



CENTRE FOR EUROPEAN REFORM

annual report

2011





CENTRE FOR EUROPEAN REFORM

about the CER

The Centre for European Reform is a think-tank devoted to making the European Union work better and strengthening its role in the world. The CER is pro-European but not uncritical. We regard European integration as largely beneficial but recognise that in many respects the Union does not work well. We also think that the EU should take on more responsibilities globally, on issues ranging from climate change to security. The CER aims to promote an open, outward-looking and effective European Union.

Through our meetings, seminars and conferences, we bring together people from the worlds of politics and business, as well as other opinion-formers. Most of our events are by invitation only and off the record, to ensure a high level of debate.

The conclusions of our research and seminars are reflected in our publications, as well as in the private papers and briefings that senior officials, ministers and commissioners ask us to provide.

The CER is an independent, private not-for-profit organisation. We are not affiliated with any government, political party or European institution. Our work is funded by donations from the private sector.

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

- ★ The euro, economics and finance
- ★ Energy and climate
- ★ EU foreign policy and defence
- ★ Enlargement and neighbourhood
- ★ China and Russia
- ★ EU institutions and policies
- ★ Justice and home affairs
- ★ Britain and the EU



From left to right, top to bottom: Charles Grant, Philip Whyte, Simon Tilford, Katinka Barysch, Stephen Tindale, Hugo Brady, Edward Burke, Catherine Hoye, Susannah Murray and Kate Mullineux

A time of austerity and German leadership



Charles Grant, director of the CER

On the most optimistic scenarios for the euro and the EU economy, 2012 will be a year of austerity, recession, rising unemployment and falling living standards. The worse the economic situation becomes, the more Europeans are likely to turn against the euro, the EU, immigration and free trade. A surge of nationalist sentiment will make it harder for EU leaders to push through whatever remedies they consider necessary to save the euro.

The eurozone crisis looks like lasting a long time. One reason is the ideological rift over economic philosophy that divides eurozone leaders. The predominant view in Germany, and in a few other countries, is that severe curbs on public spending, combined with structural reforms designed to boost productivity, will in the long run engender growth and cure the eurozone's sickness.

However, many leading economists in the Anglo-Saxon world, France and Southern Europe think this Germanic medicine self-defeating. They argue that the root of the malaise is imbalances within the eurozone – not only the current account deficits of Southern Europe, but also Germany's current account surplus (almost

6 per cent of GDP in 2011). The Germanic method of tackling imbalances is to impose stringent austerity and wage cuts on the southern countries, which will then reduce imports and require less external financing. But the problem with that remedy is that it leads – at least in the short and medium term – to shrinking output and therefore debt burdens that become unsustainable. That increases the probability of governments defaulting, thus threatening the solvency of banks across Europe.

Critics of the German medicine therefore argue that structural reforms in the 'periphery' should be combined with efforts to boost demand, particularly in the 'core'. They point to the fact that the markets have started to worry as much about the peripheral countries' capacity to grow as their ability to repay debts. The EU's peripheral economies could be helped not only by aid and investment from abroad, but also by a rebalancing of the German economy, so that it consumed, invested and imported more.

Such arguments go down badly in many circles in Germany, especially when they come from Anglo-Saxons who, as the Germans rightly say, have mismanaged their own economies and are prone to be cavalier about inflation. Some Germans claim that too much generosity towards southerners will encourage 'moral hazard', in the form of excessive spending. They believe that the eurozone crisis is rooted in governments breaching EU rules on deficits (though of the five peripheral countries in trouble, only Greece seriously breached the 3 per cent budget deficit limit in the years before the crisis unfolded; Portugal was slightly above 3 per cent). So in 2011 the Germans pushed the EU to adopt much stricter rules on government borrowing, through legislation, and in 2012 they are trying to enshrine similar rules in a new treaty.

Many EU governments think this Germanic economic analysis is flawed and that the new treaty requested by Chancellor Angela Merkel is pointless. But they have gone along with the idea of treaty change in the hope that when the German government is confident that strict fiscal rules will stop the southerners over-borrowing, it will do whatever is necessary to save the euro. In the short term, that would mean relaxing its opposition to the European Central Bank (ECB) buying the bonds of countries in difficulties, or lending to bail-out funds, to restore confidence to financial markets. In the longer term it would mean mutualising the costs of sharing a currency, through a scheme for collective borrowing such as 'eurobonds'. At the end of 2011, Germany's leaders were far from adopting such policies. Public opinion may constrain their ability to do so. But it is hard to see how the euro can endure without them compromising on some of their economic principles.

