial crisis. I know you're going to have a proper discussion about that later, but it is worth thinking about, what some of the possible scenarios could mean for the European Union as a partner to the U.S. and as an actor on the world stage. So, you know, there are various different scenarios.

I think the most likely scenario is that the European Union will muddle through with European leaders doing just enough to stop countries defaulting, but the cost of that will be, you know, a return to the economics of the 1930s. The ECB is going to hang countries out on a procrustean bed where they have really very deflationary policies, a lot of social unrest, and a lot of unhappiness, which creates a very introverted and unhappy section of the European Union and massive tensions between countries that are focused on keeping inflation down and countries whose economies are shrinking.

The second scenario which people talk about, which is

probably slightly less likely, is a big leap forward to real political integration, which would lead to a real two-speed Europe with the Eurozone moving forward with much greater fiscal consolidation. And a lot of America's greatest allies being left in the slow lane in this two speed Europe -- Britain, Poland, other countries with whom you've enjoyed warm relationships -- will be passengers and spectators as the European Union gets built.

The third outcome which is also very plausible, but probably slightly less likely, is that the Euro breaks up into a northern and southern Euro which would have a massive effect on Europe's self confidence, but also on the way it's seen in the world. Because the Euro is starting to emerge into a potential tool of European power and could actually lead to the European Union playing a different sort of role on the world stage. So, if the project collapses, that will have massive implications.

But whichever of those scenarios comes to bear, what is clear is that they will make Europe more introverted, more focused on survival than on power projection, and a different kind of partner from the one that we envisage when the Lisbon Treaty was signed.

Which brings me to the third thing, which is the internal politics of the European Union. There's been a fair amount of attention on recent elections, the new coalition government Britain, German -- well, the national elections and then the recent elections in North Rhine Westphalia, Sarkozy's

dropping in the French elections. In the discussion after I can go into some of the details, but I think what is worth noting is what a lot of the governments in Europe actually have in common at the moment because I think you've got a new cohort of leaders who are very different from their counterparts that have four key characteristics.

I think the first is that this is the crisis generation, they're interested in geoeconomics and the shift of economic power rather than geopolitics and the balance of military power. Where previous generations were defined by 1989, Kosovo, 9-11, or Iraq, this generation has been defined by the global economic crisis. Even those who were in power beforehand have been completely changed as a result of it. And what you can see through that is that they're less wedded to traditional geopolitical alliances with the U.S. or enmities against Russia than their predecessors. They want to cut rather than increase military spending. They want to scale down involvement in far off missions in Afghanistan. They want to return the problem of order to others, to local elites, to the U.S., to whoever can step in. And they're also increasingly happy to delegate classical foreign policy to their foreign ministers. They're not really seeking to make their reputation as foreign policy presidents or prime ministers.

The second thing, I think, is a new geography within the European Union. The EU, to a very large extent for the last few years, was

defined by a Donald Rumsfeld remark about the “new” and “old” Europe. He split Europe into East and Western segments and the key fault lines were geopolitical. In the geoeconomic world, the key fault lines are between North and South, and Ivan Krastev has pointed out very shrewdly that that means that rather than Germany being the lynchpin and the hinge between East and West, you have France that plays a similar role between North and South, and that creates a different geography within the European Union.

The third fact is that this is a post-Lisbon generation. Today’s leaders are focused on national concerns rather than European integration. They’re neither particularly enthusiastic on deepening or widening the European Union, and the traditional ways that the European Union moved forward, whether it was through treaties, technocratic leadership by the European Commission, leadership by Germany and bankrolling by Germany, none of those are working in the way that they were beforehand.

And finally, I think, this is a post-American cohort. Today’s leaders no longer look at the world exclusively through the prism of the transatlantic relationship. They’re all, in their own way, for their own personal reasons, pretty frustrated and feeling relatively unloved by the American President and also, you know, structurally they no longer particularly rely on the U.S. for physical protection because it’s not just that they’re less concerned about security, but the Balkan Wars were quite a

long time ago, there aren't any kind of imminent threats for most European countries. Obviously there are exceptions, if you're say, in the Baltic states, you probably have a slightly different perspective, but I think that is the core sentiment in many different capitals which also makes them more interested in emerging powers. Like everyone else, they're more interested in China and India than their predecessors were.

So, what does that mean for the transatlantic relationship? I think it means that we're going to enter into a new period of Atlanticism with three, sort of, core features. The first is an era of interest-based Atlanticism. I think these structural changes were going to work their way through the system sooner or later anyway, but Obama has accelerated them because he's not a reflexist Atlanticist and that has forced Europeans, actually, to face up to the fact that we're in a different world, that the transatlantic relationship has a different sort of impact. And the fact that the U.S. has quite wisely decided to redistribute its own power away from the European continent to become a post-European power, to return more to a position of offshore balancing in the European continent, has also caused Europeans to rethink how they view their security and how that's kind of defended. And so I think, as Heather was saying, we're going to see a much more transactional transatlantic relationship. The era of kind of tides, I think, is over. You're not going to get Lithuanians serving in Afghanistan and weird



places like that in the hope of strengthening Article 5 in the way that you were before, and a lot of European countries are going to withdraw from Afghanistan.

The second kind of feature, I think, is you're going to need to think about new alliances. So, as I said before, your traditional friends -- well, maybe not so friendly anymore because they're some of the most frustrated countries with Obama -- but also they're less important in the new Europe. But there are also new centers of power which could emerge and which could be very fruitful. I think that Hillary Clinton's developed a very good working relationship with Cathy Ashton and as her role grows, and as the European External Action Service takes shape and is able actually to make a real contribution in different places, that could be a very good symbiotic relationship where the European Union can deliver a lot, but equally being an interlocutor to the State Department, at least, to provide some external validation for her and for the institution that she's trying to build.

And thirdly, I think, related to that, is the fact that it's probably going to be a more bottom up relationship based on working together on the ground, on different issues, rather than a sort of top down process led by summits, not least because summits are likely to be cancelled, and so I think it's a different kind of relationship. I've run out of time so I'm not going to go

into any greater detail, but I would commend this report called "Towards a Post-American Europe," which makes both the arguments about the structural changes much better than I did, but also looks at some of the features of the thing. I think Jeremy now has to disown his contribution (Laughter) to this, but Nick Witney, the other author, still believes in what he wrote.

And I also think that, you know, this isn't necessarily a bad thing. I think people tend to underestimate the resilience of the European Union and the European project. That's why I think that my book is a bargain at \$1. (Laughter)

MS. HILL: We could probably arrange for it for free here as well even.

MR. LEONARD: The price will definitely go up. No, I think that the European Union is very flexible and very resilient and is quite political and tends a bit like the United States in Churchill's famous phrase, you know, to do the right thing in the end once it's exhausted all alternative options. But I also think that the transatlantic relationship could actually have a glorious new period ahead of it because I think that it will now be shorn of illusions of some of the kind of angst and emotion which has characterized it in recent years.

And Europeans and Americans are very similar. I've been

very struck over the last few days to how immensely similar the mood is here to in European capitals. It's introverted, defensive, the kind of great hope which was there beforehand hasn't totally dissipated, but isn't necessarily shining as kind of brightly as it was beforehand. And there's much more of a focus on interests and on American interests than there was beforehand. And that's pretty much a good description of the mood in most European capitals, so maybe we could see a glorious period of transatlantic compatibility together where our ambitions are much lower than they were in previous periods of time. But we can work together in a practical way trying to understand a world where we are no longer playing the sort of pivotal and central role collectively that we were beforehand and where we're having to navigate a new geography of power where different economic relationships are creating a whole world without the West, which is around us, which is threatening to undermine the liberal bias and the order which we've relied on so much over the last few years. And we might actually start to face up to it because I think in recent years Europeans and Americans have tended to underestimate the extent of those changes outside of our relationship and have not developed the sort of strategies that we need to operate in a post-American world. And maybe that's something which we can now do together in this period of greater realism and where the audacity of hope has dimmed.

MS. HILL: Well, that's a good slogan anyway. More glory and lower ambitions, that's one we can take away. Andrés, how do things look from the perspective of the Spanish presidency?

MR. ORTEGA: Thank you, Fiona. Thank you to the organizers and thank you to Brookings for having this debate which I think is really useful.

The title is misleading, not because of what Heather was saying, but because I think we're not in the post-Lisbon era. We're in an era of transition to Lisbon and we are in this process and at the same time in the midst of an economic and financial crisis and the two are linked unavoidably. And we will see how.

Let me start by saying that I think the European Union has gone through other crises in history, economic and political, and every time European integration has advanced. It has never, since it started in 1950, gone backwards. Evidently, it could, but I think it's in the interest of the member countries not to do so.

I don't have to remind the audience that the letter and the spirit of the Lisbon Treaty amount to a turning point in the Union's external ambitions, backed by a series of tools and capacities. The Presidency of the European Council, which I think is an important institution, even more important in some ways than the High Representative, which reinforces the

external way the EU is going to work. Presently the European External Action Service under construction, variable geometry for defense, solidarity closes within the European Union, which I think are all important.

Spain, during -- for his presidency had to work hard during the year before making double planning because we were not sure that the Lisbon Treaty was going to come into force, so we had to make the planning of the next treaty, which means a transition Presidency, and then on the Lisbon Treaty. The experience that we had is that -- is not working that badly for the moment. There are tensions, not so much between the Presidency and the new institutions, but among the new institutions and the Commission, which I think will resolve with time.

For Spain, I think, one of the three main aims of this Presidency were three -- one was to put into to place the Lisbon Treaty. We are succeeding in that. That would not be very sexy or very appealing, but I think that will be one of the legacies.

The second is when we started talking about that before the -- early next year, is to build an economic governance for the European Union -- that was before the height of the present crisis. It is going to happen, I would say, later.

And then the third one is to try to have an agreement on Europe 2020, which is an outlook or how to make Europe grow again. And if we don't

grow, it really will begin to become irrelevant, or we, at best, will become a good museum for the rest of the world.

If all these things work, I think the EU would be a good partner for the U.S., not only with bilateral affairs, but especially to work together on joint approaches to international challenges and crises, and to the management of globalization and to global affairs. We are not talking here just about foreign policy, but also about economic policy. And I think the new national security strategy of the U.S., that the economy is the first priority, which is significant.

We are seeing of late that we are advancing decisively to an economic governance of the EU and, in particular, of the members of the euro. Some months ago, when we were preparing the presidency, to talk about economic governance, to talk about economic government of Europe was something which was almost forbidden. It was not accepted by many. We were talking about sanctions for people who were not complying, for countries which were not complying with the main provisions, and now that's what is on the table.

As the report on Project Europe 2013, which was headed by Phillippe Gonzales Sales, says the crisis has acted as a wakeup call for Europe to respond to the changing global order. What was unthinkable some months ago is becoming a reality even though there are some unthinkables creeping

in.

Some months ago, I think it had been unthinkable that the European Union would put together a package of \$750 billion to rescue member countries of the Euro. I hope we will not need it, but I think it's a show, not of solidarity, but of rationality and of help to the countries which might need it.

The present situation would make a U.S.-European summit really interesting because I think that the Obama Administration is interested in what's happening in the economic field in Europe, not least because it's affected by it, by the value of the dollar and by the prospectus for the payment of the U.S. sovereign debt.

I think it's a bit late to do all this, but it's not too late. It's late because some of the fathers of the European Union, of the monetary union, already have pointed out to the problems that we are going to have. I don't think it's too late because I think Germany has changed. It has gone. It would have been better to have done it three or four months ago, but we're still on time.

The setting down of these figures, of all this, will take time, and it will make transatlantic relations more complex. We have seen it with the SWIFT issue, which has proved also that we have to look at the European Parliament, all Americans have to look at the European Parliament as much as we look at the Congress, which is an added difficulty. Or not a difficulty, I would say an added complexity to the institutional relations between the EU

and the U.S.

What I think the Lisbon Treaty means, or one of the effects it's having, is that for institutional reasons is that the foreign ministries are losing their weight in the European construction. Now we see that the economic ministers, the home affairs ministers, the justice ministers have more to say about the way the European Union is advancing. That runs the risk of a temptation to re-nationalize foreign policy in the European Union, a risk which has happened already in the years between the approval of the European Constitution and the failure of it, and the entry into force of the Lisbon Treaty -- an international negotiation which hadn't too much practical success, I might add, not only for the small countries, but for all the countries. I think now in Europe all countries are small for the multi-polar world to which we're going, even Germany or France.

So, with time, the choice will be more integration in foreign policy or irrelevance. The problem is that at present nobody speaks now in the name of Europe and of the European interests.

What do I think is my main worry at the moment? It's a danger of a double retrenchment driven mainly by economic consideration, but also by political wants.

In terms of efforts of peace and aid, of the U.S. on the one hand and of the Europeans on the other, if the Americans and the Europeans both



enter a period in which managing their internal problems become more pressing than managing the global ones, then all the powers will have enhanced windows of opportunities to redefine the global and regional balances. And this could lead to a Western retrenchment that could add to the natural demographic and economic weakening of the West in relative terms. This has to do with values, and not only with values, but with the economic models that we are defending when there are other models in the world which are more successful, which produce more growth and which fulfill more the interests of the people.

Another factor which I think is going to be difficult to understand for the U.S. is that the common foreign policy of the EU is not a single policy and it's not going to be a single policy for the time being. It might become one in the next few years or few decades, but not for the moment. It could help if the EU at least spoke with one voice and, even better, with one mouth. It didn't happen in Copenhagen.

But I think there are progresses in the way the European Union is leading with some of the things which are happening, especially in its neighborhood, which we will talk in the second panel. One of these attitudes, of the new kind of attitudes, has been the change in Poland and Russia, especially after the Katyn accident.

We have to push for common ground on all these issues and also on

common ground with the U.S. But as your report on a new approach for an Euro-American partnership by the NORTOROP , the foundation set up by Jacques de Rolle, says the unity of Europe is a necessary condition for the influence of the Union, but it has become an insufficient condition. It needs the culture, and it needs the tools. There has to be a unity in name and interest and instruments, and this I think will take time.

In a multi-polar world, the aim for Europe and the challenge is to become one of the poles and to push for more multilateralism. We have no choice but to be multilateralists. There, I think the U.S. has a different view. It's pushing for multi-partnership which is not necessarily to multilateralism, but to what I call multi-bilateralism.

The U.S. though is still an indispensable nation for Europe, not for European integration, but for things which happen outside of the transatlantic relations and which affect us all. I don't think the EU needs anymore what General de Gaulle called an *agent fédérateur externe*, which was America. I think Europe has ceased to be a strategic problem for the U.S., but these days we see that it's becoming an economic problem that affects the U.S.

We shouldn't be too worried that the U.S. is looking to other partners, but that Europe remains one of the major partners of the U.S. The Europe-American partnership is necessary to manage present crises, and to be able

to elaborate and propose global solutions to global problems.

We have to work on the role of NATO, which is an alliance that has lost its centrality, but not its importance, and we have to work on the relations between NATO and the EU.

But today, I think transatlantic relations are about other things. Transatlantic has to include Africa and has to include Latin America, which I think are important areas in what is called the Atlantic Basin Initiative to which we should give more importance and more weight.

Then there is a shaping of globalization that needs Western input. What kind of globalization do we want between the U.S. and Europe? We have to push for common goods, but also fight against common bads, and security itself is a common good.

My proposal will be to shape a radical agenda to 2020 for the U.S. and Europe, for transatlantic relations in which we would talk about things which will happen in the next 10 years and try to avoid the immediate solutions to everything. Looking at 2020, we will have to solve the problems of our relations, for example, on Iran -- not really the immediate response to sanctions, but a 5 to 10-years process on key issues of how the region is going to look like. I think in transatlantic relations at the moment there is a real lack of anticipation of the world to come.

Thank you.

MS. HILL: Thanks very much.

Jeremy.

MR. SHAPIRO: Thanks. It's good to be back here at Brookings. It's good to see old friends. It's good to have an opportunity, as a sort of new government official, to repudiate publically all the things I supposedly held while I worked here. (Laughter)

I think along those lines, I'd say my central point today is that the United States wants to work with a strong, cohesive Europe as a partner in meeting today's economic and security problems. There is really no ambivalence, which has existed in this town in the past, in the Obama Administration on this point, and no fear of a united Europe. In fact, to the contrary, our fear these days is very much, as has been mentioned by I think all the panelists, of a weak and inward focused Europe.

And partially as a result of this view, I think we have seen in the first year and a half of the Obama Administration an extraordinarily high, I would say even unprecedented, level of unity and common purpose between the United States and Europe as they've sort of worked together to try to deal with gathering in current global problems and threats on Iran, on Iraq, on Afghanistan, on climate change, on Guantanamo, on the Balkans. You name it. I've been working on these issues for a long time, and my sense is that there hasn't been a time since I've been working on it where our global

strategies with Europeans are as in-sync as they are today.

That is by no means to say that we don't have differences; we certainly do. And it's certainly not saying that we are together solving all of the world's problems; we certainly are not. It is to say that on the big issues of the day we're working very well together.

Now I know that some have suggested, I think even on this panel, that the centrality of the transatlantic relationship is diminished as a result of the many daunting global challenges that the United States is facing and the approach the United States has taken to them, particularly the rise of new powers. The logic seems to be that because the United States is so preoccupied and apparently preoccupied with Iraq, with Afghanistan, with Iran, etcetera, that we need Europe less or we pay less attention to Europe. I think that this view is quite mistaken.

In fact, I think the opposite is true. It's precisely because we are faced with such a daunting array of global problems that we need the cooperation of our oldest, most like-minded and most effective allies to the extent that we do, and we find them in Europe. On all the issues I mentioned, certainly, we look first to our European partners to develop common policies and for advice, for assistance, for solidarity. There is a general recognition in the Obama Administration that none of these important problems can be solved, or even really managed, without effective U.S.-European cooperation.

That's sort of an article of faith.

I would add that I see the same view in Europe. Mark was citing the report that we wrote last year. The report was hortatory, I think, and it was pushing Europeans toward adopting this point of view. The research on this report actually implied quite the opposite. It implied that Europeans in fact don't see the world this way. They don't see the world as a place where they can operate independently. They see the world very much as a place where they need -- and this applies not just to Eastern Europeans, but to all the Europeans -- where they very much need tight, effective cooperation with the United States. So it's a parallel process.

One can see this type of process unfolding right now. Just to sort of pick one kind of small example in the grand scheme of things, I guess, on the issue of conventional arms control in Europe. A lot of people, analysts, officials, on both sides of the Atlantic and in Russia, have raised the problem of the sort of fraying conventional arms control regime in Europe. So the Secretary of State appointed a Special Envoy for this problem, the former NATO Ambassador Toria Nuland, and she, as her sort of first act as this new Special Envoy, embarked on a prolonged -- I guess listening tour is the best way to describe it. She's going out to all of the European allies and talking to them about what they need and want out of the conventional arms control regime.

I got a call just the other day from an official of an unnamed country who said to me, what was Toria Nuland doing here?

I said, well, she came to talk to you about conventional arms control.

And he said, yes, but what do you want us to do?

I said, well, she's here to consult. That's what consultations are like. She listens to what you say and takes that onboard and tries to come up with a common position.

He said, oh, that's a bit frightening. Are you sure you don't have any ideas that you just want to let us know about right now?

So this is an uncomfortable proposition. We shouldn't underestimate just how difficult it is to work and to develop joint partnerships. We have an idea on the conventional arms control. That's why we appointed a Special Envoy that we need to lead, that we need to formulate, to crystallize the alliance opinion, but we don't need to hand it to the alliance. We're asking for consultations, and, besides from this guy, I think we're getting them.