A second reason to suppose that the euro crisis will be long-lasting is the poor quality of leadership, not only in Germany but all across the Union. Where are the Churchills, Monnets, Adenauers, Giscardis, Schmidts and Delors of today? Throughout 2011, EU leaders gathered at one EU summit after another. On each occasion they unveiled a fresh 'solution' to the eurozone crisis. But every time, the measures taken turned out to be too little, too late.

The financial markets have started to doubt the EU's ability to sort out the problems of its currency. So have governments all over the world. The US, China, India and Brazil – and the International Monetary Fund – have urged Europe's leaders to act more decisively.

All is not lost, yet. A eurozone break-up would have a horrifying impact, destabilising banks, threatening legal contracts and cutting economic output. There would be a surge of capital controls, border checks and protectionism. The single market and the EU itself might not survive in their current form. One can only imagine how xenophobic populism would thrive. Therefore political leaders – even ones that are less than brilliant – have large incentives to try and hold the euro together.

Some hard-liners in Germany, including senior Bundesbank officials, appear not to want the euro to survive in its current form: they have done their best to block most of the possible solutions to the crisis that have hitherto been proposed. But most German leaders want the eurozone to remain in tact. There are some signs that the Germans are starting to realise that the medicine they are prescribing is not working, but they need to re-examine their policies more thoroughly.

Ultimately, Germany's leaders will have to decide if they want to save the euro or let it fracture. If the euro blew up, and the EU did not survive the fall-out, the Germans would be blamed. That would undermine the perception of many Germans of who they are, what their identity is, and where their future lies.

Although Germany has become a more difficult and assertive partner in recent years, it remains a country that sees itself as embedded in European integration. The Second World War no longer casts a long shadow over German politics, but has not been forgotten.

At the end of 2011, one Elysée official told me: "We think that in the last resort the Germans will try to save the euro. But we worry that, by the time they move, it may be too late."

Writing at the end of 2011, events in 2012 cannot be foretold. But six trends have been clear in 2011, and are likely to persist in 2012.

First, the EU's global prestige is waning. This is particularly unfortunate at a time when the Arab world is in turmoil and democratisation in eastern neighbours such as Ukraine is stalling. The eurozone crisis has consumed the time and energy of EU governments, and also made the Union's leaders look incompetent. They have failed to make help for the emerging democracies in North Africa an urgent priority. A significant part of Europe's 'soft power', its attractiveness as a model, has eroded. That makes it harder for the EU to influence events in other parts of the world.

The financial constraints on EU capitals have forced them to cut contributions to EU military missions, leaving operations such as those in Bosnia or around the Horn of Africa desperately short of troops and equipment. The United States is starting to see Europe less as a partner than as a liability whose missteps may drag the US economy back into recession. No longer do EU leaders speak confidently of projecting power or influence, alone or with the US. Instead, if the economic crisis worsens, the EU may even have to contend with failing states and security crises within its own boundaries.

Second, Europe is fragmenting into increasing numbers of sub-groups. Within the eurozone there are the AAA-rated countries that set the terms of rescue packages, and the deficit countries that cannot borrow easily and must therefore swallow those terms. During 2011 the antagonism between the Germans and their northern allies (such as Finland and the Netherlands), and the southerners, grew severe. Then there are the 'pre-ins' like Poland, Latvia and Lithuania, that plan to join the euro one day and are ready to accept eurozone discipline. And there are countries outside the euro that do not plan to join, like Denmark and Sweden.



Commissioner Michel Barnier, speaking at a CER dinner on 'The future of Europe's single market', London

And then there is Britain, which has no desire to join either the euro or any European club constrained by rigid fiscal rules. At the end of 2011, the EU was heading for a rift between those countries prepared to join an inter-governmental 'fiscal compact' (nearly all of them), and Britain (probably joined by the Czech Republic) outside it. The more divided the EU becomes, the greater the risk that its policy-making will be incoherent or ineffective – especially if the trend towards inter-governmental decision-making weakens EU institutions. The existence of a fiscal compact, with its own procedures, alongside the EU, would pose serious risks for the integrity of the single market.

'Variable geometry', meaning that not every country engages in every EU policy, is inevitable, and already applies to the Schengen agreement, the euro and EU defence. But the EU should try to avoid a 'two-tier' architecture in which a core grouping has its own institutions and procedures that apply not only to the management of the euro but also to a wide range of other policies. Such a set-up would damage not only the single market but also the mutual trust that contributes to the EU's strength, cohesion and effectiveness.

Third, the Commission has been weakening vis-à-vis the member-states for 20 years, but the financial and euro crises have accelerated its decline. Angela Merkel and Nicolas Sarkozy rather than the Commission have led Europe's response to these crises. The big countries provide the money for eurozone bail-outs and will not let the Commission tell them what to do. They have curbed its role in the new bail-out mechanisms. The new, inter-governmental fiscal compact gives a major role to the Commission – but Berlin and Paris are increasingly hostile to that institution.

The weakness of the Commission matters. It is committed to extending and policing the single market, as well as a strong competition policy. Indeed, those priorities have cost it support in Paris and Berlin. The Commission has

a better record than any single member-state of considering the wider European interest, as it has done on issues like energy security and climate change. It is also the friend and protector of the small member-states. Most of them are very wary of inter-governmentalism and they worry about the increasing dominance of France and Germany, or just Germany.

The Commission certainly makes mistakes. Sometimes it is too concerned to protect its own prerogatives. And very few of the current commissioners are heavyweight politicians who speak with authority. But the weaker the Commission becomes, the less it will be able to focus the EU's attention on long-term challenges, speak up for the smaller countries or defend the single market.

Fourth, Britain is moving to the margins of Europe. In nearly 40 years of EU membership, British influence has never been weaker. Britain's negative attitude to European integration, its sometimes europhobic domestic political debate, and its failure to cultivate allies in the EU have left it unpopular and isolated. Even countries that agree with the British on substantive issues such as free trade, deregulation or Atlanticism are embarrassed to be seen as siding with them. The diplomatic disaster of the December 2011 summit, which left Britain in a minority of one, was symptomatic of Britain's waning influence.

Many factors are eroding the British people's support for the EU: immigration, which is blamed on the EU; the eurozone crisis, which has shown EU leaders to be incompetent; a stream of regulations affecting the City, some of which seem to be driven by French and German interests; and the tabloid press, which does what it can to stir up europhobia.

The Conservative Party, like public opinion, is becoming ever more eurosceptic. Many Conservatives want to renegotiate the terms of EU membership – a polite way of saying withdraw. It is now quite plausible to imagine that the UK will leave the EU within ten years. The next generation of Conservative leaders, when in power, could hold a referendum on membership.

Fifth, France, for the first time in the history of the EU, is clearly number two. For most of the EU's history, the Franco-German couple has provided joint leadership. But the financial and eurozone crises have accentuated



(L to R) Carl Bildt, Wolfgang Ischinger and John Kerr speaking at Allianz-CER forum on 'The EU and emerging powers', Brussels

France's relative economic weakness, vis-à-vis Germany – notably its over-regulated labour markets, higher budget deficits and poorer export performance, and therefore higher borrowing costs.

Outwardly, Merkel and Sarkozy still get together and take decisions that the rest of the eurozone then follows. But on most of the key issues concerning the euro – such as should there be a new treaty, are eurobonds needed and should the European Financial Stability Facility be allowed to borrow from the ECB? – Germany's views prevail. Sarkozy's strategy appears to be to hug Germany close, in the hope of being able to influence the details of policy, and to maintain the appearance of parity.

The December 2011 EU summit was a rare example of a partial French victory. Merkel would have preferred all 27 countries to agree to a new treaty, while Sarkozy was sympathetic to the idea of a new, inter-governmental body for eurozone countries alone. Britain's rejection of a new EU treaty enabled Sarkozy to establish such a body, but he had to go along with the German idea that it should include most of the countries not in the euro.

The leaders of France's Socialist opposition have attacked Sarkozy for being so willing to follow the Germans. The perception that France is no longer leading Europe may strengthen French euroscepticism. Marine Le Pen is a big critic of the EU and the euro and is profiting from their difficulties. A surge of support for the National Front leader in the presidential election in April and May 2012 could push mainstream politicians to become more eurosceptic.