I would say it is precisely because we know we need a strong European partner - and this is the other point I really want to stress - that we welcomed the Lisbon Treaty. The Treaty marks a really, I think, important, as everybody has said, milestone for Europe and for its role in the world. It creates new institutions such as the European Council Presidency, the High Representative, the External Action Service, and an empowered European

Parliament that's going to guide the future of the European Union, hopefully to a more coherent and consistent and, we hope, effective foreign policy.

And because we were very supportive of that goal, we were very quick off the mark to engage with these new institutions. High Representative Ashton took her first extra-EU trip here to meet the Secretary of State, and they've already established, as I think Mark mentioned, a very close and effective working relationship.

This transition has not always been easy, for Europeans as well as for Americans. It's sometimes been very difficult to navigate the new and uncertain institutional configuration. Heather challenged us to find 10 people in Washington who understood how Brussels works. I would challenge her to find 10 people in Brussels who understand how Brussels works. It's very confusing. We have had, for example, a struggle getting approval of the terrorist finance tracking program, though we are, I think, optimistic at this point that it's going to move forward.

But the larger point is that the relationship is healthy enough to contain these types of disputes and we look forward to engaging with these new institutions. The Parliament, I guess like all legislative branches -- and we're quite used to this -- is a pain. That's the nature of executive-legislative interaction.

Interestingly, this is something that the U.S. Government is a



lot more used to than the European governments. And if you go to the European Parliament, they're very interested in asserting their prerogatives, they're very interested in having both the United States and the member states and the other European institutions pay more attention to them. So I don't want to exaggerate this point, but they do mention that the United States seems to have a better handle on how to deal with a newly assertive Parliament than their own member states, and particularly then the European Council. Because, you know, we understand what these legislatures need. We understand that they're a necessary and healthy part of a democracy and that they ultimately lend themselves to the -- create a popular base for foreign policy, which is what's necessary to make it more effective. So, you know, we go through the pain.

I should say also that we understand, as Andrés mentioned, that the Lisbon Treaty will take time to have its effects and that it is early days. We, after all, just took over a year to transition to a new U.S. Government. In point of fact, we're not actually done, and we weren't even really creating any new institutions. The EU's transition is certainly not done and, in fact, I think it's fair to say it's barely begun. The External Action Service has not even been stood up yet.

Having said that, we have some concerns -- I have some concerns about the signs coming from Brussels that the post-Lisbon EU may

not live up to its potential of delivering a more coherent EU policy. The EU seems to be having more than the usual amount of trouble managing crises, more than the usual amount of trouble establishing what roles the various institutions will have and, perhaps more fundamentally, deciding just how integrated and centralized or joint or common, or whatever word you want to use, of foreign policy that the member states really want.

The U.S. does not really have a role in this debate. I agree with Andrés that we are not a motor for European integration anymore and we can hardly be more integrationist than the Europeans. But we do have a stake in the outcome. The United States and, I would argue, the world needs an EU that can support the interests and values of Europe around the world; that remains outwardly focused and that can assume its rightful place in global affairs, in partnership with the United States, but also in partnership with other nations.

We understand that for Europe, particularly at this difficult moment of financial stress, this represents a very significant challenge. What I would say is -- I sort of survey the landscape of my inbox -- the problems of the day really demand that they rise to the challenge and we're there to assist, but I think ultimately it is a challenge for Europe.

Thank you.

MS. HILL: Thanks very much, Jeremy. Well, it's taken us a lot

longer, I guess, than we'd anticipated to explain all of these various issues. I would encourage people to go and grab coffee as we continue with the discussions. Because what we were going to try to do is not have a proper break, really, in between panels. We're going to do a quick changeover, which will clearly be seamless, but as you know, and like all transitions, it might take a little bit of time. That's certainly been the theme of our discussions today.

In any case -- and there are also people in the audience, I can see at least a handful of people who know what's going on in Brussels. I can see a few people that are actually from Brussels in this audience and I'm sure that they may have a few comments as well as questions here.

But I'd like to -- we have a microphone that's going to move around - and I'd like to encourage people here to offer some observations and also some questions. Question here and then over here. So we'll take two together.

Thank you and please identify yourself for the panelists.

Thank you.

MR. RAPNOUIL: Manuel Lafont Rapnouil. I'm a visiting fellow at CSIS.

I wanted to follow up on Jeremy's comment about the fact that there is no more U.S. ambivalence toward Europe, that what the U.S. wants

is a strong, cohesive Europe. But is it so just because the moment right now is more of a risk of a weak Europe? Or is it totally unlinked with that risk?

And to dig into that, I'm not challenging the idea that there's a centrality for the U.S. of partnering with Europe, but I'm challenging the idea that Europe would be the first stop for any U.S. initiative or program or priority in the international scene. It actually -- sometimes, it does look like it's the last stop because it's taken for granted. It's the last stop not because it's not important; it's important. But it's taken for granted, which makes it at least look sensible to first consult with others -- with the emerging powers, with the less like-minded partners -- to agree upon some kind of terms of references and then you go and you rubber stamp these terms of references with the Europeans.

And so, what you want is a Europe that is easy, comfortable enough to partner with you, to bring something on the table, but actually it's comfortable for the U.S., on a strictly objective point of view, to have not a Europe that is not too strong and too cohesive.

Thank you.

MS. HILL: Thank you. On over here. And then, actually, over here. The gentleman in the blue shirt and then there's a lady at the back with a yellow shirt on. We'll take these two together.

MR. SMITH: Tony Smith, French-American Foundation.

We didn't rehearse this question, but it's along the same lines. And it's for all the members of the panel, but I guess mainly for Jeremy Shapiro.

Inevitably in conferences like this, one hears that Europe is no longer loved by the United States, that it's not central to the United States anymore, that Obama is from Hawaii and Indonesia and he doesn't understand Europe, and on and on, and that this has consequences. It has consequences that will reframe how we operate. It's going to be transactional. There's not going to be any more Lithuanians going to Afghanistan. There's going to be a bottoms-up, kind of on-the-ground cooperation.

And then one hears from the United States representative that says, no, no, no, no, that's all wrong. Europe is still central and we want a strong Europe and this is the first time that we haven't been ambivalent about this and so forth.

Now, obviously there's a distinctly different view held on the two sides of the Atlantic on this issue. So, my question really is this: Is it important that we have this dichotomy in viewpoints about whether or not Europe is central to America's focus these days? If not, why is it not important? And if it is important, what are you doing about it?

MS. HILL: Good, thanks. And then over to the back here.

Carey, right next to you. Right there, yeah, thanks.

MS. McNAMARA: Thank you. I'm Sally McNamara from the Margaret Thatcher Center for Freedom at the Heritage Foundation. I have two very brief questions.

Our Spanish friend mentioned Jacques Delors and I was very happy to hear that. Of course, Jacques Delors was the guy who said we have to develop the EU in secret because if the public knew what we were doing, they would never support us.

I wonder if you have any concerns about the lack of public legitimacy and support for further European integration. Of course, the Lisbon Treaty was rejected three times in referenda and the EU says go back and vote again until we get the right answer. We've seen people in Germany, an overwhelming amount of whom who would have the Deutsche Mark back rather than the Euro. Even the Liberal Democrats in the UK Cabinet have accepted that there can't be any further integration that the British will sign up to because we're deeply uncomfortable with our relationship with the European Union.

Are you not worried about the lack of public support?  
Because there's only so far you can go before this whole thing blows up.

My second question is about the Lisbon Treaty and the foreign policy provisions. I wonder exactly what crisis you think the Lisbon Treaty

can address, whether it's something like Haiti in the future or Iran, whatever it might be.

I've been a European analyst for over a decade now and I've constantly heard about how Maastricht and Amsterdam and Nice is going to stop the EU being impotent before a crisis again. And of course, the next time the EU fails it says we need another treaty to do it better next time. And they never actually manage to do this. So I wonder exactly what foreign policy crisis the Lisbon Treaty will help the EU address.

Ms. HILL: Thanks. Well, I guess those are all related. I'll take some more questions after this and let the panel begin. Jeremy, there was a number of issues --

MR. SHAPIRO: Yeah.

MS. HILL: -- pointedly directed at you.

MR. SHAPIRO: Thanks.

MS. HILL: But then I will ask the rest of the panel to comment on the other, particularly of Sally's very forceful set of questions there about the -- I shouldn't really say that word on this stage - but the impotence of the EU here and whether treaties can work like little blue pills is really the kind of question here. (Laughter)

MR. SHAPIRO: You want me to follow that up?

MS. HILL: No, Jeremy. That's all right. The U.S. isn't in the

pill-dispensing mode, I presume, anyway.

MR. SHAPIRO: One of the peculiarities I've discovered of being a government official is that you come to conferences and people say to you, why isn't the U.S. Government paying attention to the following thing? And you think to yourself, that's strange, I spend 80 hours a week on it.

And, I mean, I suppose when I sort of try to puzzle through this why they aren't noticing how I spend my time, I think, well, maybe they mean that, you know, we're not being effective, which is sometimes true, but that's not what they're saying. And sometimes I think, well, maybe what they mean is that we're not getting a lot of high-level attention on the issue, which is sometimes true of the issues that I spend 80 hours a week on, and I think that's because I work so well on them (laughter) that they don't require high-level attention. And that's a really important point about the function of the U.S.-European relationship, is that it is so dense and so inter-institutional -- institutionalized -- that, in fact, it works very, very well at sort of lower levels which pass under the radar.

I have a colleague who works in the Near Eastern Bureau of the State Department, and she recently went to a meeting, a U.S.-European meeting on Middle East issues. And she came back from that meeting and she said, you guys have a very different diplomacy than we do. We get --



we go into a meeting with the Middle Easterners and we sit on both sides of the table and we yell at each other about how stupid we are. In the European diplomacy, you actually discuss how you can work together to solve the problems and it's much more cooperative. And not to say that there aren't differences, but it's an entirely different type of conversation at the working level.

This sort of expresses the way I used to put it, that it may be true that Americans are from Mars and Europeans are from Venus, but if that's true, then the Chinese are from Alpha Centauri. And that sometimes this feels a little bit like the narcissisms of small differences.

So, to try to bring that back to the questions, Manuel is asking whether we -- why we favor a strong Europe. We don't do that out of the goodness of our heart. You know, I mean, it has a sort of Cartesian attraction to it, but that's not the reason. But the reason is also not because Europe is weak. The reason is, as I said, because the global problems are daunting and we understand that we will not solve them without an effective Europe. Is that selfish? I don't know, maybe it is. I don't care. That's -- I think that's a pretty good reason to feel that way.

The question of whether we go to Europe first or last or in the between I think sort of misunderstands the very deep inter-institutional ties that I was talking about. When you go to China, you have to bring a very

sort of -- you know, you have to bring 200 officials at a very high level and have a very complicated protocol-laden interaction. When you go to Europe, which we do every day - in fact, those consultations are taking place constantly and, in fact, we are doing this stuff on a daily basis.

And so on every issue, I would say, even on issues which don't terribly concern Europe, we do turn to them first. That may not make the media. And I think that this is part of the problem, is that we assume that what defines the attention of government officials is what we see in the media. And what do we see in the media? We see places where we disagree and don't work together because those are the interesting stories. And so, we talk a lot about Iran in the media, because it's -- and the U.S. seems very focused on Iran. But the European Bureau in the State Department generates 80 percent of the paper. I'm not really sure whether that's a good thing or not, or even, frankly, what that means. (laughter) But it does mean that we are a lot busier than others.

But that, I think, gets to Tony's question whether it was, does this dichotomy matter? Because I think he's absolutely right that the perception is out there, I guess apart from the reasons I said. And, you know, I think it does matter.

We -- the basis of this relationship has to be a strong sense that we need to work together and that we are working together. What to do

about it, I'm not entirely sure. I know that, you know, you're never going to have a New York Times headline story that says, you know, Deputy Assistant Secretary of State meets European counterpart for the 11th time. But I think, you know, I come to conferences like this and I say this over and over again, and maybe eventually it'll work. (Laughter)

MS. HILL: Andrés, Sally asked a few questions about treaties. We don't have to quite respond to them in the way that I summarized that up, but, I mean, do you feel that the Lisbon Treaty has made the EU any better positioned to deal with crises? I mean, Haiti would be a difficult crisis for the EU, given the distance, to respond to, but Iran is a clear crisis that the European Union is in the midst of. Do you think that the Lisbon Treaty has helped more than Maastricht or other treaties before?

MR. ORTEGA: Yes. I think the Lisbon Treaty will help, with time, the European Union to deal with crisis.

But it's not just the amount of treaties. It's amount of political will and of capabilities. And in terms of capabilities, I think we are far behind where we should. We have, I think, about -- for example, in terms of soldiers, we have about half a million more soldiers than the U.S., but we are unable to put a force of 60,000 people on the ground. And that's applies also to civilian capabilities, which are very important for the European Union.

What I think is that in the question that was made before is,

yes, there is a lack of public legitimacy, but which shouldn't be solved through referenda. I don't believe much in referenda because people tend to hold on things which have nothing to do with the question, but more on the mode of the moment. It would be impossible to govern a change of treaties in a European Union with 27 members with 27 referenda, no? Maybe if you had a referendum at the European level, that could work.

What's happening, I think, is that there is a change of mood in some countries. And especially in one, which I think worries me. I saw a written poll in which people from the main European countries were asked, do you think the European integration has gone too far? Not far enough or enough? And two countries answered that it had gone too far, over 40 percent; 42 percent in the case of Britain, which is not surprising, but 41 percent in the case of Germany, which is something that didn't happen 10 years ago.

And I think that has happened because -- maybe because of many reasons. But one reason is that I think the elite and the people who are at the head of the elite are not talking, are not doing pedagogical work in terms of Europe and what Europe means for Germany, yeah? And that happened all over the place in Europe. But I think we lack figures of the kind regular or embodied vision of Europe.

MS. HILL: What do you think about that, Mark, particularly

about the national mood and the public legitimacy issues that Sally raised?

MR. LEONARD: Can I answer another question first?

MS. HILL: You can answer another question as well. Yeah.

MR. LEONARD: Okay. Yeah, because I think on the public legitimacy, I'll deal with that very briefly. I think that there are legitimacy problems, but they are often confused with the idea that there's a democratic deficit. I see, Andy Moravcsik at the back of the room, and I think he's written very convincingly, I don't know if he'd frame it in this way, but that actually the main problem with this is a category mistake. It's that we try and use the wrong tools to get legitimacy for what's going on.

The problem for the European Union is not a democratic deficit. If anything, it's a democratic surplus because we force technical things which aren't the sort of things which people get very excited into an elected -- into -- we use the wrong kind of tools to -- Andy's shown that there's much greater checks and balances within the European political system than in almost any national system. But the things that we're dealing with aren't the same things that you deal with in a national system.

So when people get involved in politics at a national level, it's largely about a delivery of public services, it's about the strength of the economy, it's about pensions and schools and hospitals and wars. And the European Union has a lot of power, but it's in the parts of -- but it's in areas

which people don't really care about and didn't care about when they were governed by national bureaucrats. And they've now been brought up to a kind of higher level. But it's quite difficult to get people excited about the sound emissions of lawnmower regulations and other things like that, which is why they don't necessarily show up to vote in European elections.

If you have a referendum on technical treaties, which are about process rather than about substance, it's quite difficult to fill the space, so you tend to have very low turnout. And you often have a referendum which is largely an attempt to take a temperature of people's support for the incumbents rather than it being about issues concerning, because they're not really the right sort of issues for these sorts of things. But, anyway, these are slightly theoretical points because I don't think there are going to be anymore treaties or referenda for a very long time, because I think Lisbon does -- leaves the high water mark for European integration for the next kind of stretch of time.

But the question I really wanted to answer was about, you know, the transatlantic relationship. Does it matter more, is there a big divide? I mean, I don't think there is a divide on both sides of the Atlantic. I think that, basically, the problem is -- well, the basic thing which we're dealing with is that 20 years ago the Cold War came to an end, which means that Europe no longer needs the U.S. for its protection in the way that

it did before. It's now united, it's kind of fixed, it's not a massive security problem for Americans. That's opened the door for globalization and for other powers to emerge and to join the global economy. There's been a massive shift in economic power which has created a shift in military, in political power, which has allowed our values and our way of looking at things to be challenged by people with other ideas about what's going on.

And if you take all of those things together it means that the transatlantic relationship isn't the right unit of analysis for most of the problems that we're trying to think about in the world. If you want to come out with a solution on climate change, sure, we're big emitters, but there's an even bigger emitter than any European country or the U.S., which is China.

Do you want to deal with Iran? You know, there are other countries that have vetoes on the -- if sanctions is your particular way of dealing with it, there are other countries that have vetoes, so it doesn't matter if we necessarily agree with each other -- and those countries tend to buy more things from the Iranians and invest more in their oil fields. If you're trying to deal with Afghanistan or Pakistan, again, there are other people who have got more influence than Europeans, you know, such as Afghanistan's neighbors.

And therefore, the transatlantic relationship, whilst heavily institutionalized and close and easy in the way that Jeremy described, is a

small part of a bigger picture on almost any issue you're talking about. And that's not, you know, a function of Obama being born in Hawaii or anything like that. It's just a fact, it's a structural change in the world. And that's why we need to rethink about how we go about doing things in the world. And that's where we're at at the moment.

But it's not going to change as a result of pointing out how many times Obama goes to Europe or how many hours a week Jeremy spends on the transatlantic relationship. These are, I think, more structural things.

MR. SHAPIRO: I'm with you on the first of those things.

MS. HILL: Even though it was an impressive amount of hours, though.

MR. LEONARD: It was.

MS. HILL: Eighty hours is impressive, however. We'll give Jeremy that.

Heather, you want a quick comment? And then I'll just take two more questions from the floor and we'll do our transition to the next panel.

MS. CONLEY: Absolutely. I mean, focusing in on sort of the long-term sustainability of the relationship, what concerns me about the U.S.-EU transatlantic relationship at large is the prolonged period where our



agendas don't match. And you can sustain that for a while, but if you don't come to a point where agendas start looking together or, yes, there's one party has a priority, the other party -- and there's not some mutual benefit to a shared agenda, I think you have, you know, the makings of a long-term problem. And the American and European agendas haven't matched for a while.

And I use Afghanistan as sort of my example, is where -- is a top priority at the administration, understandably. And after nine years of shared challenge in Afghanistan, you speak to many Europeans and you ask them, why are you in Afghanistan? And they'll look at you and they'll say, well, for you, for the relationship.

Some have motivations of an Article 5, if the Lithuanian example -- if we're in Afghanistan, perhaps that will cause the United States to be much more forthcoming in their engagement within NATO. But it's not necessarily the same reason why the United States is in Afghanistan. And you can sustain that for a while, that difference. But when the challenges are great, then that's when friction is caused because our motivations are very different.

Jeremy, I'm going to challenge you on sort of the quantity versus quality of the dialogue and the conversation, and this gets back to my point of cultivation. And I want to pull that out of the national security

strategy, because I think that cultivation of allies are critical and the content of the conversation and the dialogue. It is not the frequency, it is not the ritualization of the process. It's the quality by which you talk. And we can allow the U.S.-EU relationship -- the quality can be about poultry washing, that's up to us if we want to sort of allow that to be a dominant conversation around the U.S.-EU table. Or we can take -- we can be strategic, we can think long and hard, and we can enhance the quality.

If your colleague, Jeremy, that you talked to didn't understand why Ambassador Nuland was visiting and what the purpose was -- and that's quantity. She went, she listened, but that's not quality. And both sides probably left that meeting going, "what was that?" That's what we have to prevent. That's why we have to go back to this cultivation.

It is hard work. Europe is hard, hard work. It's complex. You hear differences of opinion, you may hear one voice from Brussels, you'll hear another voice from the capital. Well you know what? When any European visits Washington and they go to the Defense Department, the State Department, the National Security Council, various agencies, I guarantee you they will hear complexity, they will hear different voices. We're both hard, we're hard partners. We're hard friends to have. But I think we've always historically believed the value of the relationship is greater to overcome the frustrations.

And I'm starting to be concerned that that calculation is being transformed. The frustrations now are almost not worth the effort for both sides. This is not just one direction.

And last point, to Sally's question. You know, I think the EU process has always been about -- it's been an elite exercise. But let's not lose the fact that the EU touches every citizen, whether you stand in line at the airport or a regulatory process, it touches -- it is powerful. You know? Students are studying in Europe because of Erasmus; they're not coming to the U.S., for costs and things like that. It's powerful.

And getting back to my question, that's why we have to focus on quality because we're never going to meet the quantity that is within the EU system. And that's -- we're not competing, but we have to focus on the quality. And I think we've fallen a little behind, but to Jeremy's point, the administration is still getting up to full speed and the challenges are great. But we've got to transform how we do this. It's not shooting into an economic council or an energy council, it's getting to the strategic level.

MS. HILL: Because we've got limited time, I'm just going to ask the three people who still wanted to ask questions who are all nicely, conveniently foisted together.

The gentleman here, the purple shirt, Paul Sharp, here in the white shirt, and the gentleman here with the very nice pink tie. And then

we'll move on very quickly into the next panel, please.

MR. OTI: Thank you. I'm Anton Oti . I'm a consultant on development issues.

Maybe my attention drifted for a few seconds, but I don't think I heard any of the speakers really dwell on the fact there's been a change of power in the UK to a government led by a party which -- at least in opposition -- did a great deal to advertise its Euro skepticism. Perhaps this means that pragmatically you don't think this will make much difference. Perhaps it's because with this very strange coalition, you think it's too soon to tell.

MS. HILL: Thanks. Very nice, succinct question. Here and then in the white shirt behind, yeah.

MR. STACEY: Jeff Stacey from the State Departments.

Until Heather just mentioned Afghanistan, I was about to say I was curious as to why Afghanistan wasn't mentioned yet today by this panel. For all the obvious reasons, certainly NATO relations have been colored in every way by what's happened in Afghanistan and it's been very challenging. But I don't know how many of you in this room saw Richard Haas' article in the FT the other day or the other week. It could be summed up in one phrase: U.S. no longer needs Europe. But as you've heard Jeremy say and you won't be surprised to hear me say, the Department of

State doesn't have that view.

And although that article and others seemed to be consistent with this new conventional wisdom that we are at present in the nadir of U.S.-EU relations, I concur that we stand together on a huge array of matters. But there is sort of one curious thing that I might say to European friends. In lots and lots of meeting in recent months and years, we are welcomed, you might say, by our European colleagues back to -- might use the metaphor of the table. Their view is that we've been away from the table for some time, but now we're back. But we would expect to sort of participate in the conversation and have the meal together, but, in fact, it seems like all too often we're expected to sort of sit quietly for a while, and sort of wondering when we're going to move past that.

But I agree with Mr. Ortega that indeed Lisbon's promise is great. And I work for the coordinator for reconstruction to stabilization at State, what the UN calls "peace building," what the EU calls "civilian crisis management." And we are engaging each other very readily. As the EU is building hard power tools, like the EU battle groups, we're building soft power tools. There's a great deal, seemingly, to work together on. I've been very impressed with Fran Gerber and Dan Hamilton's initiative, among others.

And so I'd like to ask the panelists, what big issue could be

picked where there might be a union across the Atlantic, where the two sides could stand together and make a real difference? Might that be related to the international financial architecture? Sarkozy and Brown and others, it's really been the Europeans that have done the most creative thinking on this. And they've called for Bretton Woods II. Maybe we need a Basel III, maybe we needed some sort of combination of the two. I just wonder what you think.

MS. HILL: Thanks a lot. And then Paul Sharp is just behind you here in the white shirt. Thanks.

MR. ADAMSON: Thanks, Paul Adamson, not Sharp.

MS. HILL: Adamson. So I'm thinking about *E!Sharp*. In fact, I should actually say that if people didn't get their copies, Paul Adamson, who is the publisher of *E!Sharp*, is turning it just into his publication, which was outside available, which will tell you all you need to know about Brussels, right?

MR. ADAMSON: Thank you. Thank you very much.

Very early on, Heather, you mentioned the commonly held view that the U.S. or Obama rebuffed Europe by not going to this EU-U.S. summit. If that was rebuff, I would argue it was a rebuff to the Spanish government because it's supposed to be in Madrid, of course. So the logic of Lisbon, as you know, was all these what's called third country bilateral

summits should no longer take place in member state capitals, but actually in Brussels, if at all.

And frankly, the Spanish government was the most embarrassed because they exploited, I would argue, Mr. Ortega, that Presidency for their own personal and national interest as opposed to the EU interest. And they were rebuffed, and I would argue rightly so. It wasn't a rebuff by the U.S. Maybe the U.S. is trying to -- maybe that's Jeremy Shapiro's influence on Obama's White House, that you Europeans -- that the logic of Lisbon is that we don't do these summits anymore in member state capitals. Let's be clear about that.

And Mark also mentioned that the -- there may be more bottom-up than top-down. I would argue both. You also mentioned, Mark, that Cathy and Hillary Clinton have this relationship. It's clear, and they talk a lot, clearly, and they e-mail a lot each other. So I think it's going to be bottom-up and top-down going forward.

And one reason why -- Cathy Ashton -- why the Cathy Ashton has had such difficulty getting credibility is because it had a very bad European media in the past few weeks because European politicians and European diplomats and other people like that have been briefing Cathy Ashton personally and the whole idea of a higher rep from policy against -- in the media. And that's why things have been going so badly wrong in the

past few weeks.

I think Europeans are finally working up the fact that it's counterproductive. But not a word has come at this kind of critical nature from the U.S. side, to their great credit. And I would certainly suggest in something else that the issue at the moment is not the U.S. not taking Europe seriously. It's the Europe not taking Europe seriously.

MS. HILL: Thanks. I'll just actually ask our panelists to try to give a quick response to this and response to Jeff Stacey about Afghanistan.

You'll be pleased to know that yesterday in the workshop that we had together with all the panelists, Afghanistan was actually a central theme of the discussions that we had with our U.S. and European counterparts. And we had numerous people also from the State Department working directly on the Afghanistan issue. And there was a very serious discussion about this, which was pretty much along the lines that you outlined about the U.S. and Europe both acknowledging the necessity of cooperating together, but, of course, raising all the longer term challenges and some of the difficulties of sustaining the momentum in Afghanistan, as Heather touched upon.

So, perhaps we won't touch on the Afghanistan issue. We can tell you a little bit more about that afterwards. But I'll ask everyone to quickly touch on the other issues. Perhaps, Mark, you could start with the UK



perspective? And then let's see if we have any suggestions of what a big issue that the EU and the U.S. could work together on.

MR. LEONARD: Well, it's still very early days to -- for this government, but I wouldn't expect a massive change to British foreign or European policy as a result of it, for a number of reasons.

First of all, because it is a coalition government, and one of the big advantages for David Cameron about being in a coalition government is that he was going to end up in -- fulfilling all of his worst nightmares. I think all politicians are affected by formative experiences, and his formative experiences were watching the Kzevdy party rip itself apart over Europe and over Maastricht because they had a tiny majority which then disappeared. And that was about to happen to him because if he'd won the election, he would have had a tiny majority which would have disappeared, and there were enough head-banging Euro-skeptics in the party to make it more or less ungovernable on many foreign policy things.

However, as there's a coalition, it both allows him to shed the sillier ideas in their manifesto about repatriating powers and also gives him a cushion of -- a decent cushion in order to make sure that there is an almost kind of majority there.

Secondly, because Ashley, you know -- Britain, after a brief period of activist and engaged European behavior under Tony Blair, went

back to its kind of status quo ante, which is essentially being kind of negative foot dragging, but not enough to actually get anything done under Gordon Brown. And I think that's more or less going to continue for the next period of time.

Thirdly, because there isn't -- because Britain isn't actually in the bits of the European Union which are going to have to really change very dramatically over the next period of time. If Britain was in the Euro, it could actually have a much more important impact on the existential decisions which are going to be made over the next few months. And, you know, because Britain isn't in the Euro, that's not going to happen.

And fourthly, because of what I sort of described earlier, the mood in other capitals actually isn't that different from the mood in London, so there aren't any great European projects being hatched up in Berlin or Paris or other capitals. What you have is a very different sort of atmosphere. And actually, you've got as much Euro skepticism in some of the kind of core European countries, like Germany, as you have in Britain. So I don't think that Britain's particularly out of synch with the European norm.

So, for all those reasons, I don't think it's going to have a massive impact. I do think it does have an impact for the U.S., though, because it does mean that the special relationship is maybe going to be less useful; this particular special relationship is maybe going to be less useful as

a way of getting things done within the European Union. Because though I don't think that Britain is going to be kind of isolated and having kind of really negative conflicts over different things -- which they might have been if they'd tried to repatriate lots of power -- they aren't central to a lot of discussions that are going on. And I think a lot of the running will be made by empowerists, probably, and by different sort of coalitions on different issues. I think Poland and Germany, for example, are very important if you think about Russia.

But, anyway, you've got different constellations on different issues. Britain is probably not going to be a key bit of many of those.

MS. HILL: Heather, any big issues that you want to leave as well as things that we could agree together?

Ms. CONLEY: You know, I probably wouldn't lead on economic governance, although it will be a topic of transatlantic conversation. I think when we see at the end of this month the G8, G20 baton being handed from Canada to France, we're going to have to fasten our seatbelts a little bit on that because I think we do have great differences of opinion on the regulatory environment, hedge funds, derivatives. We've already had exchange of letters between Mr. Geithner and others. That's going to be, I think, a challenging topic of conversation, although we do need to find, obviously, harmonization and standardization.

I would pick -- and I'm teeing up the next panel -- I think the next great project will be the unfinished business of Europe, which is Western Balkans and the post-Soviet space. That is where Europe has, and the EU in particular, has comparative advantage and it requires vision and leadership, and that is a true U.S.-EU partnership.

We've got a framework, but we have no meat on the bones. And we have to create that and provide renewed vision and renewed momentum to both of those strategies. So that's my big issue.

On the U.S.-EU summit, very briefly. You know, I only know what I read. And so that was -- the story was more about how it was communicated and how it was interpreted, which was an amazing psychoanalysis of each side analyzing one another. It's behind us, let's put it there. My concern is I feel like I'm starting to go back through the same pattern again when I go, well, we don't know if we're going to have -- well, when the President visits Lisbon in November, will we be -- have, you know, an EU conversation? Uh, I don't know. And again, the anxiety and the uncertainty starts, just -- the velocity which will then bring more European leaders here to, you know -- are you coming? Are you going to do -- what are we going to talk about?

Let's break the cycle, let's -- the White House needs to make a decision, I would submit, early, build the agenda, drive the agenda. What

would both sides find satisfying? But to continue the “I don’t know, I don’t know,” just feeds the cycle of uncertainty. And that’s the last thing this relationship needs.

MS. HILL: Thanks, Heather. Well, we need to have the certainty of the next panel, because certainly the moderator of the next panel, Steve, is glaring at me now. Because we’ve cut in -- (Laughter) not glaring, okay. It was just a tired look.

Andrés, a quick thought about big issues that we could work together on or any other things that you want to leave as a passing thoughts?

MR. ORTEGA: I think one big issue would be the reform of the international financial system.

MS. HILL: Okay, so you agree on that issue.

MR. ORTEGA: For that we need Europeans and the Americans to put their act together. But first, the Europeans put their act together, how to have a clear view on that. But I think that’s essential after what has happened in the last two years.

MS. HILL: Good. Jeremy?

MR. SHAPIRO: Thanks. I have a lot to say, but I guess I’ll try to condense it in the interest of Steve.

Maybe I should respond to Heather’s point about the quantity

versus quality. I think that it's, of course, right that quality is important. It's a little bit difficult to measure. I would say -- channeling Stalin, which is never a very good idea -- that quantity has a quality all its own. And what I mean by that is, if you think about the sort of example that I gave about the Norwegian --

MS. HILL: Oops. He didn't say that.

MR. SHAPIRO: The unnamed diplomat who called me.

(Laughter) The --

MS. HILL: Don't worry, they're not in the EU. It's not a concern. (Laughter)

MR. SHAPIRO: The point about the density there is that he had people to call, that he knew where to reach out to. Because, in fact, we had had numerous meaningless conversations. And this is the way in which the U.S.-European relationship works. It has all sorts of informal context which improve on quality, I would say, in ways which are very difficult to measure and capture.

And so I would -- with that in mind, I'd sort of push back on this notion that the relationship is sort of heading off into some sort of abyss. The -- I think Mark is very right that the transatlantic relations have ceased to be the sort of the appropriate unit of analysis for dealing with a lot of the problems that the United States cares about, and that we need other

partners to deal with it. But Europe still has a very special place in that partnership, specifically because of the density, of the quality, of the quantity of the relationship, and because of the overlap in interests.

We have enormous differences. We fight with the Europeans all the time about all sorts of things. The relationship, as I said, is healthy enough to contain that. And I think it's actually the history of the relationship.

Sometimes I hear these stories about, oh, we're fighting about everything nowadays. And I think, you know, relative to what? I mean, as one of the NATO secretary generals once said, people are always coming to me and saying "the alliance is in disarray." When has the alliance been in array? (Laughter) The nature of the thing is fighting, that's what the relationship, to some degree, is about. The quality of the relationship is not measured by the disputes that we have, it's measured about the mechanisms and institutions we use to resolve them and to reach compromise. And we do that exceedingly well with our European partners.

So, in that sense, my pessimism about the future is very much tempered by my cynicism about the past. (Laughter) And I appeal to you to keep that in mind.

Thank you.

MS. HILL: That's very good, Jeremy. And actually, the Norway slip is a good segue also into the next panel. Because most people

-- well, I am sure not this audience, but I think a lot of people would think of Norway as being a critical country in the EU. In fact, Norway is one of those unincorporated neighbor that feels quite happy being in NATO and being in a variety of other European institutions, but not in the EU. And this is exactly what the next panel is going to talk about.

How does Europe and all of its varied forms and given its complicated history now deal with the enlargement issue that Andrés and others talked about and then deal with the countries that are probably never going to be part of an enlarged EU, but certainly will be part of Europe?

So, we'll hand it over without any further ado. And just ask people, if you want to get coffee, go dash get it and come back. Because we're going to do one of those nonexistent transitions.

Thank you to everybody. (Applause)

MR. PIFER: Okay. We're going to go ahead and start with our second panel. Welcome back.

I think the first panel sort of set this conversation up which is looking at how the European Union engages with its neighbors, particularly those neighbors to the east. And if you look at that area, you've got a lot going on there. You have a Russia which reportedly in the last couple of months has adopted a policy looking more to engage the West in part searching for support for its effort to modernize, but I still think also in the



context of a Russian policy that wants to exert primacy in the post-Soviet space and has some fairly definite views as to the engagement of European institutions in that area.

In the case of Turkey, you have a country that is somewhat frustrated with its relations with the West. It seems to be carving out a more independent course and some analysts ask is Turkey now turning away from Europe. And in the case of the Ukraine, a fairly important election there about three months ago, an effort to, as the Ukraine leadership now says, rebalance its relationships with Russia, but also in the context of saying that Ukraine still has a high priority attached to developing a strong relationship with the European Union.

So what I want to do with this panel today is look at how the European Union engages with those countries. And we're talking about not just Russia, Turkey, and Ukraine, but we're talking about the Balkans, the South Caucasus, Belarus, Moldova, where there's a lot going on. And we'll start by talking a little bit about what the neighbors are looking for and then how the European Union engages with those neighbors. And we've got four excellent panelists to help us explore this question today. I won't give you long biographies. You have them in the pamphlet, but we'll begin with Ivan Krastev, who is the chairman of the board at the Center for Liberal Strategies, and he's going to help us set the context by talking a bit about

what the neighbors want in terms of their relationship with the European Union.

Our second speaker is Michael Leigh, who is Director General for enlargement at the European Commission, and he's going to give us a Brussels perspective on how it views relations with the neighbors, including future prospects for enlargement.

Our third panelist is Marie Mendras, who is the director of the policy planning staff at the French Ministry of Foreign and European Affairs. And she will also talk about how Europe engages with the neighbors and perhaps add some comments about the impact of the Eurozone crisis on that engagement.

And then our last speaker is from the U.S. State Department, Dan Russell, who is Deputy Assistant Secretary of State, who manages relations with Russia, Ukraine, and some other countries in that part of the world. And he'll wrap up our panel presentation with a discussion on the U.S. perspective of relations between Europe and its neighbors and perhaps give us a few comments on American policy in the region.

We've asked each of the speakers to keep to about eight minutes or so in their opening comments so that we'll have a good 45 minutes for questions and answers. So Ivan, let me give the floor to you.

MR. KRASSTEV: Thank you very much.

Let's start with a joke that summarizes part of the fears and expectations of the neighbors because, you know, normally the jokes are the best summaries that you can get of the situation. And this joke is coming from the Balkans and the idea is how are we going to distinguish between the pessimists and the optimists in the Balkans when it comes to the EU enlargement? And the pessimist is somebody who believes that Albania is going to join the European Union during the Turkish presidency. (Laughter) And the optimist is the one who believes that Turkey is going to join during the Albanian presidency. (Laughter)

I'm saying this because from the point of view where the neighbors stand there is not a major change. And, of course, I'm going to touch on Turkey which is a special case, but most of these countries want to be in the European Union. For them the problem is do they believe that the European Union wants them in? So when you talk about Euro-pessimism in the Balkans, for example, it's not about being pessimistic, "what is going to happen when we are in the EU;" the problem is "can we be there?"

So from this point of view, and here there are people who basically really know what's going on. So I use my kind of a much more marginal position to try to give a new context because there is a major change. In the time of crisis I do believe that you have two types of different crises when there is the crisis when you don't know what to do. This is not

exactly the problem with the neighborhood policy.

The second part of the crisis is that you don't know why you are doing this. And I do believe that part of the problem which we see, especially in the European debate, is there is a major crisis with respect to the vision of what the European Union is doing. What NATO is doing is not about the European Union also.

Just five years ago the common sense was the European Union does not have neighbors. The European neighbors are future members. In a certain way the European Union was surrounded by future members because the very view of European Union and European publics about security, about European order, this is the expansion of the European Union. And of course there was talk about natural borders and some are going to talk about Russia as a natural border being too vast and too different. Others are going to talk about Turkey as a natural border. But it was a local debate. The major issue was the European Union is expanding so this is what is happening. What changed with the economic crisis in my view is that we basically reached certain limits and these limits are important.

One is there is a lot of talk about publics. The interesting story about the changing European Union is that like in many places, like in the United States, you have rebellion against the elites. Not that rebelling

people here is an alternative problem to project to the EU. This is very important. People who are very unhappy about the EU, they're not happy about anything else. But at the same time there is a major constraint. The elite are now scared and they're not ready to do anything the public really oppose. And from this point of view it's a major change. And when people have been basically reading also, for example, the behavior of the German government during the Euro crisis and others. People matter. But people matter now much more as a negative constraint of what they're not happy to happen then basically proposing alternatives of what should happen. And I do believe this is one of the limits that is very important.

The second is when we're talking about limits and about integration, the truth is that there was also a kind of other limit being pushed, and this is that the current level of the integration probably for a while is going to be a natural border. This is the German Constitutional Court and its decision that this is the integration that basically Germany is going to tolerate. And I do believe that this is also a very important moment when we are trying to imagine how the European Union is going to develop.