Sixth, for the first time in the history of the EU, Germany is the unquestioned leader. Many Germans are uncomfortable with this role. Germany's politicians are learning very slowly, perhaps too slowly, about the responsibilities that come with leadership. Too many of them define their national interest in a relatively narrow way. Too few of them explain to the public that the euro is good for the German economy: if the currency broke up, a new deutschemark would soar in value and damage the competitiveness of German exporters. They could also point out that the euro was the price Germany paid for an easy reunification, and that it has become the symbol of Germany's post-war European identity.

Increasingly, Germany's neighbours are calling on it to assume its responsibilities. As the Polish foreign minister said in Berlin in November 2011: "We ask Berlin to admit it is the biggest beneficiary of current arrangements and it therefore has the biggest obligation to make them sustainable...I fear German power less than I am beginning to fear its inactivity."



*CER conference on
'The state and the market after the financial crisis',
Ditchley Park*

At the end of 2011, a healthy eurozone required two things. First, governments in the peripheral countries that are committed to structural reforms that will lay the basis for future growth. At year-end, the Greeks, Irish, Italians, Portuguese and Spaniards all had such governments (though these governments' longevity is far from assured). Second, a Germany that is taking the necessary steps to ensure the euro's survival. Twenty years after the Maastricht summit conceived the euro, Germany's partners are still waiting.

The CER in 2011: The euro

A Europe that is messy, divided, complicated and disputatious is a difficult and sometimes depressing subject to work on. However, CER researchers have never faced so much demand for comment and analysis on what is happening. Since 2006 we have been warning that the eurozone is unsustainable without radical institutional reform. A steady series of shorter pieces – opinion pieces in international newspapers, CER insights and CER bulletin articles – as well as many quotes in the print and broadcast media have given us huge visibility during the euro crisis.

At the end of June, Simon Tilford's essay, 'Germany's brief moment in the sun', argued that Germany's recent economic success was unlikely to be sustainable, and that its economic prospects depended much more than many Germans realised on the fate of the eurozone.

In November, Simon and Philip Whyte wrote another essay, 'Why stricter rules threaten the eurozone', which argued that European leaders' obsession with enforcing rigid rules, allied to their neglect of the eurozone's institutional flaws, were doing more harm than good. They wrote that EU leaders could not restore confidence in the eurozone without fixing its institutional defects, for example by introducing eurobonds, and in the interim being willing to break some rules. Many commentators, including Paul Krugman, cited this essay.

In March, the inaugural meeting of the Allianz-CER forum brought together an illustrious cast to discuss the euro crisis: Herman Van Rompuy, Mario Monti, George Soros, Didier Reynders (Belgium's deputy prime minister), Jörg Asmussen (then state secretary in the German finance ministry), Marco Buti (director-general for economics in the Commission), André Sapir (Bruegel) and Antonio Borges (then of the IMF). Several of these speakers claimed that what EU governments were doing was sufficient. However, Sapir and Soros warned that the longer EU leaders held back from taking decisive action, the harder it would be to fix the euro.

We also organised smaller events on the euro. In January, we held a breakfast with Adam Posen, a member of the Bank of England's monetary policy committee, who highlighted the need for the eurozone to focus on demand as well as supply-side reform. In May we teamed up with the German-British Forum for a conference on the European Central Bank, with the ECB's Lorenzo Bini Smaghi as keynote speaker. In June we joined the Official Monetary and Financial Institutions Forum for a seminar on the implications of debt restructuring in the eurozone.

In the autumn we organised fringe meetings at the annual conferences of the three main British political parties, together with Business for New Europe. The theme at each fringe was 'Will the euro crisis split the EU?' At the Liberal conference in Birmingham the line-up was Sharon Bowles MEP, Foreign Office minister Jeremy Browne and

Scottish secretary Michael Moore. At the Labour conference in Liverpool our speakers included Urban Ahlin, Sweden's shadow foreign minister, and Jan Royall, the shadow leader of the House of Lords. At the Conservative conference in Manchester our panelists included Willem Buiter, chief economist of Citi, and George Eustice MP, a leading Conservative eurosceptic. In December, at a CER breakfast in London, Fabrizio Saccomanni, the director-general of the Bank of Italy, argued that the ECB was committed to doing the necessary to save the euro.