And the third border is about the transformative power of the European Union itself and Bulgaria. So Bulgaria and Romania, unfortunately, contributed quite a lot to part of the skepticism from the side of the European public and policy elites, how much you can change societies

and how quickly. Part of the disappointment in the European policy circles comes from the fact that nevertheless on the level of *acquis communautaire* and the institutional changes, everything goes very quickly. When the country signed the European Union, you start to understand that basically the change was probably less radical than many people expected. And I am less kind of pessimistic on this. I do believe the European Union did very well so the pressure (inaudible) Bulgaria was in. But this created a new atmosphere and to talk about fatigue, to talk about digestion, it is in fact to change the problem. It's much more deeper.

For the first time basically European Union is coming with different type of questions, and for the first time you start to understand that probably you have also neighbors, not only future members and what you are doing about this. Secondly, I do believe we reached the point in which for the last 20 years it was the center of Europe, the democratic liberal center that had been expanding. Now we see it kind of a reverse moment in which the periphery is trying basically to grow back. What I mean? Some of the problems that normally are going to be located in the countries that have been around the European Union, you can start seeing within the European Union, especially in some countries in the periphery. On the level of governance I can give basically Bulgaria as the example because being Bulgarian it's always much more fair to give your own country than blame

others. But in the way that creative accounting on the Greek side was something that you're going to expect basically to happen on the other side of the border of the European Union, not inside. And also part of the nationalistic type of sentiments that you can see in the member states also can be seen on the other side of the region.

I'm saying this because I do believe in this situation and I'm trying to basically try to describe the situation like this. The European Union for a long time was talking about the emergence of the multi-polar world. What we didn't predict is that we're going to see the emergence of the multi-polar Europe. And this is what we're facing at the moment. I do believe that Turkey is emerging as a power of its own with the post-Kemalist project being very much interested to democratize and basically to use the European Union as an instrument for reforming its society, but basically having ambition and vision of its own. And this vision does not coincide. This is the vision of the European Union when it comes to policies, especially when it comes to foreign policy. When it comes to Russia, of course Russia is interested in partnership and modernization, but they didn't detect a strong drive in the current Russian leadership to become part of the European Union.

Basically there is a major skepticism coming from the Russian side about the European project in general. Of course, they are respected

by how rich and successful the European Union is. But the very experience of the Russians with the collapse of the Soviet Union in the 1980s, early 1990s, makes them very skeptical to any post-national projects.

So I'm saying this because in a certain way now, in Europe, we not simply should say what happened in the future, but probably should look back and in a different way read what happened in the last 20 years. People believe that Europe was an uneventful place in the 1990s. It's not true. Not simply that we had the war. In Europe, the states being created for the last 20 years, basically the birth rate of new states can be compared only with Africa in the 1960s. We have more than 1,000 of new states being created. They went in a very important state building project, and most of the state building projects are very controversial, very unstable.

For example, in the Balkans you cannot have simply a normal state building projects because all of these countries have been building their states and their societies as future members of the European Union. This was a member state building. So now turning the Balkans basically the European Union is going to wait for a while is not an option because they don't have an alternative, not simply as a geopolitical alternative, but the very kind of state building project that is so much rooted in the European Union and the European presence that for the European Union there is not an exit strategy. In a certain way, honestly speaking, when it comes to the



Balkans, the European Union has only one choice. Either basically to go with a certain level of integration and getting these countries in or acting as a type of a colonial power in most of these places, basically running protectorates. And I do believe that this is a very tough choice. But this is a choice which you cannot avoid.

In the level of the post-Soviet space, nevertheless, the state building has slightly different logic. I'm very skeptical to some realists who believe that basically we can leave this part of the world to Russia and they can establish a sphere of influence. I'm even not talking in moral terms. I am very skeptical about the capacity of the Russian state to control a sphere of influence in the post-Soviet space. Let's not forget that anti-Russian sentiments are one of the major resources for the state building in the post-Soviet space. Their people are coming from former colonial powers and they know that being a former colonial power gives them advantages, but also some disadvantages. And I do believe that there are natural limits also of what Russia can achieve in a post-Soviet space.

So if this is the case, for me the biggest problems is what the European Union can offer to its neighbors that is not simply promise for "you are going to be a member one day." The joke from the Balkans. And it is not simply let's go with the reformists because "they're good to you anyway." I do believe that one of the things that the European Union basically can

offer is being much more involved in the process of the state building that is happening both on the Balkans with a much more clear European perspective, but also in the post-Soviet space. And from this point of view, I don't believe that for this European Union should change its instruments. The Eastern Partnership is important and it is there for the post-Soviet space. But we should be much more clear what we're doing and much more honest with the politicians there with respect from that. Because otherwise what I'm very much afraid for the post-Soviet space is the emergence of a varied type of a cynical political elite which start to develop a (inaudible) type of mentality. Basically playing his (inaudible), being radically opportunistic, but being radically opportunistic not because of trying to build a state, but much more trying to keep a bad equilibrium that exists in most of these countries.

So from this point of view, for me the short and midterm strategy is becoming much more important than the long-term vision that's likely to have been lost. What you are going to do for countries like the Ukraine to be much more functional in three or four years in my view is a much more important question than the question when are you going to get Ukraine in NATO or should you get Ukraine in NATO?

So probably I should finish kind of here in order to give the floor for the people who know better. But let's basically summarize the

summary I started with. It is probably unlikely that Turkey is going to join Europe during the Albanian presidency. But it is also kind of unimaginable what Albania is going to do outside of the European Union.

Thank you very much.

MR. PIFER: Thank you for setting that context. Michael?

MR. LEIGH: Well, I think that I'm going to focus on the EU's enlargement agenda. There are many wider issues including those that Ivan has raised, issues related to Eastern Partnership, post-Soviet space and so on. But I'll stick to enlargement as this is the area that I'm directly responsible for and have been involved with indeed for many years.

Enlargement is sometimes said to have been one of the EU's most successful policies, perhaps its most successful foreign policy, even if not technically speaking a foreign policy. The peaceful transformation of half the European continent was due to many factors, most of all factors within the countries themselves, but I think there's little doubt that the EU umbrella and the NATO umbrella contributed greatly to this transformation process. On unbalance, the enlargement that concluded with 10 countries joining the EU in 2004 to be joined by Bulgaria and Romania in 2007 was a success story. Many of the doubts and fears that had been expressed in advance did not occur, whether at the level of the effects of labor migration, although here and there it did exceed expectations, or dislocation of industry, yes, a

problem in some parts of Europe, particularly those parts bordering directly on new member states. But on the whole -- or the fear that the EU institutions would break down and would not be able to function properly with 27 member states. These fears did not occur.

And if you look at the way the EU's institutions have been functioning over the last few years, both before the entry into force of the Lisbon Treaty and now afterwards, we can see that the Council ministers take decisions, the European Parliament fulfills its role, the whole range of EU policies from competition policy, agricultural policy, you name it, have been functioning more or less effectively. We faced enormous new challenges over the recent period which raised issues of their own.

But if we confine the discussion to the impact of the fifth enlargement, many of the doubts and fears were not realized and on the whole I think one can claim that it was a success story. Even with Bulgaria and Romania, where questions are sometimes raised, Ivan has convinced me that the leverage not only before accession, but after, has helped the reform process. And we've seen major efforts to fight organized crime and corruption which are continuing today.

However, this success was not widely perceived as such by the European public. And I think it was very little explained to public opinion. I think you would be hard-pressed to find speeches by leading European

leaders, statesmen, diplomats over the last 10-year period which clearly set out for public opinion why we were engaged in this enlargement process and quite simply why we felt it was in the interest of the European Union, the original member states and the new member states, to pursue this process, whether cast in broad terms of stability, security, and efforts to promote prosperity throughout the continent, a new market of 100 million consumers with rising incomes whose macroeconomic performance on the whole was rather stronger than some of our old member states, with exceptions, of course. The public was left perplexed and perhaps was left with the impression either that this was a type of charity or a reward for overthrowing communism, not something that we had decided because it was to the benefit of the European Union as a whole. That was in a sense the inheritance of the fifth enlargement. Many studies have been made. We tried to publicize the results of these studies indicating the economic impact and objective, and I think on the whole, positive terms. But these have had very little impact on public opinion.

So when we turn to the existing enlargement agenda which covers the countries of what are now called the Western Balkans, Turkey, and most recently Iceland - that has applied for membership in the EU - we have against a background let's say misperceptions or doubts and hesitations about the fifth enlargement.

If I were to summarize the main challenges facing our enlargement policy today I would say that they are on the one hand, how to make the perspective of EU accession, which may in many cases be several years away, sufficiently tangible and credible for the population that we have the necessary leverage with the governments and the parliaments to continue to push for the necessary reforms -- political, economic, legal reforms. How can we do that on the one side, vis-à-vis partner countries? And how, on the other side, can we maintain public support for enlargement which is wavering for various reasons in the existing member states?

If we take the side of the partner countries, it's true. It's a medium- to long-term perspective for many of the countries. As you may know, there are now formally speaking three candidate countries -- Turkey, Croatia, and the former Yugoslav Republic of Macedonia. I won't go into any detail now, but Croatia is approaching the final phases of its succession negotiations, even though there are still many open issues. And I think even Ivan is right to suggest that the experience with Bulgaria and Romania is to some extent conditioning the approach vis-à-vis Croatia and the other countries.

Turkey poses many challenges of its own. We began negotiations in 2005 at the same time as we did with Croatia. Progress has been much slower, but even so until now under each Presidency we've

managed to open a new chapter and to a remarkable extent, despite all the political noise that one hears on both sides, doubts and hesitations in some quarters in the EU, public opinion in Turkey, a position of some political parties in Turkey and others, doubtful about this process, the bureaucracy in Turkey remains really tuned into this. The European Integration Secretariat has been beefed up. A minister was appointed with special responsibility last year pursuing this agenda, directly reporting to the prime minister. And at the bureaucratic level, whatever may be happening of a political nature, whatever incidents may come along, there is slow and steady progress in adapting legislation, changing institutions, even in Turkey where the challenge is perhaps greater. Iceland is a story in its own right. Maybe we'll reserve that, if anyone is curious, for questions and discussion.

So how can we make this perspective credible, tangible in the candidate countries and the potential candidate countries? I think the main way is to show, as in the case of Croatia, that the perspective of joining the EU is real, that a country which meets the necessary conditions actually can and will join, and that this is not just the idle talk of politicians about which the public may be very skeptical. And for the countries which are still held back by issues, state building issues, issues which are hangovers from the dreadful wars of a decade or so ago, disputes over minorities, over frontiers, other bilateral issues which mean that in addition to the normal transition

questions, we have these post-Yugoslav issues to deal with as well, state building, member state building issues as well. There I think it's very important that we should continue to deliver benefits from this process progressively along the way so that it retains its credibility. It's not just light at the end of a very distant tunnel.

And strangely enough in a picture in which 2009-2010 have been difficult years, we have had some remarkable successes of which I think the most striking in the last 18 month period has been visa liberalization. And I think one of the things that that has shown in the case of the countries of the Western Balkans is that if you have a goal that is sufficiently attractive, that has resonance with public opinion, and that requires specific benchmarks to be met, even quite demanding ones to get there, countries, even those facing serious state building issues or governance issues or bilateral disputes with their neighbors are actually quite quickly able to make the necessary reforms.

So we abolished visa requirements for three countries last year. We've now proposed they be abolished for Bosnia and Albania and probably they will by the end of this year, which I think is a remarkable achievement given all the constraints, the challenges, the difficulties. And it's something which enables business people, young people, academics and others to see that there are actually benefits along the way. And I think



we have to be creative and imaginative about that. And as we're into a medium-term perspective to think of other such debts which progressively can make this a meaningful and a real process for public opinion in the candidates and the potential candidates.

What can we do on the other side in our member states to keep public support and political support? I think, first of all, and politicians are most reluctant to do this, we need to explain and not get tired of explaining to the population why we're in this business at all. And to have the topic, even if it's not an immediate vote winner, include it, more and more, in public discourse so that people can understand that it's in our own interest. And I think we can demonstrate in many concrete ways whether the fight against organized crime and corruption, whether preventing trafficking of drugs, human beings, or what have you, that there are benefits to us along the way, too, and that this is not something that we're just doing for the greater good.

We can also remind countries about geography. People are rather vague. I have a son who is a geographer. I'm rather weak when it comes to geography myself. But all of the countries of the Western Balkans are entirely surrounded now by member states. And for us to achieve our own objectives with regard, for example, to trans-European transport networks, to interconnectiveness with gas and electricity networks, we can't

do that without the involvement of these countries. So I think we need to explain this, too.

But as far as the actual preparations for membership is concerned, the deal essentially is that we keep our commitments to the countries in the region. However difficult the process may be, we don't walk away. And we have not walked away in any case, even the most difficult and the most challenging. But the quid pro quo for that in a sense is that we do have rigorous conditionality. And my institution is the institution in a way which is charged with monitoring the implementation of the conditionality and seeing that the pace at which a country approaches the EU is a reflection of the pace in which it meets very explicit and well established benchmarks.

It's sometimes said that the bar has been raised for these countries compared with the fifth enlargement. There's an element of truth in that, but I think perhaps one could say better that the kind of benchmarks that were implicit very often -- in the last accession negotiations -- are now explicitly. And this, if anything, is helpful because it means that the countries know exactly what they have to aim for, and it gives us a completely objective basis for reporting.

So for the enlargement agenda, which is perhaps not the top priority under extreme circumstances and where the backwash from the

economic and financial and sovereign debt crisis no doubt influences opinion, even in countries which are most steadfast in support of the enlargement agenda, I think it's this twin approach which is based on delivering benefits along the way and making the prospect of accession as credible as possible in the partner countries while taking conscious steps to maintain public support through emphasizing interests, specific interests, showing benefits along the way to our own members, and insisting that people approach the EU under basis of conditionality. It's the best policy we've got.

Of course there are individual issues which are intractable, which need to be tackled, bilateral questions, state building questions, Turkey, the Cypress problem raised, many specifics which cannot be handled overnight. But nonetheless, I think this policy is tried and true. And if we can stay with it, I think it will bring benefits albeit in the medium- to long-term.

Thank you.

MR. PIFER: Thank you. Marie?

MS. MENDRAS: Thank you, Steve.

A few weeks ago in Paris, in the Ministry of Foreign European Affairs, we celebrated the 60 years anniversary of the Schuman Declaration. And we had invited friends and personalities from, you know, many

countries, from India, China, Russia, Brazil. It was striking to hear the very different perceptions and views of what Europe was, should be, will be. And if you think of what, you know, Robert Schuman and the other great Europeanists in 1950 had in mind for Europe, they certainly could not envision a 27-member state community in 2010.

What I'm trying to say is that the history of the European Union, the building of the European Union, had no predetermined history or scenario. It's always been invented. It's been constantly invented. And expectations and disappointments I think about Europe have been in a way even stronger outside Europe than inside because for those who are not in the building process, which has been a formidable process, but also extremely painful, bureaucratic, difficult, making so many concessions, changing habits, changing mentalities, that for those who have not been dealing with the process day after day probably expectations could be much higher.

And what is interesting is that in the process of all those decades, the European Union that went to be a relatively modest community of European states has become a big community expanding, you know, eastwards. And that has to think and maybe act as a global power. But again, that was not in the process of building a community of states where basically the idea was that national states decided to give away part of their

sovereignty for much better deals and better economic governance, more prosperity, and of course, peace. And again, you have to remember that that all happened at the very beginning of the Cold War.

I think another example is if you had told Mikhail Sergeyevich Gorbachev in 1987-88 when, you know, he was all excited about his paradigm of a common European home, that a common European home 25 years later would be a community of 27 states, including 3 former Soviet Republics and all the socialist countries of the Warsaw Pact and that, of course, Russia would be outside this enlargement of the European Union because, you know, Russia -- without the western republics of the Soviet Union didn't feel interested in being a candidate member to the European Union, I think Mr. Gorbachev would not have understood that kind of scenario which, of course, no one envisioned at the time.

The point is that -- and it's always -- oh, it's very interesting to travel and be listening to how American friends, you know, Russian friends, talk about the European Union. I'd like to start by saying that Europe, and certainly seen from France and I guess probably the same in Germany, and Britain, and Spain, and Italy, Europe is: one, the European Union; second, 27 countries and third, it is a continent that has no defined or fixed borders east and probably south, also. I think one has to keep in mind that when you say "Europe" in a European country, you have those several definitions

or concepts or realities altogether. And so it is a bit difficult for a European citizen, a European expert to hear views that are, well, you know, the European Union now that is preparing to be post-Lisbon Treaty. It just has to be the European Union, period, you know. I mean, you send two or three of your EU representatives, they are Europe. Why should member states still be represented, for example, at the G20 or -- I think this is a misunderstanding. The EU is becoming better organized and has the ambition of having a foreign and security policy. And I think rightly so. Because again, the world has been changing and as I think Ivan or maybe it was earlier in the earlier panel, I think Mark was saying that, you know, it's the first economic power today and it's very big in trade. And so it has become a global power, but without the intention in the building of the European Union. It suddenly was not a priority to be a global power.

So, yes, this is it. The problem for the European Union today is to find its role. To find -- to define its function in a globalized world that is changing very, very fast with many new constraints. But it still is a community of 27 national states that don't have identical domestic policies or regional or foreign policies. And that will continue to be so for many years. The whole thing about the European Union construction is to try and come to better consensus and to some consensual policies altogether. But always knowing that the national states will retain their own identities, their own pet

subjects, regional engagements, and the like. So it's always a matter of compromise and objectives are never fully met. And geography continues to matter because the European history is a history of proximity. It's not a history of major airlines across the continents. It's not the transatlantic alliance with a major ocean between the United States and European allies. It has very much to do with proximity, with geography. This is why future enlargement is a more complex issue today than it was 10 years, 20, 30 years ago because, you know, proximity. When you think about Turkey, when you think about the North African countries, Iceland, it has become a different issue. I think it will happen, but along different lines and with new perspectives and new constraints.

The formidable achievement of the European Union after the Franco-German reconciliation of the 1950s has been the transition out of communism. And the peaceful integration of countries that had lived in a completely different universe for a number of decades. And that accomplishment cannot be, I think, carnaged by the many problems and crises that have erupted in the last 20 years or so.

And that major success was also transplanted success because it could be achieved only with another enlargement with the enlargement of the Atlantic community and NATO enlargement. And I've been, you know, so keen to follow those developments in the last 20 years

as a scholar. I can advise the French Ministry and French government about policies. I feel how important it is to remember how all this became possible. The sacrifices that were made, the extraordinary satisfactions and achievements.

Now, if we move on to what the problem is today, maybe an anecdote. Two very brief anecdotes. I was sitting in a plane a few years ago and sitting next to -- going to Riga and next to me was a young Latvian. And we started talking in Russian. And I said, well, you know, now we are co-citizens because, you know, Latvia had joined the European Union. And this, you know, 25-year-old young man (inaudible) how come? How can we be co-citizens? And I said, you know, you have joined the European Union, so you are a European citizen and I am a European citizen. He had never thought about it. You know, it was just a major discovery that, yes, he was -- we had something immediately in common.

Another anecdote is talking to experts of Moldova, and Moldovan foreign minister is coming to Paris after tomorrow and also the Georgia president, Mikheil Saakashvili is expected in Paris on some day. And so in Moldova, more and more people are getting Romanian passports, so they are becoming European citizens. So in Moldova more and more people are getting Romanian passports. So they are becoming European citizens. But most of them don't realize it.



I guess what I'm trying to say is that we are talking of borders. We are talking of limits. We are talking of enlargement that is stalled for some time probably and suddenly we be much slower. And I think also against -- under new rules. And it won't be just a continuation of previous enlargements. But things are not just, you know, set there. Just one border. It's much more complicated. And this is what makes our policies difficult. This is what makes Russia's interference uncomfortable to say the least. Because again, yesterday I was thinking about my talk today. Why is it that so many countries have been wishing and willing to join the European Union when we see, you know, what a headache it can be with (inaudible) crisis, with debts, with bureaucracy in Brussels? Constantly fighting.

And then it came to me just so obvious. It is the great desire and the necessity to belong somewhere. To belong to a community. It is very uncomfortable for a country like Moldova, Georgia, Ukraine, and even Belarus, I'm sure, and certainly I'm sure Armenia, Azerbaijan, not to belong to any community. The CIS hardly exists. They don't trust Moscow. We all know this. So I think it is this necessity to belong, which is, of course, much stronger in Europe that is made of relatively small nation states or regions or territories, so different from the United States that is in a way almost a continent in itself with, you know, with only, you know, the major neighbors of Canada and Mexico. So this necessity to belong I think has to be fully

understood because this desire and necessity will continue to be there.

Russia does not offer a true community. It's amazing to me -- I'm a Russia specialist -- that, you know, that in Moscow there was no one to come with ideas of offering to form a republic, form of satellites. Some form of community where you get some of your interests as a nation to be part of a bigger entity. And for economic reasons. Migration reasons. Culture reasons. But for reasons that are suddenly post-imperial syndromes and the dramatic economic crisis in Russia in the 1990s, none of that could be offered by Russia. And so now when the Russian leadership comes with a different kind of policy, which I think comes much too late, we have to change our options, our policies in Europe and in NATO and find new ways. And we are at this crossroads now.

And basically, what does Russia want? Russia wants to prevent any of the states in between -- those that don't belong to NATO or the European Union -- any of those countries -- prevent any of those countries to join any entity or community of which Russia cannot be a member or will not be a member soon. Think about it. And this is -- I think this is really the Russian bottom-line. And which explains a lot of what happened in Georgia, in Ukraine. And you probably know that the new government in Moldova is a coalition entitled the Alliance for European Integration. This is the name of the alliance in power in Chisinau.

So this is our new challenge in Europe. And when I mean in Europe, I mean in the European Union and Brussels Institution. In mean in France, in Germany, you know, in Latvia, in Spain. And I mean also on the continent that is all those who live and work in Europe, have an interest in Europe. So it's also, of course, the transatlantic community because most of the members of the European Union are NATO members and have a very, very close alliance and relationship with the United States. So I guess it is absolutely crucial today if we want to devise new policies towards those countries that will continue to want to belong to our communities, devise new policies for the, you know, the 5, 10 years to come. And not sort of be -- feel that we have to stop and wait and free situations. Then we'd get to a security problem I think in Europe, east of Europe, with the in-between states that would be, I think, worse than the frozen conflict that we haven't been capable of managing and with the tragedy in Georgia in August 2008. So we have a sort of security situation with frozen states that is with states that have to stick to the status they have today which is a non-defined status.

I think it is dangerous. I don't think it is a stable status quo for the years to come. And without damaging the security and political relationship with Russia, it is absolutely crucial and it is certainly the position of the French Ministry to continue to engage very actively with Georgia, with

Ukraine, with Moldova, and all those countries. And to put the, you know, the subject on the table in Brussels, in Washington, and have that in mind because those countries cannot be the hostages of European -- of the European economic problems today.

That said, I will conclude by saying that if the EU enlargement had to make a pause, it's not only because of EU problems or EU choices. There is also one reason why it's stopped a few years ago. It's that some of those countries have not been able to make the political progress that was expected from them. And if you take a country like Ukraine, it is clear that one of the reasons why the partnership with the Ukraine could not progress as planned is just because the political regime and, you know, the economic governance were so critically inefficient that it was difficult from the part of the European Union and European countries to continue to fight and motivate public opinions and institutions for a potential integration of countries that continue to be ill governed. And so the problem is really very much the interaction between the two. That is between what happens in the candidate members and those countries who continue to wish to integrate our communities and the situation in our European countries and what we continue to be capable of offering and what conditions. And all this I think has to be redefined and readjusted to the current situation.

Thank you.

MR. PIFER: Dan?

MR. RUSSELL: Well, let me try to be brief. I'd say first I welcome the opportunity that Steve has given me to comment on someone else's foreign policy since usually I'm on the receiving end. So this is a pleasure.

I was struck at the EU-Russia Summit in Rostov-on-Don by Van Rompuy comment that what EU-Russia relations need -- they don't need a reset - they need a fast-forward. But before I would turn to that maybe a couple of comments on how Russia views the EU, at least from my own perspective.

And I think, you know, I'd make three comments. The first would be about, you know, Russia as an actor on the world stage. My friend, Dmitri Trenin, a few years ago called Russia "very old Europe." And there is some truth to that. And what he was really talking about I would summarize is, you know, the current Russia as a sovereign, you know, great power with a non-ideological world view. And its policy towards Europe has usually meant policy towards its biggest bilateral partners, to the big -- what it perceives as the big countries in Europe. And I think it's going to be a while before they adjust to, you know, Marie's EU as a global power or even as a community of nations acting in concert.

I think at the same time, I mean, Russia is doing the same

thing the rest of us are: trying to adapt, you know, to the realities of the post-modern world. And our interaction, both the United States' and the EU, has changed now that we're having, you know, we're dealing with Russia as a partner in the G20. Russia is, you know, finding its own way with the other BRIC countries. So, and we're all dealing with interdependence, which was painfully driven home by the global financial crisis, not only in Moscow, but certain here and in Europe's capitals.

The second point I would make is about Russia domestically at home. Russia is still in the midst of whatever you want to call it. It's post-imperial, post-communist transition. And this is going to take, you know, a long time and it's far from over. The leadership now, the current leadership, is very interested in modernization, and there's a lot of talk about innovation economy, about new ideas, as well as some familiar themes like rule of law in that context. And that's certainly something we should all pay attention to and take advantage of.

The third I would emphasize is when we tend to look at Russia we all tend to be very leadership-driven on looking at Putin and Medvedev and kind of, you know, the upper strata. And I think we just need to be careful not to lose sight of how much Russian society has changed since the break-up of the Soviet Union. And I say that as somebody who has lived there 7 of the last 15 years. And, I mean, that changes in society and

among people I know are pretty striking. And I mean, if you look at the urban elites and the emerging middle class you see a thirst for travel, for consumption, for connections with the modern world. And, you know, if you ask anybody certainly who lives, you know, west of Siberia, they are going to talk -- the, you know, they will picture their country as a bridge between Europe and Asia spanning two continents. But if you ask them who they are, they'll tell you they are Europeans. That doesn't mean they have the same sense of belonging to a greater European community, but they still self-identify as Europeans.

Against this backdrop I think it's an interesting moment for EU-Russia relations. And I'd focus on the Summit earlier this week just because it's kind of an interesting data point. It's really the first EU-Russia Summit, you know, post-Lisbon Treaty. And it's certainly the time when Europe is grappling with its own, you know, internal financial crisis. And you know, there are a lot of views of Europe's policy from Washington. Summit, you know, American commentators looking at EU-Russia relations, you know, call it dialogue at any cost. You know, I think that's unfair because, you know, if you look at the agenda in EU-Russia relations, it looked pretty familiar to anybody who is involved with US policy towards Russia. The four common spheres of the 16-year-old, you know, Partnership and Cooperation Agreement pretty much mirrors our own agenda, although we

in the United States would certainly use different terms to describe a lot of this stuff. But if you look at the baskets of economics, of freedom, security, and justice of external relations, and of research and education and what we would probably call, you know, people to people context, you know, the agendas aren't in many ways all that different.

When I look at, you know, the joint statement on modernization that was put out in Rostov-no-Don, again, you know, I see a lot of commonalities with our own policy. Looking for, you know, expanding opportunities for the key sectors that are driving growth and innovation; the importance of working on rule of law, fighting corruption, the support by the European Union and the United States for early WTO accession. And, of course, you know, the emphasis on trade liberalization. And I don't think this is a unique event. If you look back at Stockholm at the beginning of November, a lot of the trends that are highlighted in Rostov-no-Don really began then.

So if I was looking and trying to summarize, you know, for my own perspective kind of the EU's policies, I would say it's, you know, partnership, you know, minus institutionalization. That's -- there's no shared institutions at -- certainly at this point. But I think there's recognition that Russia's own modernization agenda offers an opportunity to regain some of that momentum of the agenda of -- the transformative agenda of the 1990s



albeit in a very, very different way.

You know, at the same time as I look at the EU, and you know, visa-free regime is something that Russians are very interested in and pushing hard for. And, you know, while there are many people looking at that as a goal, when you look at Poland and the other countries within the EU that have, you know, in many ways put a break on this by saying you need not only to look at Russia, but at the six Eastern Partnership countries at the same time, you can see some of the divisions and the interplay.

And I think while, you know, the US and the EU have, you know, many of the same goals, I mean, some of the differences between us, you know, are blindingly obvious. Again, a couple people, you know, Michael and Maria both talked about geography. And the other part is economics. You know, the EU has a far bigger economic relationship with Russia than the United States or probably than the United States ever will. You know, Russia is Europe's third largest trading partner, yet only one percent of US trade is with Russia just by comparison. The difference in investment is not that stark, but still clearly number one. The United States is down around number six. And, of course, there's the energy relationship, which is very immediate and direct for Europe, not so much for us.

At the same time, I think our common interests are pretty much the same in Russia in many ways. And as I look at our own

relationship as we enter, you know, year two of the infamously misnamed reset, I think you're going to see actually more commonality. We spent a lot of time in year one on the START Treaty, on nuclear security agenda. And clearly the United States will be very driven by its own security agenda with Russia -- with Afghanistan, counterterrorism, and all of these issues. But there's certainly recognition here that economics need to play a bigger role in our relationship, and one of the big problems in US-Russia relations is the lack of stakeholders, something that Europe does not have an issue with. You know, we're going to be focusing more on a niche market, on high-tech, aviation. There are some clear areas where there is overlap. But it's never going to be like the relationship between the countries of the European Union and Russia on the economic front.

Just a few words on some of the other countries and I'll just pick out two or three. Ukraine, obviously, you know, a big important country to the United States and to Europe. And I think, you know, there again we have pretty much a shared agenda. We were both big supporters of, you know, free and fair elections and the transition of power. We're both supporters of, you know, an IMF stand-by agreement with conditionality for Ukraine. And those are kind of the pillars. But Ukraine has a lot more to gain from Europe than it does from the US quite frankly. And when they look at an association agreement, at a free trade agreement, at visa

liberalization, these are the three big things that I think Ukraine wants. And only Europe, you know, can provide those.

At the same time, in our own bilateral US-Ukraine strategic partnership commission, we're, you know, reinforcing many of the same trends that our European colleagues are with the Ukraine. The Eastern Partnership which the United States supports and we're trying to cooperate and collaborate more with our European colleagues, you know, on assistance and on messaging the countries. And I mean, I think you can see it. Marie mentioned Moldova, you know, the little democracy that could, that I think we're both trying to support at this point. A much tougher case in Belarus where there are a lot of issues and we're trying to stay on the same page both in terms of dealing with the human rights situation there and some of the very real problems. Georgia is a special case, I think, certainly after the Russia-Georgia War. And, you know, Europe has -- the two key things there I think are the EU monitoring mission, which is really the only international presence, you know, in Georgia. And then there's the Geneva process where we're working with Pierre Morel and others to try to at least find, you know, some road towards better security and stability, although I'll tell you none of us are having much luck with the Russians on that front.

But this is, you know, this is going to be a work in progress. I think, you know, enlargement is not something at least I see in any of these

countries as an immediate goal. And I think Marie is right, that there is going to have to be some retooling. But at the same time I don't think we're going -- we, the United States or the European Union -- are going to have a successful policy or encourage the kind of change and trends we'd like unless we manage to work together on this stuff.

So why don't I just stop there and turn it back to Steve.

MR. PIFER: Thanks, Dan. Okay, let's go ahead and open up the floor to questions. I'm going to extend this session to 1:00. Let's take three questions. Please keep them short. Please identify yourselves and wait for the mike. Right in the back there, the last row.

MR. MILAKASHULI: Alexander Milakashuli, Georgia Service of Voice of America.

I have two very brief questions. First has to do with the recent news about the initiative by the EU foreign chief, Lady Catherine Ashton which was actually revealed on the eve -- on May 28th on the eve of the EU-Russian Summit. And this has to do with scrapping of the position of Special Representatives for South Caucuses and Moldova. Does it imply that these regions, the South Caucuses and Moldova, fall below the EU radar? That's the first question.

And the second has to do with the visa liberalization and this is to Mr. Michael Leigh actually. The next round of the Georgia-EU

negotiations about visa liberalization is supposed to be this fall. How would you describe the prospects for visa liberalization with regard to Georgia?

Thank you very much.

MR. PIFER: Right there in the front.

MS. TOCCI: Nathalie Tocci, Transatlantic Academy and Istituto Affari Internazionali.

I have a question for Ivan. You posited a very interesting idea of multi-polar Europe and you mentioned Turkey as being one of the possible poles. Now, what is clear is that Turkey's foreign policy has become increasingly active and perhaps even increasingly independent. But when we think about a separate pole, it's, if you like, an understanding to emphasize the differences between Turkey and the European Union. Now, of course, there are many differences on the table, some of which are -- we are sort of living through as we speak. Certainly as far around and as far as Israel is concerned, the differences are there and apparent. But in a different kind of way, we could look at it as an extension of the European pole through Turkey, in particular in the Middle East. Ultimately, if we look at the way in which Turkey is acting, it's acting in many respects in a quintessential European way. Its foreign policy is predominantly about trade, about investment, about movement of people, about visa liberalization. It's about -- if you like, constructive engagement rather than

punitive action. So in many respects we could look at Turkey as being more European than the Europeans, especially as far as the Middle East is concerned.

Thanks.

MR. PIFER: Okay. And then right next to you.

MR. OCHMANN: Cornelius Ochmann, Bertelsmann Foundation, Germany.

I have one comment and a question to Michael Leigh. My comment comes in this direction that the highest or biggest challenge for the European Union in the East would be in the next years how to bring together the modernization strategy with Russia with the Eastern Partnership. Because we cannot speak with the Russians about visa-free regime without negotiations with Ukraine and other countries in Eastern Europe. Is there any strategy or are there contacts between the peoples who are working with Russia and Ukraine? And can we expect in the next time eastern strategy of the European Union?

MR. PIFER: Okay. The Europeans take the first at those questions.

SPEAKER: There's one more.

MR. PIFER: We'll get it next time. I mean, do you want to --

MS. MENDRAS: No, I think the questions were for Ivan and

Michael.

MR. KRASDEV: Just basically touch on the Turkey issue. I also agree with you that it's much more interesting and complex than it looks like. If you compare Turkey's foreign policy with the Russian policy, for example, two years ago where basically the idea was how different Russia is, Russia was trying to position itself as the alternative to the European Union. It was other Europe. By the way, Europe of the 19th century with a strong idea of sovereignty and so on and so on, the very idea of the sovereign democracy was about this. It didn't work well. And I do believe that part of the change of the Russian policy has a lot to do with the fact that this type of a soft power of Russia appeared to be not strong enough and it was the fall of the Russia-Georgia War and basically the failure of the Russian diplomacy during the Shanghai meeting to convince anybody to recognize South Ossetia and Abkhazia that basically created this kind of a paradoxical situation.

Turkey was very different. Turkey integrated EU the power in its own soft power. Basically, Turkey was going for many places in the world as kind of a Europe, but Europe which understand others. Europe that can speak to the (inaudible) and others. But at the same time, let's also face it kind of honestly. Turkey is not interested to be part of the common European foreign policy. And this is what happened as a surprise for

Europe. Those who had been strongly proposing Turkey to become a member of the European Union, most of the arguments can be security arguments. But it is going to be important for European to become a global power. The idea was to integrate Turkey as part of the European common foreign policy.

Turkey's position was we're very much interested in the common market. We're very much for democracy and this is a government that is opening society, but we have our own foreign policy vision. And what is happening in Europe because it's not only Turkey. Russia is a power of its own. If you see the intensity of the context between Russia and Turkey for the last year, this is something interesting happening on the level of Europe. And basically when I said that, you know, certainly periphery, now it is much more expanding than the center, it also has to do with this much more like-mindedness support for independent foreign policy within the European paradigm. And I do believe this is important. And from this point of view, how the European Union is going to manage its relations with Russia and Turkey and not only with Russia and not only with Turkey is a totally different job.

And by the way, when we're talking about even the post-Soviet space and when we're talking about the Caucuses, it's not only the European Union and Russia. Turkey has also a view of its own. Turkey



was a major player after the Russia-Georgia War. They have initiative from the old. And in the way they're, for example, active on Iran, we can imagine them to come with a third position, also in some of these issues. So from this point of view, in my view these three poles do not mean that we are going to meet only competition, but it does not mean that they are going to be only cooperation. I have been also strongly opposing the idea that everything in the post-Soviet space is going to be a zero sum game between the West and Russia, because when you're doing this you're becoming the hostage of the other side. In a certain way for the last two or three years, many of the things that NATO and the West do was not because we believe it was right, but because we believed that we should do it to show the Russians that they cannot have veto on our decisions.

So in a certain way you are moved and you are pushed by the others simply basically saying no. I do believe that this type of dependency also should be broken because it's a dependency not weaker than the one that you're going to say yes in order to please the other side. But it's a new game. I do believe that we should take Turkey seriously. And for example, Turkey's role in the Balkans shows that it is part of the European vision, but at the same time they have a priority of their own. And this priority of their own is not always going to come in harmony. If you're going to imagine Turkey being part of the European Union, I'm going to be interested in what

was going to happen if you're going to have these three Turkish ships, members of the European Union going to the Israel border on Gaza and how the conflict is going to look like then. Is it going to be different? Who is going to react how? So I do believe the situation is going to be slightly more complex than we imagined in the late 1990s.

MR. LEIGH: Well, just on that one I think it's been clear over the last couple of years that since Mr. Dovutoğlu, in fact, became Turkish Foreign Minister that they have been very vocal in putting forward Turkey's foreign policy agenda which has been expressed as the policy of zero conflict with neighbors essentially. And apart from some of the more spectacular incidents, such as the one that Ivan referred to broadly speaking, that's how it's presented. And it's also presented by Mr. Dovutoğlu as a compliment to relations with the EU and not its alternative. Of course, there are others who present it differently and who say, well, basically if the West doesn't want us then we have other options.

But I think viewed in the first context one can see that this would have a powerful attraction for many in the European Union. And if indeed over and above some particular moments which might be difficult, such as the last couple of days and perhaps the question that Tehran research reactor, which has been discussed here in the last couple of days, broadly speaking if Turkey succeeds in this policy of zero conflict with

neighbors and manages to intensify cross-border links with Syria, with Lebanon, and with others, and therefore contributes to creating a peaceful neighborhood of its own, which is the proclaimed objective, I think that could only be something which the EU would applaud.

Much depends on the evolution of the EU-Turkey relations in the future and whether there's a sort of demagogic presentation of issues can be avoided on either side. And whether indeed we stay on track in terms of accession negotiations and so on, in which case I wouldn't see this business about alternative pole. I would see it much more as a policy which potentially, if wisely pursued, could be a compliment to the CFSD.

MR. PIFER: Other questions?

MR. BLEADOWSKI: Kris Bledowski from Manufacturers Alliance.

A couple of years ago the Orange Revolution in Ukraine opened the doors to a fast track possibility of Ukraine exceeding to the Euro-Atlantic institutions, notably the EU and NATO. But the EU was quite strongly opposed to that. I've got a question to the three European panelists. Would you say that 20 to 30 years from now that decision would be considered a strategic success for the EU or would you say that it would be a less than strategic success? Thank you.