The European economy

The euro crisis did not distract us from some of the broader challenges facing the European economy. One of its underlying weaknesses is its poor performance on innovation. In July we published 'Innovation: How Europe can take off', a set of essays edited by Simon and Philip,



David Willetts speaking at the launch of 'Innovation: How Europe can take off', London

including contributions from Máire Geoghegan-Quinn, the research commissioner, and David Willetts, Britain's minister for universities and science. Many authors made the case that innovation required much more than large corporate research laboratories. Some of them complained that although an innovative society required 'creative destruction', Europe had failed to accept the social and economic dislocations that a more innovative society must entail.

In November, we brought together a group of top economists for the third of our occasional conferences at Ditchley Park in Oxfordshire. Participants at this event on 'The state and the market after the financial crisis' included Charles Goodhart, Peter Bofinger, Jean Pisani-Ferry, Robert Frank, Paul Tucker, Adair Turner, Pier-Carlo Padoan, John Kay, Anatole Kaletsky, John Williamson and Bart van Ark. There was broad agreement that market capitalism faced a crisis of legitimacy in the developed world – partly because of catastrophic market failures (such as the global financial crisis), and partly because the gains from economic growth had been so unevenly distributed over the past two decades. Although there was no alternative to the market economy, capitalism would have to be rebuilt on new foundations. It was critical that the fruits of economic growth be more evenly shared, and that pro-market policies not be confused with pro-business policies.

Some of our best events of 2011 were specifically for our corporate members: in February we held a CER breakfast with Anders Borg, the Swedish finance minister, on the EU's economic reform agenda; in May Commissioner Joaquin Almunia spoke on competition policy at a CER dinner; in October Jonathan Faull, the Commission's

director-general for the single market, spoke at a dinner on financial regulation; and in November his boss, Commissioner Michel Barnier, spoke at a dinner on the future of the single market (with David Lidington, Britain's Europe minister, as the discussant). Barnier's advocacy of a financial transactions tax failed to convince the bosses of City firms around the table. In addition, we held a breakfast in September in Brussels on the EU's role in data protection, with Peter Hustinx, the European data protection supervisor.

Energy and climate

The euro crisis distracted many Europeans from questions of energy and climate, but not the CER. In September, we published 'Green, safe and cheap: Where next for EU energy policy?' a set of essays edited by Katinka Barysch. Ten experts and two EU commissioners (Connie Hedegaard and Günter Oettinger) considered questions such as whether EU renewable policy could undermine the single market; whether EU support for selected pipelines and power lines could stunt market signals; and whether EU gas policy focused too much on the 'Russia threat'. Philip Lowe, the Commission's director-general for energy, launched the report in Brussels while Charles Hendry, Britain's energy minister, did the honours in London. He had already spoken at a CER breakfast in June.

We also published three policy briefs on energy by Stephen Tindale. One, 'Delivering energy savings and efficiency', discussed how EU policies could best promote energy efficiency. The second, 'Thorium: How to save Europe's nuclear revival', argued that nuclear power based on thorium reactors would be markedly safer than conventional sorts of nuclear power. The third, 'EU climate polices without an international framework', appeared just before the Durban climate summit in December. This argued that whatever the outcome of international negotiations, the EU should strengthen its energy efficiency policies and the emissions trading system, to improve its energy security.

Also in December, John Cridland, the Confederation of British Industry's director-general, told a CER breakfast that the EU should remain one step ahead of international competitors on climate policy, but not get three steps ahead, lest its industry suffer. He urged the EU to set a policy framework for the period beyond 2020, to encourage companies to make long-term investments.

The southern neighbourhood

The Arab Spring is Europe's most urgent foreign policy challenge. My policy brief of March, 'A new neighbourhood policy for the EU', argued that the EU should increase its offer to neighbours, in terms of money, market access and labour mobility, as well as integration into EU policies and programmes. It made the case for EU aid to be tied to tough conditions, however much neighbouring governments dislike conditionality. Some of these ideas influenced the document on the neighbourhood that the Commission and the High Representative unveiled in May.



Charles Hendry speaking at the launch of 'Green, safe, cheap: Where next for EU energy policy', London

In March, we held a seminar on the neighbourhood with visiting scholars from the Carnegie Endowment. In May, Commissioner Stefan Füle spoke at a breakfast in Brussels on the EU's evolving neighbourhood policy. In June, David Lidington spoke at a CER breakfast on the Arab Spring. In the same month, Hugues Mingarelli, the managing director in the European External Action Service (EEAS) with responsibility for North Africa, spoke at a CER/Open Society Institute dinner in Brussels on the EU's policies towards the region. In November, Sir Peter Ricketts, the UK national security adviser spoke at a CER lunch on the implications of the Arab Spring for national security.