MR. PIFER: We'll take two more questions. Okay, back

there.

MS. DOMINICK: Mary Dominick . I wondered if Madam -- I'm sorry, Madam Mendras would address the question about the Council of Europe, which was also one of the forerunners or one of the corollary institutions that you contributed to post-war Europe. Will the enlargement of the European Union presage the dismantling of the Council of Europe and how does that affect Russia and Turkey?

Thank you.

MR. PIFER: Okay. Let's start with the Ukraine question. In 25 years from now will the EU policy be looked back as having been a success or failure? The response to the Orange Revolution.

MR. KRASDEV: I'll be very brief on this because in 25 years, you know. (Laughter)

Former Vice President Dan Quayle used to have a famous quote that the future is going to be better tomorrow. (Laughter) So from this point of view I expect that, of course, it's going to be very important. But there is one major argument which I have. All the stories of what EU do, what America do are important, but neither the United States, nor the European Union are the only players. There is even something kind of unfair trying to treat basically countries like Ukraine or others as being simply the place where the action is going to happen, but not being connected.

Talking about, for example, NATO. Unfortunately, there never was an elite real consensus or public consensus on Ukraine joining NATO. You have a basically divided nation. This divided nation is a reality, and of course, during the days of the Orange Revolution we saw what I do believe is the bigger part of it working in Europe. It does not mean that the other part does not exist.

So in 25 years, for me the most important is first that the state building exercise in Ukraine is going to be succeed. And then when basically this is a successful exercise, I easily can see basically Ukraine being in the European Union, NATO, or any other organization that we are going to invent then. But to believe that we can solve all the state building projects in the post-Soviet space or in the Balkans simply because these countries are going to be in one or the other organizations, in my view it's a kind of Nietzscheism on the foreign policy side where you believe that everything is just will on the side of the EU or the US.

MS. MENDRAS: Yes, about the Ukraine. My reading is not exactly yours. I don't think the problem was, you know, that there was a demand and the EU said no. I mean, it's been a process and as Ivan said and as I said earlier, you know, you need two to have a partnership and the situation in Ukraine rapidly changed after the Orange Revolution which makes things more difficult in terms of negotiations. So it's -- I don't think

one can say that the European Union made a decision one day that no, Ukraine would not become a member. The same with a number of other states. So the question really is for a potential candidate to, you know, to have a strategy.

In the Ukraine we're waiting to see, you know, they certainly want to pursue a partnership with the European Union, but also are moving towards more agreements with Russia. And some of them, that might stand in the way of the partnership with the European Union. That's where, you know, we're facing a situation where, of course a country can belong to several entities and communities, but it's not all that easy to arrange, especially when you wish to still have an option to become a member of the European Union, which is the most organized and institutionalized one.

So about the Council of Europe, I think the future of the Council of Europe doesn't have much to do with, you know, when will the European Union enlarged further because this will take time and the Council of Europe is a very, very different institution that could play a more efficient role today. And unfortunately, on a number of issues the Council of Europe has not been terribly vocal or effective.

MR. PIFER: Dan, can you offer anything on these questions?

MR. RUSSELL: Only on the -- I mean, Ukraine is an interesting case. And I think a number of us have said that, you know, we

didn't view Yanukovich's election as a failure of the Orange Revolution, but a failure of its leaders. And I think the Orange Revolution certainly changed the goal posts and the political culture in the Ukraine. We're going to have to see how that evolves.

But I agree with the other panelists that the biggest problem in Ukraine has been its own internal transformation. And if you just look at where it, you know, it has a very high rating. If you try to look at indicators, Freedom House on democracy, has given it very high ratings. But if you look at corruption and you look at doing business, both the World Bank and Transparency International's ratings, you find that Ukraine is near rock bottom on both of them. And that's within their power to do something about. So we're going to have to see how that goes.

I think the other thing that Ivan made is a good point about it not being a zero sum game because it really isn't. I think if you look at the comments on Ukraine from, you know, our Vice President Biden to, you know, the EU Commissioner for Enlargement, you'll find sort of the same rift that, you know, these countries have a right to make their own decisions. We support their sovereignty and independence, but also their right to choose, you know, who they want to associate with and which alliances they want to belong to. And I think that's a good place for both the EU and the United States to be.

MR. PIFER: Okay. Well, let's go ahead and bring this session to an end. We have 30 minutes now for lunch, which is right next door. Please resume here at 1:30 when the last panel will meet, and please join me in thanking the panelists for their comments. (Applause)

MR. VAÏSSE: Hi everybody. My name is Justin Vaïsse. I'm the director of research of the Center on the U.S. and Europe. And as such I'm largely responsible for the titles of the panels today, including the sober and low-key title that we picked for this panel, "The End of Europe." We thought we'd say, you know, "The Bloody Death of Europe" or something, but we're more sober and decided on "The End of Europe."

Now obviously we were being cute, but I think the first two sessions stressed the importance of the current economic and financial difficulties and their impact, including their negative impact on the larger European Project. And that is precisely what this afternoon's panel is aiming at -- elucidating if you will -- why is the Eurozone in crisis? How is this crisis going to be resolved? And what are the implications for the European Project as a whole?

Well, obviously the story begins in America in 2007 when the housing bubble busted and the subprime mortgage crisis started triggering a larger worldwide economic downturn, and I guess you know the saying, "When America sneezes, the world catches a cold." And in this case,



Greece, which had been growing at more than 4 percent annually during the whole decade, caught a very bad cold, especially with the slowing down of tourism and the shipping industry, etcetera. Greece's woes were not -- were largely, of course, of its own making since they had been running large structural deficits for decades, and obviously this could not go on forever. And so, when in late 2009 the new Papandreou government revised its deficit projection from about 6 percent to between 12 and 13 percent, markets who until then had been lending basically indiscriminately to all Eurozone countries, Germany and Greece alike, started losing faith in the Greek capacity to repay its debt. All the more so that being part of the Eurozone, it could not devalue its currency obviously. So what followed, as you know, on the market side was the beginning of a contagion, pretty much like the Asian crisis 12 or 13 years ago, and fears that all the countries like Portugal, Ireland, or even Spain could be next on the list. And on the European government side, a painful and messy process of rescuing Greece which in particular resulted in the mammoth package of warranties extended by European government and the IMF to the tune of about \$1 trillion last month in May.

So obviously we now have many, many questions on our plate for this afternoon about the future of the Greek economy, about the reform of governance in the Eurozone, about the new role that Germany has come to

assume in Europe or its policies are being questioned about the financial situation of the European banking system, and of course, the larger question of the implication of the crisis for the European Project.

And to answer all of these questions, we have a great set of panelists today. And I'll start with Scheherazade Rehman. She's a professor of international finance and business and of international affairs at George Washington University where she's also the director of the EU Research Center. In a previous life, she served as a foreign exchange and money market trader, and she has advised a number of institutions including the World Bank and the IMF. I may add that Scheherazade is very brave. She went on *The Colbert Report* to explain the Greek crisis, not once but twice in the past few months to an American audience. I won't repeat all the good jokes that Colbert made, but you can get them online. It's pretty entertaining.

Loukas here on my left is the president of the Hellenic Foundation for European and Foreign Policy, ELIAMEP, in Athens. He's also a Jean Monnet Professor of European Integration at the University of Athens and a visiting professor at the College of Europe. Since April 2005, Loukas has been a special advisor to José Manuel Barroso, the president of the European Commission. And I should add that also in a past life, probably in the previous century, Loukas was a professor for Andy who I'm

going to introduce in a second. But I'll follow in the order that the speakers will talk with Ralf.

Ralf Fücks is co-president of Heinrich Böll Foundation to which he has devoted a large part of his career. He joined the Green Party in 1982 in Germany, and has been an elected official for some time and has had important responsibilities within the German Green Party. His work has focused on sustainable development and reshaping the welfare state, migration, the future of European integration, and most importantly, international policy. I should add that, as Fiona mentioned in the morning, we organized that day of conference and partnership with the Heinrich Böll Foundation, a partnership that has worked really well in the past.

Last but not least, Andrew Moravcsik -- you know, maybe 10 years from now I'll introduce him saying he's an acclaimed critic of opera, a subject to which he's devoting more and more of his time to the detriment of European affairs, but for now and for what we're interested in this afternoon, Andy is still professor of politics and international affairs and director of the European Union Program at Princeton. He's also, I should add, a nonresident senior fellow here at Brookings and a prolific author.

So let's start. I'll ask the panelists to be very brief and I'll enforce that rule. Unlike the European Growth and Stability Pact, I'll actually enforce this measure.

And I'll ask Scheherazade to start probably by setting, asking her to try to set the stage for us what happened -- how did go -- how did we get here, and also if she could give us an idea of the way forward, and then we'll move to the other speakers. So Scheherazade, the floor is yours.

MS. REHMAN: Thank you. I'm an academic so I can probably say a few things that perhaps some of us cannot and I will. What started as a 2007 U.S. subprime mortgage crisis, as Justin just mentioned, and materialized into a full-blown financial panic in the United States, led to a virtual freezing of the U.S. banking and credit markets. And this spread to the Europeans in '08 and '09. And then it looked like this highly infectious crisis was abating itself towards the end of 2009, and the world seemed to pull back from this brink of a financial abyss. Then all of a sudden in early 2010, Greece erupts and the Eurozone begins to tremble back towards the edge of the cliff, threatening to drag this market back with it.

So what happened? And for this -- let me just go back a little bit. In the United States by 2007, we had incubated a very serious mutation of a new type of financial crisis. This mutation doesn't seem to care which sector the crisis begins in, it simply spreads. The contagion is fueled by irrational fear and panic, and the contagion goes across financial markets, across industries and countries, and into the middle class. This new type of crisis needs fast and dramatic action to combat it rather than straightforward

economic logic because we're fighting fear. And this fear is lingering in the global financial markets even today. It's palatable. It's real. Every time the morning bell, the U.S. stock market opens, even today you can smell this fear. And this is in the face of the U.S. economy actually showing some real signs of getting better in the short and medium term.

Okay, so if you look at the beginning of 2010, we're coming off a very serious crisis. There's lingering fear in the markets. Age-old theories and rules are being sorely tested. There doesn't seem to be any safe investments on the horizon, historical data analysis out the window. Stocks are impossible to predict, and there's financial volatility. And this is coming on the heels with the Greeks 'fessing up that their previous government had perhaps cooked the books a little bit, and there was a very large government bond coming due in May. So by March, all of this gave way to panic and the markets fulfilled a self-fulfilling prophesy that the Greeks would not be able to pay back the bond and refinance.

And adding fuel to this was what I would say is a lack of leadership in the Eurozone governments. And unfortunately, they botched this up pretty badly. Playing domestic political games while they are facing a pretty serious financial meltdown is regrettable. They learned nothing from the U.S. crisis. And when they released the European \$1 trillion package as Justin said, this was meant to shock and awe the financial markets. And

what it did was, in fact, fall flat because it was three months too late. You know, Angela Merkel playing chicken with the financial markets at a time like this in order to buy time for recent elections. Again, you know, this was somewhat regrettable because it essentially backfired and it broke the Eurozone, I believe, into two halves, the rich economically sound half and the shaky half. And I'll talk a little bit about this more in a second. The Europeans were well aware they had a debt problem just like in the United States, but they thought this problem was medium term if not long term. They never -- they thought it would hit the U.S. first because our debt is a lot bigger. They never expected it to come so quickly, and they forgot about the rules of a currency union.

Let me just pick up on this last point. A currency union like the one they have created had some central assumptions. First of all, it assumed that fiscal deficits would be under control, kept under control by a treaty and by a no-bailout clause, and eventually these member countries would economically converge over time. Well, these were very, very huge assumptions. We knew at the beginning letting southern countries into a currency union like this was a very, very risky proposition. There was a lot of political momentum at the birth of the euro, and some of this risk was shoved under the rug. And at the risk of offending anybody on this panel, there were some very genuine issues, if Greece really belonged in this currency union

when it joined. A currency union is only as strong as its weakest link. Even a small country is too big to fail in a currency union. It's when you get hit with very serious economic and financial shocks that you can show your economic maturity, your strength, and your credibility in the market. These treaty-defined fiscal limits were proved ineffective and irrelevant to some extent. Ineffective because the fiscal rules, which should have been binding, were ignored; irrelevant because some of the countries that were running very big deficits easily met the treaty's fiscal targets as long as the bubbled economies are growing with inflation, for example, Spain. And the markets paid absolutely no attention to fiscal frailties and raided all the eurozone bonds similarly. So this was something to think about. This was the eurozone's first real crisis, and you can't decouple it from the crisis that started here.

So where does Europe go from here? I think I'd like to start off by saying that what they've done up to now is buy a little time for themselves, and they have four big forces coming down the road.

First, how do they now move forward very fast to its greater integration before the markets attack again? And kicking Greece out, or any country leaving the eurozone, is a nonstarter. No country will survive leaving the Eurozone except perhaps for Germany. They will be slaughtered by the markets. The Greeks will be dragged back into the Middle Ages if any of this

happened, and everybody's well aware of this.

Second, how do you manage economic diversions, which is happening and we've seen it happen. It's clear the eurozone cannot rely on markets alone; they're going to have to adjust institutionally and this is a tall order.

Third, how are they going to facilitate changes in competitiveness and actually clear to real growth in the long term? Look, fiscal stability is not going to come back into the southern countries unless growth happens, and growth cannot occur in the short run with these kinds of fiscal austerity programs. We know that. Then they can't devalue their currency to export more to grow, and to make another point, their primary export to each other so growth is limited from that venue as well. So to increase competitiveness, they really have to drop prices and lower costs. That's how they're going to increase competitiveness; this is a long-term proposition.

The last item here is that how are they going to restructure the excessive debt in the southern countries? I think it's pretty clear that Greece is not going to be able to pay this back if you look down the road. They're going to have to restructure. And the trick is can the Eurozone make itself credibly solvent so that it can withstand a round of public and private debt restructuring? We need to face the fact that the Eurozone is no longer a



homogeneous bond market, at least in the near future, and this is a reality.

Let me just leave you with five quick thoughts. I think that essentially Berlin must face what is now being called its moment of truth and the consequences of a very Catholic marriage with no annulments to Portugal, Ireland, Italy, Greece, and Spain. There's no going out of this; there's no going back.

Secondly, currently the 800 pound gorilla sitting in this room is not Spain, it's Italy. We are scared to even mention Italy in case the financial markets turn its attention to it. And if that happens, that's a nuclear implosion in Europe.

Thirdly, I think there's a lesson here for the U.S. We are all aware that Uncle Sam cannot indefinitely borrow at reasonable rates. It's coming down the road. We thought the Europeans had some time, but the debt problem manifested in the Eurozone a decade ahead of schedule, and perhaps there's a lesson here for us to think about.

Fourth, the Euro exchange rate with the dollar, which hit a 4-year low yesterday and is hovering around 1.2, is actually a very good exchange rate in my opinion considering the short-term outlook of the Eurozone.

And lastly, I believe that the Eurozone for the foreseeable future can no longer be seen as a single unit. It will be comprised of two

groups, one healthy group and one very shaky group, and the balance between the two at any given point in time.

MR. VAÏSSE: Thanks very much, Scheherazade. We will turn to Loukas now asking him as a specialist of Europe, a long-time specialist of Europe and the European political economy, what he makes of all of this. And perhaps also in a second part, as someone living in Athens, what the view beyond what we heard in the media, the clichés, et cetera, what the view in Athens is?

MR. TSOUKALIS: Thank you, Justin. Thank you also for the kind invitation. It's a pleasure to be here and for the opportunity to also take part in the discussion.

Of course, we have the biggest crisis we have had in Europe for many years, and this crisis marks the end of the honeymoon period for the Euro, the honeymoon period that had lasted for almost a decade. I believe there are three underlying factors in the crisis in the Eurozone, and I don't have much to disagree with Scheherazade. The first underlying factor is the rise in sovereign debt which is partly, not entirely, the result of governments trying to deal with the consequences of the bursting of the bubble. The second has to do with growing imbalances between the north and the south of the Eurozone. And the third is the widely held perception -- more on Wall Street and the city of London than in the majority of European

countries -- that the Europeans have neither the instruments nor the political will to deal with the existing economic problem.

So you start with a real economic problem to which markets react in a typical fashion, namely they overreact. Having underestimated risk for many years and having, therefore, lent to Greek governments and other governments at rates which were almost identical with rates that the German government was borrowing; now they suddenly become extremely risk averse and panic prevails in the markets -- Scheherazade explained all of that -- and, therefore, markets overreact but also markets are certainly not rational. If you believed in the rationality of financial markets, I suppose you can believe in anything.

And there is also enough evidence to suggest that there's been also a degree of manipulation of markets and cocktail behavior by big operators. It's also, therefore, trying to translate bets into self-fulfilling prophecies. The result of the crisis so far has been a significant devaluation of the Euro, vis-à-vis the dollar and other currencies. This was not intended although certainly not unwelcome from most Europeans.

I presume that in a world of low growth, if this is going to be indeed the case in the foreseeable future, we're going to see more and more of competitive devaluations between the major currencies of the world, and some of them could be rather nasty. But my advice to you would be don't

bet on the demise of the Euro and the European Union because you're likely to lose your money. That's the first point.

The second is what next? Now I will briefly outline two scenarios which are not -- which are more complimentary rather than mutually exclusive. The first scenario starts with the -- the starting point is that crisis is the mother of change. And in our particular case, the crisis is likely to provide for major capitalists for further integration of the European Union. This is already happening, and we are likely to see in the foreseeable future more closer and more binding coordination of national fiscal policies. We are going to see more effective financial regulation. There is going to be, hopefully, a more effective crisis management, and a lender of last resort capacity which may translate itself from an ad hoc basis to a more permanent basis. But -- and all this is happening despite the fact that there is relatively little appetite in most European countries for further integration. And most notably, and an important country of the European Union, such as Germany, so further integration is happening because the stakes are very high. And this is something that many people in the Wall Street and the city of London and others have underestimated, namely how much is at stake for Europeans when it comes to the euro and also the European Union more generally.

So my prediction is that the crisis of the Eurozone is likely to

lead to stronger European economic governance, but this is going to be more of an intergovernmental nature than what we have experienced so far. And if this materializes, this is going to have an effect on the two groups that coexist in the European Union, namely those who are members of the Eurozone and the others, not to mention divisions inside the Eurozone.

Now the second scenario focuses more on broader economic and social consequences of the crisis and not so much on institutions. Now there is no doubt that there is need for fiscal stabilization in countries, of course Greece, but also in countries like Spain, Italy, Ireland, not to mention the UK. But there's a very fine line that divides what is a necessary fiscal stabilization from austerity measures that may create a deadly spiral over recession and debt. And you never know where this line is; you discover it in the process. There is a very serious risk that, because of panic in the markets and also because of strong reactions which are largely understandable in Berlin, governments especially in southern Europe are going to adopt extreme forms of austerity measures that are going to lead to deep and prolonged recessions in the European south with implications for the broader European economy. And if that is the case, it is going to have social consequences. There is anger in the streets in several European countries and not only Greece. This anger is likely to translate itself -- if it is combined with higher unemployment and economic stagnation -- it is likely

to translate itself into more nasty expressions of nationalism and populism and this is bound to have a long-term effect on European integration.

So having said that, let me now turn to Greece, and Greece has been in the middle of it all for the simple reason that Greece has the worst combination of three different kinds of deficits: a fiscal deficit which is on top of a large accumulated debt, a deficit in the current account, and a credibility deficit which has emerged when people realized that Greek politicians had been rather economical with the truth in the past. Now all countries, many countries in the Eurozone have fiscal deficits, they have current account deficits. Many of them have engaged in creative accounting, but the Greeks have the worst combination of the three. And Greece has, therefore, attracted much more publicity than it can actually consume. But the publicity and the attention on the Greek problem does not only -- it cannot be explained only in terms of the nature of the Greek problem itself. Greece has been seen by financial markets and by international analysts also as a precursor of things to come now as part of the Eurozone. And this is a very important issue to put an emphasis on. And Greece has, therefore, also been seen as a test case of how individual European governments and the European Union as a whole are likely to react to an existing real problem.

Now Greece is faced with a huge challenge of adjustment

which has both a fiscal component and a real economy component. The good news is that you now have a government which is ready to act and has already introduced a number of very concrete measures. And the other piece of good news is that you have an increasing number of people, large parts of Greek society, who have realized that the old party is over, that clear entellus politics combined with a kind of economic development model relying essentially on borrowing has reached its limits.

Now the bad news is that the task facing Greece is simply enormous, but the forces of inertia are still strong. I would agree with Scheherazade that Greece is going to remain in the eurozone like all other members of the Eurozone because the alternative is more than nightmarish.

Now in the course of the crisis, we have witnessed pretty ugly exchanges between populist media and tabloids in Germany and Greece and very unpleasant stereotypes came back to the surface. And in those ugly exchanges several politicians from both countries took part, politicians that should have known better. But let me conclude by saying that this I do not believe to be an issue that will last for long. It is reversible and my impression is that in my country in Greece the anger of the large majority of Greeks is at best as representatives of their political class and addressed also at each one of them rather than following representative Germans or others. Thank you very much.

MR. VAÏSSE: Thanks, Loukas. Ralf, I'm now turning to you. Could you offer your thoughts on the European situation and maybe focus a bit on the German response. Angela Merkel has been criticized by many corners who think she responded in the right way and how do -- what's your assessment of the German response so far?

MR. FÜCKS: Well, usually I'm not the super patriotic guy, and I'm also quite unhappy with the lack of political leadership and especially of European spirit shown by the German government and Chancellor Merkel in person. But having read and having heard so heavy criticism on Germany, especially from U.S. commentators, I felt some relief when I stumbled over a headline on the editorial page of the *Financial Times* some days ago, "Don't be beastly to the Germans." And, you know, I think Angela Merkel and her government have been guided by two major deliberations. First, they try to limit the amount of financial obligations for German taxpayers which feel now are being taken hostage for the debt of Greece and other potentially illiquid members of the Eurozone.

And the second major guideline, to put it in a mild light, they fought for stricter conditions and obligations in exchange with credit guarantees to other European countries. And it has always been a nightmare for the German public that monetary integration in Europe may lead to a slippery slope of increasing public debt, fiscal irresponsibility, and



inflationist policies. And, you know, keeping in mind the dramatic turnaround of European economic policies over the last weeks, you can criticize that the German and other European governments have acted too slow, too restrictive, too cautious, too chicken, but at least this was almost a revolutionary move, really a huge step for Europe.

Please don't forget that two crucial elements of European economic governance and of the European treaties have been thrown out of the window overnight. The first element -- and Scheherazade already named it -- was the no-bailout clause. There should not be mutual liabilities for other states' debt. And the second core element for us that the European Central Bank should not be allowed, should not be permitted, to cover national budgeted deficits by lending money to governments. And both principles had been set out of course overnight. And unwillingly, forced by the dynamics of the financial crisis, this was a huge step towards -- as Loukas already mentioned -- a stronger European monetary and economic governance based on tighter fiscal rules and extended coordination of budgeted policies. And we are still middle in the way to find a new set of rules, not only for the European Currency Union, but for economic governance within the larger European Union.

The huge financial umbrella for endangered European states didn't resolve any problems, that's true, but it bought time to do the real

business -- and I would like to focus on the real challenges we have to face over the next month and realistically over the next years. First, we need a ready sign of the European Stability Pact, including rules for orderly default and restructuring of debt backed by the European Commission and eventually by European monetary funds. And as far as I can judge it, there will be no realistic way out of the crisis for Greece without this kind of free scheduling instead, and maybe not only for Greece. But this must be done in a controlled and politically steered and backed way and not in a cowardice process delivering whole economies and societies to the panicking markets.

And second -- the second big challenge -- the second real thing will be to double up the consolidation strategy based on both fiscal adjustments -- this is what in the moment stands in the foreground -- and the second element has to be structural reforms to promote economic growth and improve the competitiveness of the Eurozone as a whole and especially of the economies in southern Europe which had been falling back in terms of productivity, labor costs, and international competitiveness. We have to reduce the imbalances within the Eurozone; otherwise we will not be able to keep a common currency.

And looking to the current conditions, obligations, stabilization programs, not only increase all over Europe, there is, of course, a huge danger that they will lead into a deep economic recession; at best a long-

term stagnation. So we have to combine fiscal responsibility, fiscal adjustments, with investments in competitiveness and the innovation capacity of the European economy. And we need to maintain investments in human capital, in education, research, science, and in greening the European economy which will restore our economic, our industrial bases in a global world under the restriction of resource crisis and climate change.

And the third big thing will be -- and maybe we'll not have a very long time to do it -- the recapitalization of the European bank system which is undercapitalized and overloaded with critical silver and bonds. As far as I know -- Scheherazade will have the figures maybe more profoundly -- capital of European banks on average is about 5 percent of the assets. In the U.S.A. after the restructuring of the bank system, it's around about 12 percent. It makes a difference in terms of resilience in critical situations.

So I would say I'm quite confident that the European Union and the Eurozone will overcome the current crisis, but on the long term we are facing really fundamental challenges, a combination of structural imbalances of public budgets, demographic change which makes an enormous difference between Europe and the United States. We have a declining workforce and a growing part of our society depending on welfare services and welfare payments. And we have for a long time anemic economic growth, and the combination of these three is really challenging.

So muddling through will not be enough, but, on the other hand, the European Union always developed over crises. And I hope very much that we will not fail the opportunity of this crisis if it happens to us.

MR. VAÏSSE: Thanks very much, Ralf. Lastly, Andy, could you specifically address the sort of political implications of the crisis for the larger European Project and for the European construction and maybe the underlying damage, if any, that the crisis is bringing to imported European goods like, you know, confidence, a sense of solidarity, et cetera. And at the end of the day try to enlighten us on whether it's just a major, just a blimp, a bump in the road, or a major crisis.

MR. MORAVCSIK: Well, there's a tendency in situations like this, crises, to focus on the moment and the headlines and not focus on fundamentals to sell stock in a panic. And I think if we focus on the fundamentals of Europe, we'll see that Europe's status in the world doesn't change that much as a function of this crisis, and in fact, is much better than most analysts think it is with regard to those fundamentals. The conventional wisdom, I think, is that Europe has already declined out of the rank of great powers, singly and collectively, and that it's now U.S. and China and India for now and forever. My view is that Europe is the second superpower and will be for a generation or two by almost any measure.

And I think there are three reasons to believe this is true. The

first is just a look at the basic foundations of global influence and importance in the world. Just start with military power; 21 percent of military spending in the world is European; about half is American; China accounts for 4 percent. And it's not just how much you spend, it's what you use. If you want somebody other than the United States to show up with troops in the world today, you call the Europeans. They've got 100 thousand troops active in combat zones around the world. You often hear the statistic that the Chinese have the largest contribution to U.N. peacekeeping forces. The Chinese love to cite that statistic. That would be 2,150 troops, not 100,000. And, in fact, the Europeans are now the only other major military force out there active in many parts of the world.

But you might say military force really isn't what we need to deal with most problems in the world, what we need is civilian power. But Europe is, in fact, the preeminent civilian superpower in the world today. It's the world's largest trading power. It provides 70 percent of the world's foreign aid. It's the largest supporter of most international organizations and most international legal initiatives. The enlargement of the European Union is probably the single most influential and cost-effective tool for spreading peace and security that any country has employed since the end of the Cold War. And even -- though I'm not a big fan of European normative power -- one has to note that when countries promulgate constitutions these days, it's

mostly European-style things like international standards of human rights or parliamentary systems of government or restrictions on money and politics that they put into those constitutions, not American-style innovations. And when it comes to the domestic foundations of what it's going to take to be an effective country in global governance in the future, things like running your economy in a green way or having a high-productivity economy -- because I remind you European economies are more productive than the American economy -- or having effective healthcare or educating four times as many foreign students as the United States, it's Europe that is the global leader as a civilian power. None of these things are going to change any time soon. They're fundamentally grounded in the present and they're going to remain this way for a generation or two because they're grounded in a high per capita income. And Europe is going to remain the other part of the world where the high per capita income, currently ten times as high as China, for the foreseeable future.

Nothing about the current crisis changes that, however, some people may say, yes, Europe has all these power resources, but they don't have the will to use it. They're introspective. They don't think like a global power. They think like a regional power. But that's not really the case. Europe is active throughout the world economically. They're certainly one of the great pillars of the global trading order.

And then you might say, well, the multilateral agenda is a little bit moribund, but there's a lot of activity going on in a bilateral and plural-lateral level with regard to NTBs, with regard to regulations. China is the largest trading partner of China and is very active on that front. It's the largest trading partner of every country in the Middle East. In financial areas, even with problems in the eurozone, the euro is a quite influential currency as you see from the reversal of Chinese policy in recent days in response to changes in the value of the euro. And as Dan Hamilton across the street never tires of pointing out, in the investment realm, it's Europe and the United States that still dominate the world economy.

Europe -- as was pointed out in the previous panel -- is the dominant political, economic, and social interlocutor with Russia which makes you a global power right there. And in crises like the Georgian crises, it's the Europeans with their stabilization force that are most active, the Europeans with their pipeline relations who can do something. And, in fact, the European Union with whatever energy policy it comes up with that really has the only chance of changing the dynamics of Europe's relationship with Russia.

In the military realm, Europe is not just -- as was suggested in the first panel today -- a reactive country. Europe doesn't just land troops, it leads missions in places like Sierra Leone or in Lebanon. And I thought it

was rather surprising in the first panel that Europe was criticized for being inconstant or reactive in places like Afghanistan. I think Afghanistan was the country where the United States wasn't really quite sure what its policy was for eight years, while Europeans were there holding the fort, fighting and dying. It was 40 percent of the casualties in Afghanistan for the first 8 years of the war were not American, a third of them were European. It's only in the last couple of years that the Americans decided what their policy was. I think that shows a rather stable and strong commitment on the part of the Europeans that should not be criticized. Europeans are active in Iraq, Africa, the Horn of Africa, throughout the world. Europeans are globally active in global warming. They're globally active in development policy, giving 70 percent of the world's aid. They're globally active in IOs. They lead policy in Morocco, in Georgia and Ukraine, Libya and Lebanon.

It is true, however, that Europe is prudent, that it tends more than the United States to focus on problems and issues where its policies are sustainable and incremental. And for that reason, it tends slightly more than the United States to engage in regional projects, projects in North Africa, projects in the former Soviet Union, projects like enlargement. But we might think of that as a good thing, as an attractive characteristic, of policies. Europeans start policies and they finish them, unlike some other countries.



And this is not to say that the projects they take on are easy. A project like European enlargement is extremely difficult politically. It is extremely difficult to sustain political support for that project in 27 countries. In some of those countries, support for enlargement can be measured in single digits in public opinion. This morning in the far corner there was a colleague from the Heritage Foundation who gleefully questioned whether European integration -- for the Margaret Thatcher Foundation, I believe -- whether European integration could be continued in the face of referendum defeats and low public opinion support. Now it's true, as Mark pointed out, that most of those referendum defeats had nothing to do with European integration at all. But to the extent that they did, it was mostly opposition to enlargement, and I think we should admire enlightened European leaders who are willing to pursue something like enlargement even in the face of public opinion doubts. So, Europeans are willing to pursue global policies with the global power that they have even in the face of considerable political costs.

Which brings us to the third and final point, does the current crisis of the Euro change any of this? Now, I've circulated on the front table a *Newsweek* piece that goes through some of the details of the crises and I agree with my colleagues about it that this crisis is serious, but not as serious as some think and that Europe will do something more -- it's likely to

do something more than muddle through.

I agree with Scheherazade, the point Scheherazade first made that Greece probably did not belong in the Eurozone at the start, but now will stay in it because it has to, but I don't believe that this was fundamentally a crisis of the Euro. It was fundamentally a debt crisis, and there's a sense in which all debt crises are the same, whether they take place in Argentina or in Greece, they're crises in which the creditors want to get their money back and the debtors want to avoid being forced to adjust, and they have to come to some kind of a deal.

France and Germany bailed out Greece, backed the Euro with 750 billion, and permitted the ECB to purchase bad debt not because they believe in European solidarity, not because they love Greeks, and not because they wanted to prop up the value of the Euro, which, in fact, is a good thing for them that it's gone down to what Scheherazade rightly said is a more reasonable value. They did so to bail out their own banks and bond holders who are very highly leveraged, exposed in the Greek situation. And that is the way it always is in these crises even if they take place in Latin America or in Asia or anywhere else. And in this sense, Europe is a community of interest, and it is this community of interest that is going to lead it to continue to deal with this crisis.

So, as my colleagues said, they will exploit the breathing

space to clear toxic assets out of their banking system, something they should have done some time ago when the United States and the UK and even China did so. Greece will default. Brussels will create more stringent and transparent banking regulations, default management, some kind of IMF style oversight, private lenders will reduce -- reverse this fatal practice of lending to pigs at German rates, but the deeper lesson here is that Europe often muddles through crises with European action as a last resort when national policies fail. And while old-fashioned federalists may dream of a United States of Europe, common fiscal policies, transfers at high levels to help people, in fact, European policy is often and often works best when it's cautious, piecemeal, and decentralized. We're not going to have economic governance at the European level to micromanage taxes and spending. But in the long term, it's likely as in some of these other areas that I've mentioned, that Europe's response to the crisis may well be more innovative and effective than the U.S., China, and other global powers. That's why we shouldn't sell Europe short.

MR. VAÏSSE: Thanks, Andy. The panelists have been very disciplined and so they will be rewarded with extra questions before we move to the discussion with the floor, and I'd like to start with you, Loukas.

I'm the eternal optimist, and so a question on the Greek economy and the Greek political system. Somehow, couldn't this crisis be

sort of a good thing for Greece in the medium term, or probably even in the long term, in terms of bringing about, from the outside, a revolution in governance, etcetera, that could not be brought about by Greek politicians?

MR. TSOUKALIS: Well, as I said before, crises are very often the mother of change. The Greek system continued for long -- the Greek system that as I said before had two important elements, one was clientelistic politics, which is the main explanation behind persistent fiscal deficits, and the other was a model of economic development which created a bubble, but more through the state sector rather than through private borrowing. So, in that respect the Greek bubble is different qualitatively from the bubble that the U.S. experienced, that the UK experienced, because it went through the public sector, not so much through the private sector.

Now, having said that, if you want to be an optimist, and in my -- I always try to be an optimist as well -- it is an opportunity for Greece to change dramatically and this is now perceived by an increasing number of Greeks themselves. They have drawn a conclusion about what has been going on until now.

I talked about a party, that is clearly over. Now, we are changing -- the kind of legislation that we have been introducing in the Greek parliament in recent months, is more radical than anything that has happened in Greece in the last 10 or 15 years in terms of pension reform, in

terms of economic liberalization measures, in terms of budgetary cuts, and now there's more to come in terms of administrative decentralization. All right? So, there is evidence of real change.

If you want to be pessimistic you say that the task is simply enormous. Will the Greek political system and Greek society face up to it and be able to cope? Well, it remains to be seen. My test will be that if -- let's say, one of the tests I would offer, and I offer it often to my compatriots is that if after the next election in Greece, more than 30 or 40 percent of the existing members of the Greek parliament are still in parliament, then the change has failed.

MR. VAÏSSE: Thanks. Let me stay on Greece, and I have a question both for you and for Scheherazade.

The idea -- so, everybody seems to agree that there will be -- that no one will leave the Eurozone because the cost would be too high. But a sort of intermediate proposition has been advanced by Ken Rogoff and, more importantly, in a long article by Marty Feldstein, the idea of a temporary leave of absence from the Eurozone; the idea of a holiday from the Eurozone where Greece would revert to the drachmas for wages and prices whereas basically bank balances and obligations would remain in Euros. And so, of course, that would impose on the Greek population a sort of forced devaluation of their standards of living. And so how realistic do you

think this proposition is? And I'll ask you the question and then I'll ask Scheherazade the question.

MR. TSOUKALIS: I think the short answer to the question is, this is a holiday in hell and the Greeks are not masochist enough to indulge in that kind of holiday. It's as simple as that.

MR. VAÏSSE: So, you see basically an orderly restructuring of the Greek debt at some point when things have calmed down?

MR. TSOUKALIS: Like devaluations in times of fixed exchange rates, restructuring is not announced until it actually happens. Right? Now, I hope that Greece and others in Southern Europe will avoid a restructuring, but if it does happen, I should hope that it does happen at a time when there's less, less panic in the markets and this is the product of serious negotiation that involves all parties. And that kind of restructuring I think we can live with.

MR. MORAVCSIK: Everybody treats restructuring as if it's a disaster. Countries restructure all the time. You know, restructuring is not the end of the world and, after all, these creditors lent to Greeks at the same rates as Germans. They should get 70 percent of their money back and not 100 percent.

MR. FÜCKS: Yeah, you have to make them reliable. It wasn't just a bailout of Greece, it was a bailout of the banks, of the lenders.

MR. MORAVCSIK: Absolutely. Absolutely.

MR. FUECKS: And as long as we don't make them reliable for their business models, it will just go on.

MR. VAÏSSE: You mention in your piece the restructuring of debt of, in particular, of U.S. municipalities, I believe New York City among them in the 1970s, right? And other models, historical --

MR. MORAVCSIK: Yeah, in Latin America and so on. Yeah, absolutely. It should happen. And it can happen in an orderly way, particularly if the EU prepares.

MR. VAÏSSE: Scheherazade, what do you think of the temporary leave of absence hypothesis and of the restructuring of the debt, and what do you see ahead?

MS. REHMAN: I agree with Loukas. This is not a viable option. The markets will pummel that country and it won't be able to stand up if any of this ever comes to fruition. So, I think everybody's fully aware of that.

So, not an option.

MR. VAÏSSE: I have a follow-up question on the European banking system because many voices have been heard saying that behind the -- it was not just a question of bailing out French and German banks who had lent to Greece a lot, but it was also a more general question -- a trigger

for more general questioning or skepticism about the health of the European banking system in general given the fact that Europe had not done the stress test that America had done, or at least that it had done it privately and not publicly, thereby not sort of getting in a more healthy situation.

How worried are you about the European banking system and isn't that the next big question of the health of the --

MS. REHMAN: I think you're right. I think this is the critical question here. You know, they will muddle through, but the question is, you know, they don't have time. They're hemorrhaging and the markets act very, very quickly and very violently and very fast. And there is another shoe that's waiting to drop in Europe and we haven't talked about it yet and that is Central Eastern Europe. If you look at Greek banks, they hold almost 20 percent of the banking assets in Bulgaria, 15 percent in Romania, 10 percent in Serbia. And that's just the Greeks, forget everyone else. And this is a trickledown effect that's going to come.

So, in a crisis like this, whether it's right or wrong, whether you're bailing out the creditors, the bankers, the investors, it's irrelevant. You have to stop the hemorrhaging or everybody gets hurt, and I think we learned this in the U.S. crisis. So, I think at this point it has to be a very structurally reordering, as has been mentioned before, institutional support, no waffling, none of the usual European nonsense about we do this, we



won't do this, somebody speaks out; they have to speak with one voice in order to overcome this crisis because this restructuring is coming down the road. It's coming for Greece, it's coming for Spain, it may even come for Italy.