The Arab Spring has given Turkey the opportunity to play a much bigger role in its neighbourhood. In January we held a roundtable on Turkey's foreign policy, together with the Royal United Services Institute (RUSI). In March we hosted Kemal Kılıçdaroğlu, the leader of Turkey's opposition Republican People's Party, at a breakfast. In October we and the Turkish think-tank EDAM organised our annual conference in Bodrum. There were sessions on the global economy, energy security, the Arab Spring and Turkey's troubled relations with the EU. Speakers included Egemen Bağış, Turkey's Europe minister, Pervenche Berès MEP, Alexander Graf Lambsdorff MEP, Cem Özdemir, co-leader of the German Greens, Kemal Derviş, former Turkish economy minister, David Miliband, former British foreign secretary and Stefano Sannino, Commission director-general for enlargement.

Foreign policy

The Daimler Forum that we run with the Brookings Institution and the Stiftung Wissenschaft und Politik (SWP), which discusses big foreign policy challenges, met in Washington in April and again in Brussels in November. An extraordinary array of senior US officials took part in one of or both the forums, including Jim Steinberg, the outgoing deputy secretary of state; Bill Burns, the incoming deputy secretary; Wendy Sherman, the under secretary; Phil Gordon, the assistant secretary for Europe; and Ivo Daalder, ambassador to NATO. From the National Security Council we had Mike McFaul, senior director for Russia, and from the Pentagon, assistant secretary Alexander Vershbow. European participants included Carl Bildt, David Miliband, Alexander Stubb (Finland's Europe minister), Simon Fraser (permanent under secretary in the UK Foreign Office) and the political directors of the British, French and German foreign ministries.

At the April forum, US officials were cautiously upbeat about their relationships with Russia and China. In November, in the session on Turkey, we learned that US-Turkey relations had improved markedly during the year. At the dinner Bildt and Stubb argued that European leaders would find a way out of the euro crisis. Some of the American and British participants were markedly less optimistic.

The CER continued to focus on ways of making EU foreign policy more effective. That was the theme of an Allianz-CER dinner in Brussels in May, with Pierre Vimont, Secretary-General of the EEAS. In the same month we held the fifth meeting of the 'Stockholm group', an annual gathering that discusses EU foreign policy in Sweden. This meeting was co-organised with the Swedish Parliament and the Polish think-tank DemosEuropa. Speakers included several senior figures from the EEAS and the European Council – Jim Moran, Carl Hallegard and Luuk Van Middelaar – as well as Hryhoriy Nemyria from Ukraine and Patricia Flor from the German foreign ministry.

The subject of EU foreign policy is particularly controversial in Britain's Conservative Party. One of our fringe meetings at the party's annual conference asked: 'Will Brussels run UK foreign policy?' The answer from our panelists – Alexandr Vondra, Czech defence minister, Gunilla Carlsson, Swedish development minister, Lord Hurd,

former British Foreign Secretary and David Lidington – was a clear no. But many in the audience feared that the EU would shackle British foreign policy.



(L to R) Igor Yurgens, Bridget Kendall and George Robertson at a CER conference on 'The future of Russia', London

In February, we held a major conference on Russia, with CER board members Wolfgang Ischinger, Igor Yurgens and George Robertson speaking, as well as Nikolai Spassky (deputy head of Rosatom) and Fyodor Lukyanov (editor of Russia in Global Affairs). Katinka's policy brief of April, 'The EU and Russia: All smiles and no action', argued that despite the agreeable tone of the EU-Russia relationship, very little was being achieved in terms of concrete co-operation. Then in June we held a roundtable on the rule of law in Russia, at which three experts – Chris Granville, Phil Hanson and Alena Ledeneva – expressed contrasting views on whether the business environment in Russia was improving.

In 'Russia, China and the geopolitics of energy in Central Asia', Alexandros Petersen and Katinka Barysch described the competition between Russia and China for energy resources in Central Asia. As Kazakh and Turkmen gas starts flowing to China, Russia's traditional dominance in the region is diminishing. But the authors argued that the EU and the US can help the Central Asian states to avoid being dominated by any one country. In May we had a lunch seminar with Harvard's Professor Joseph Nye on the West's policy towards China.