MR. VAÏSSE: Andy, how confident are -- so, basically your European governors are just telling us, you know, the stability and growth pact, that was important, but, you know, we floated it a couple of times. Now we're serious. But, you know, since they did it before, how confident are you that the more stringent rules that you mentioned earlier will actually be respected by countries which remain sovereign about their economic issues?

MR. MORAVCSIK: I don't think there's going to be a real-time constant stability and growth pact. I think that's -- I don't see any way to make that credible. So, my view of it is that you can have credible controls on fiscal behavior, states, in crises situations, so that's what the IMF does. You can do it when you have leverage over them. So, you're going to have to trust that the sense countries have that they need to engage in domestic reform and the punishment that bond markets are going to wield over them, and surveillance, is going to do it. If that doesn't do it, then Europe is in real trouble. But I don't see any way you can create a political mechanism that's going to -- these notions that you're going to take away countries' votes or

limit their structural funds or something, I mean, I think that's just not serious. And I don't -- I think it will go the same way as the structural fund, so I don't think that's serious.

MR. VAÏSSE: Ralf, one question for you. You know, obviously this whole crisis is going to have an impact on other areas of European construction, if only as Mark was mentioning earlier this morning in the areas that you're particularly interested in, in international relations, in -- also in defense and spending for, you know, probably development aid, etcetera. How much of an impact do you think the specific Eurozone crisis will have either through budgetary conduits or, more generally, for the confidence in the EU project and the -- I would say, the enthusiasm of European leaders when they come to other issues?

MR. FÜCKS: I'm afraid on the short and maybe the medium term, the European Union will become more inward looking in the sense of we will be very much busy with ourselves, and that the willingness and the ability to invest in global policies, both in political and in financial terms, will suffer from the current crisis. If you are listening to the public debates on budget restrictions, budget cuts, immediately it comes to the defense budgets, of course. And I think maybe there is a chance even in that, an opportunity even in that, if it can rid -- if it can get rid of the irrationalities of 27 different defense budgets and 27 different military organizations, armies,

and so on and so forth in Europe and will come closer to a unified European army and a unified European arms regime.

Okay, this could be progress out of the crisis, but in most of the European countries you have an absolute dominance of social policies and, in general, of domestic policies over international policies. This is different from the United States, you know, where, as far as I can see, there is still this -- it's almost -- the military spending almost independent from the economic developments in the country. This is not the case with Europe, especially in Germany; our international policies are comparatively underfunded. That's not only the case with the military, it's the case also with our diplomacy and our foreign cultural policies and so on. So I think it will be more about focusing on the domestic problems.

And, of course, the willingness to enlarge the European Union to include new members already over the last years has declined because now we are confronted with an eminent conflict between deepening and consolidating the European Union and enlarging it. I'm very much in favor to keep to our promise that every European democracy can become a member of the European Union, but that will mean that they have to rebuild the European Union and we have to a more differentiated system of European integration.

We will need a lot of political effort to keep this responsibility

for countries outside of the European Union alive over the next years.

MR. VAÏSSE: Good. We now have more than 20 minutes to go in a discussion together, so I'll take three questions in a row. Please identify yourself, and as Dan used to say, make sure there's a question mark at the end of your sentence.

Sir, here. We'll start with you.

SPEAKER: Hi, my name is Anton (inaudible). I'm a consultant here in Washington.

At least three of the panel members seemed to agree that Greece is doomed to a restructuring. None of them was willing to say, okay, let's do it, let's be decisive, let's get it over with. Some wanted it to be orderly, Mr. Fücks wanted to build new institutions. How will we know that the time has arrived when it's safe for the Greeks to default?

MR. VAÏSSE: Thanks. Take another question in the back over there. The lady who is standing up.

MS. BOURBON: My name is Contessa Bourbon from the *New York Times*. I'd like to get your comments on how worried are you on the plunging value of the Euro currency and to what extent this structural reform is needed to make the Euro survive.

MR. MORAVCSIK: Sorry, I didn't understand the first question.

MS. BOURBON: How worried are you on the plunging value of the Euro currency? Because it has been plunging for many weeks now.

MR. VAÏSSE: And Michael, here in the front.

MR. CALINGAERT: Michael Calingaert from Brookings, Council for the U.S. and Italy. I have a political question.

Greece, in the first instance, but really many other countries, are facing and will face problems of adjustment politically. In other words, governments need to have support ultimately for taking a lot of measures which are affecting population. I can certainly understand that intellectually or in a general sense there is recognition in Greece and other countries that things have to change. What I wonder about is perceived unfairness. In other words, a person saying I'm being called upon to make such-and-such sacrifice, but other parts of society, other parts of the economy, are not being treated equally. And how sanguine are you that can be resolved?

MR. VAÏSSE: Okay, so we have three questions. Who would like -- Scheherazade, would you like to start on the value of the Euro and the other questions?

MS. REHMAN: I think I mentioned this before. I think the value of the Euro is actually okay. It had to readjust; 1.5, 1.4-something was way, way too high if you look at the European economic outlook, at least in the near term. And like I said, 1.2 is a very reasonable place for them to be.

And some of us are actually surprised it's at 1.2, in fact, not lower. So, I think that's one point that I would make.

As far as the Greek restructuring, this is a very, very tricky game. You know, you're talking about an irrational market. The fear has to subside and the timing has to be right, but until we do it, we're not going to know.

MR. VAÏSSE: Loukas or Andy, do you want to --

MR. TSOUKALIS: Andy, do you want to go first?

MR. MORAVCSIK: Go ahead.

MR. TSOUKALIS: First of all, we have witnessed a number of ups and downs of the exchange rate between the dollar and the Euro, so this is not going to be the last one. I would agree with Scheherazade that 1.20 is probably a much better and more realistic exchange rate to have than the 1.50 -- almost 1.50 we had a short while ago.

Number two, I wouldn't use the verb "doomed to restructure." But having said that, I would again -- and this was not concerted action in advance with Scheherazade, that this is not the time to do such a thing when panic prevails in markets. So, it is true that both the bailout mechanism for Greece and also the European stabilization mechanism of 750 billion Euros -- which, if you think about it, if somebody told you 6 months ago that the countries of the Eurozone would agree to set up a

European stabilization mechanism amounting to 750 billion Euros, you would have thought that the interlocutor is completely out of his mind. Now it has happened. It has happened simply because European governments reached the edge of the precipice and decided to react, and this is usually how European integration proceeds.

So, further integration is not the result of a conscious desire to integrate further. You integrate further because you have to preserve what you have already created, and because what you have already created creates enormous stakes for everybody involved, you are bound to react. And this has happened many times before and it's likely to happen again. And this is precisely, when I talked before sort of in an indirect way about Wall Street and City of London, this is precisely the mistake that people have been making time and time again. They constantly underestimate the commitment of Europeans to what they have actually built together. And they think that every time there is a crisis, the whole edifice is going to collapse. Well, it doesn't.

I'm not suggesting that it will never collapse because nobody knows, but let us not underestimate what has been invested in it. So, if there is going to be a restructuring, there has to be a better time and it should be negotiated, and it should be a joint decision involving the whole European Union. And if that happens, this is not the end of the world.

And finally, fairness. The success of measures in Greece, at least, depends on two things: one is a perception among the population that the distribution of the burden is fair, and fairness, therefore, is directly linked to the effectiveness of measures that have been introduced to combat huge, widespread tax evasion. That's number one. And number two is it depends on the capacity, the ability of the government to convince people that even if the tunnel is long, there is light at the end of the tunnel. So, you have to offer people and society a perspective because simply offering punishment and difficulty -- well, Greeks, I'm sure many other people -- this is true of many other people, but Greeks do not particularly enjoy pain. So, if you do not enjoy pain, you have to offer austerity measures, but with something in the end. If you do not convince people about that, you have lost.

MR. MORAVCSIK: Yeah. Exchange rate, purchasing power parities 1.1, I think that would be fine. That's what it's said to be. On the other -- the key precondition, I think, besides expectations being in line, I mean, not panicking the market, the precondition is that the banking system be stable before you go for the restructuring. So, I think you need to deal with the core European banks before you jump for the restructuring, so I would look to that as well.

On fairness, I think -- speaking as a political scientist here -- that parliamentary systems in general are better equipped to deal with this



than majoritarian, presidential systems. If we had to deal with this problem in the United States I think we'd be, you know, really in a fix. Generally parliamentary systems have the attractive characteristics that they can be at once both decisive, because they aren't separation of power systems, but they're also center-weighted, the way majoritarian systems like the American and the British system are not.

However -- and they're center-weighted because they tend to draw people toward the middle, toward coalitions and so on. This raises, however, a problem because Italy stands out then as a problem country because it has, as Scheherazade pointed out, economic problems. And in Italian flight of fancy, reformed it's government -- it's electoral system again to move it in a more majoritarian direction and has a rather polarized system. And I can't imagine any reforms in Italy being received by all of the population as fair, and that's going to create a difficult situation going forward. I don't know what Michael thinks about that, but --

MR. VAÏSSE: Thanks. We're going to take three more questions. Andrew, here.

SPEAKER: Andrew (inaudible), Georgetown University.

To Mr. Tsoukalis I'd like to ask, to what extent is Papandreou endangered politically by what's been happening, or has this sort of enhanced his status at some point? I'd like to ask a similar question to Mr.

Fücks regarding Angela Merkel. How is she seen now in Germany, not to mention Europe as a whole?

And if I may, to our moderator, Justin, or anybody else who'd like to respond, a general question. To what extent is the United States, and let's say, its mismanagement of its economic affairs over the years, but particularly the result of the crisis -- Wall Street, subprime, and all that -- to what extent is that now seen by European friends as really a rather negative dimension of how our contribution or lack of contribution to economic stability, and to what extent are Europeans aware of the fact that they really are -- were contributors to this global problem or do they feel that generally the United States got them into a difficult situation?

MR. VAÏSSE: Could you pass the mike behind you to the lady in green?

MS. POPLIN: Thank you. My name is Carolyn Poplin. This is not my specialty. My question is a follow-up on the gentleman over here who asked about social stability.

Here, the crisis in Greece and the other countries, is seen as a failure of the welfare state and it will only be fixed when the welfare state is seriously cut back. And this is being used as an argument that we should cut back our much less supportive welfare state -- reduce Social Security, reduce Medicare, reduce spending on education -- that we need to go back

to the 1920s. I'd be curious to know how it looks from you who are experts in this.

MR. VAÏSSE: Okay, and third question, just -- the gentleman in front of you.

MR. STASSI: Jeff Stassi, the State Department, but I'd like to speak in a purely personal capacity, as a formal political scientist, mostly, because once a geek, always a geek, but you get to ask more interesting questions.

MR. MORAVCSIK: Who are you calling a geek?

MR. STASSI: Not you, Andy, but, I mean, you were one of the people who -- on this side of the Atlantic, one of the very few in the '70s and '80s who noticed that Europe was still on track.

MR. VAÏSSE: You're that old?

MR. STASSI: And so what I want to ask is about, you know, all the consternation and gnashing of teeth, the rising nationalism that you speak of. And I once made a bet in graduate school that within 20 years the Euro would collapse because of optimal currency area theory and all these sort of things, the headlines, as you speak of, the motor of European integration is dead, the Germans are no longer good Europeans, all the rest of it spells terror in the short term. But in the long term, hasn't Europe been here before? And that long, lost decade of the '70s, quietly, the EMS was

built and then, boom, boom, boom, 5 treaties in 20 years. And I might suggest that Europeans have Americans to thank for the last one. We gave Iceland the flu, had a near-death experience, and the Irish decided they wanted to keep breathing and voted for the treaty. But is this not going to be a long period, as you suggest, but that the European phoenix will rise again? Or is this thing really having a near-death experience?

MR. VAISSE: Thanks. So, are we going to have answers, maybe? Ralf, you could start with Merkel. Is she threatened in any way?

MR. FÜCKS: Without doubt, developments over the last two or three months, not only related to the European financial crisis, also to some domestic developments, undermine the image of the German chancellor as an effective crisis manager and as a European leader that's obviously the case. You can read it out of the polls. But at the same time, it's not just only a personal thing for the governing coalition, liberal-conservative coalition in Germany. The fallout of the financial crisis finally turned the main political objective of that coalition into illusion to reduce taxes. This now has gone -- this leaves the government in a quite uncomfortable situation and they still didn't find a turnaround to a new political agenda. And the next weeks will be very controversial in Germany because now it will come to the moment of truth, how the government wants to adjust the budget and which kind of budget cuts they will propose. So,

this will be a very conflictive period.

MR. VAÏSSE: Scheherazade, do you want to address --

MS. REHMAN: Yes. I think that, you know, the social welfare state was raised and it's clear that the Europeans have to increase competitiveness, whether it's through lowering prices or becoming low-wage competitors in certain southern countries. And I think the reality is this that their social programs are going to have to be cut back, almost permanently, for some time to come. That doesn't mean they're going to look anything like us down the road, but the social welfare states are shrinking. They have to do that. They have to do that.

I think -- look, I'll just tie this to something Andy had said earlier about Europe being a superpower in all realms -- economic, military, and so forth. Clearly, it is a superpower, but I think one has to recall something: that 20, 30 years ago, European individual nation states were superpowers -- Germany, France, the UK -- and that has shifted. There's no question there has been a loss of power in Europe.

Now, as united EU, this is the only way they can come and sit at the table. I don't think that any single European country can come and sit at the table with the United States or with China, for example; just size matters here. The U.S. economy is, on any given day, a \$14 trillion economy. Germany is \$2.5 trillion. It's small if you compare that. And, you

know, military budgets, our military budget dwarfs anything the Europeans have done if you look at dollar value. So, I think this must be kept in mind --

MR. FÜCKS: Is it a strength or a weakness?

MS. REHMAN: Both.

MR. VAÏSSE: Andy and Loukas, do you want to answer?

Well, maybe, Loukas, you can start. Papandreou in danger?

MR. TSOUKALIS: No, I don't think Papandreou is in danger because he controls his party and there is no credible opposition for the very simple reason that the main opposition party is the one that has left him with a mess. So, the opposition party is not a credible alternative and will not be a credible alternative for some time to come.

Having said that, I think that Papandreou has limited time before he delivers. If he doesn't deliver, he will be in trouble. So he controls the situation, but time is short. That's the first reaction.

The second is, luckily, we have a welfare state in Europe. I can't imagine what would have been the situation if our welfare states had been much weaker during the time of crisis. But I agree that there is need for reform, not only because of the crisis, but also because of demography. So, there is going to be a painful reform of the welfare system.

And remember that a number of -- for a large number of European countries, distribution of income and equality are crucial things in

the political system, and also that a number of countries -- not only mine, but also France and others -- are what the French would call *société contestatrice*, so people get to the streets and demonstrate. So, reforms are not always the easiest of things to introduce.

And last point about Europe and the world, it is true that the relative weight of individual European countries, whether you measure it in terms of population, GDP, trade, has been declining steadily over the years and it will continue to decline in the foreseeable future. And this is something that European countries are increasingly realizing because this is not only a world that's becoming more multi-polar, but the center of gravity is moving to Asia. So, Europeans have realized that unless they operate as a unit, they will exert little influence in international affairs. But translating this realization into policy is never an easy thing, so that's why there's always a huge gap between European rhetoric and European delivery. We would like to do things, but we do not always succeed in doing them.

MR. MORAVCSIK: On the welfare state question, I think there will be some -- certainly not an elimination or anything, but certainly some consolidation of the European welfare state just as we're going to have to make -- every society has to make budgetary choices, we're going to have to make some here. Let's remember that you could fund all of Obama's proposed health care program out of what we spend on Iraq every year.

On the future of Europe, which might be a good place to end, you gave me a choice, either the whole thing will collapse or the phoenix will rise and move on after the crisis to new and greater things. I think it's neither one, actually. I think that there is a kind of stable, European constitutional settlement in place, that the status quo makes a lot of sense, and that there's going to be institutional innovation within the bounds of the current status quo as we're seeing now. So, people are going to work within the monetary policy area to improve things, people are going to work within areas, I think, like home affairs to improve things. But when it comes to opening up whole new areas for European regulation, like social policy or like taxing and spending or like education and culture, the things that are now national, I think they are not going to become international areas. I think they're going to remain national.

So, you're going to have a stable constitutional settlement at the European level where these things, which are actually the things of greatest concern to voters -- social welfare, taxing and spending, education, cultural policy, and so on, even third country immigration -- remain largely national; and the things we have now -- market-making policies, these kind of business regulation issues, trade, money and so on, some kind of international policing issues, some military issues -- are international. I think that makes some functional sense. I think it makes some normative sense



in democratic theory, if we could talk about that. I think it's politically stable, and I think it's an attractive vision. It's actually not unlike the kind of division of labor we have in the global multilateral system as well.

And I think if Europe adjusted its rhetoric and self-presentation, it's discourse, as the French would say, from a discourse of ever closer union, where it justifies itself only if it moves ever closer to total union, to a discourse where it says we do these things in order to protect the right of Danes and the right of French and the right of Germans to do these other things themselves, it would be a much more legitimate operation.

MR. VAÏSSE: We have on -- actually, two minutes to conclude, so I'll ask -- I'd like to ask the panelists for their concluding thoughts. And maybe starting with Scheherazade, one thing struck me, maybe we could conclude with this, is when you mentioned the sort of two-tier system inside the Eurozone of shaky countries and healthy countries. But more generally, isn't the risk that we are having for the 2010s, for the next decade, one of deflation? Think Japan in the 1990s or even Europe in the 1930s. If we all cut our spending and restructure, etcetera, then no one will be left to buy things and so we will be in a deflationary spiral. Isn't that the deadly risk for the decade and how much of a risk is it?

MS. REHMAN: Yeah, I think this issue of lost decades is coming up for Europe and I think it's much more a possibility in Europe than

it is here. I think that -- this is all about growth and I'm talking in terms of eking growth out. So, yes, I think there is a danger in Europe for this, but much less of a danger here. I think we'll restructure a little bit faster.

MR. VAÏSSE: Okay. Ralf, very brief concluding remark?

MR. FÜCKS: First, I would like to agree that Europe may be more stable as it is perceived in large parts of the United States because of the stability of its institutions and because of the still relatively good condition of its public infrastructure and its public services. And I think in a situation of crisis, public good matters -- public goods matter.

And the second remark, we have been talking all the day and especially in this last panel on Europe. Is Europe the declining former power or could Europe become maybe a model for other regions, global regions, in the 21st century? I think we have to restart a transatlantic dialogue on these issues, not only on regulating the financial markets where we urgently need to find common ground, if anything should happen, and if we will not miss the opportunity of the crisis, but also in terms of deficit spending and how to deal with exploding public debt. This is not only European. This is also an American and it is a transatlantic issue. And if we don't have an intensive dialogue on that, there will be a rift, there will be quite -- political tensions between Europe, which is going more into the mode of financial adjustments and looking for balance budgets; and the United States, which is increasing

its public deficit and is still going along the path of deficit spending, so fighting debt with more debt. And these are really different political concepts and even different philosophies behind that and we will have to have a serious dialogue on that.

MR. VAÏSSE: Thanks. Loukas? One concluding thought?

MR. TSOUKALIS: I think we're going to have a more effective and closer coordination of national fiscal policies in the European Union, but the big question that remains to be answered is who and how sets the economic priorities. The crucial question I think for me in the next months and years is to generate growth in Europe. If we do not succeed in doing that, we are in deep trouble.

MR. VAÏSSE: Andy, one concluding thought?

Okay, so that ends it. Thanks very much for being with us and please join me in thanking the panelists for a great day. (Applause)

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