Russia and China dominated the discussion at the second Allianz-CER Forum, in Brussels in October, on 'The EU and emerging powers'. Carl Bildt warned that emerging powers would not take the EU seriously unless it sorted out its economy and strengthened its foreign policy institutions. Fyodor Lukyanov said that many Russians were now looking to Asia rather than Europe. Professor Feng Zhongping from the Chinese think-tank CICIR reported that China valued its economic relations with the EU, but he also pointed to the lack of trust between the two sides. Peter Sutherland, former head of the World Trade Organisation (WTO), lamented that the global trading system was at risk of disintegrating, while Pascal Lamy, the WTO's current chief, was more optimistic but warned of the dangers of bilateral trade deals.

Defence policy

In the area of European defence, budget cuts have revived interest in multinational co-operation. Tomas Valasek's report on the future of European defence, 'Surviving austerity: The case for a new approach to EU military collaboration', made a strong case for the pooling and sharing of military assets. Widely cited by defence correspondents and senior officials, the report influenced the EU's own conclusions on the subject. A roundtable of experts at the CER in January helped Tomas to hone his arguments. In May, the report was launched in Brussels at a joint seminar with the Egmont Institute, and in Washington at a joint event with the Centre for Strategic and International Studies. The London launch, in September, was in partnership with SWP.

Tomas followed this in June with an essay: 'What Libya says about the future of the transatlantic alliance'. Tomas wrote that the Libya war was a useful template for future missions: the European allies had led, allowing US forces to focus on operations in the Middle East and Asia. NATO's future was also the subject of a talk by General Sir Richard Shirreff, its Deputy Supreme Allied Commander in Europe, at a CER breakfast in November. He expressed worries that budget cuts in Europe would undermine the ability of NATO and the EU to act militarily.

In October we brought together British and French experts for a roundtable in Paris, hosted by the British ambassador, on Franco-British defence co-operation. Speakers included Alexis Morel, President Sarkozy's defence adviser, General Lord Charles Guthrie and Sir Lawrence Freedman of King's College London. The conclusion of the industrialists present was that defence budgets in both countries were too small to permit significant co-operation on new equipment programmes.

Given the importance of the subject, we have decided to join a consortium of think-tanks that is committed to work on Franco-British defence co-operation. Those involved include the Royal United Services Institute and the Fondation pour la Recherche Stratégique. In November, a policy brief by Clara Marina O'Donnell, 'Britain and France should not give up on EU defence co-operation', argued that both those countries could gain considerably by working through EU defence institutions.

Justice and home affairs

Hugo Brady, the CER's Brussels representative, continued to manage an active programme of work on justice and home affairs. All across the EU, worries about migration are contributing to the EU's unpopularity. In a CER essay published in December, 'The EU and migration: A call for action', Charles Clarke, a former British Home Secretary, argued for the EU to strengthen the borders of the Schengen area of passport-free travel, clarify the criteria for the reunification of immigrant families, and intensify co-operation with neighbouring countries on the return of illegal entrants. Clarke concluded that Britain should forge stronger links with the Schengen area rather than distance itself from EU co-operation on policing and justice.

That was also a theme of an essay by Michael Emerson, a senior research fellow at the Centre for European Policy Studies, which we published in July. He argued that Britain and Ireland should negotiate with the Schengen area for the mutual recognition of their visas. This would make it easier for tourists and business people to travel around Europe.

In November, the British Attorney-General, Dominic Grieve, spoke at a CER breakfast on the pros and cons of British participation in EU police and justice co-operation. He saw clear benefits in the European arrest warrant. In the same month, Robert Visser, the director of the EU's asylum support office, introduced a roundtable discussion on EU asylum rules.

EU policies and institutions

The EU is preparing for another series of bitter arguments over the seven-year budget cycle that starts in 2014. We held two roundtables on the EU budget: at the first, organised with the European Parliament, speakers included Richard Ashworth MEP, Marta Andreasen MEP and Mats Persson of Open Europe; at the second, speakers included Vasco Cal, a Commission adviser, Simon Manley, the Foreign Office's director-



(L to R) Charles Grant and Dominic Grieve at a CER roundtable on 'EU police & justice co-operation: The pros & cons for Britain', London



(L to R) Charles Grant, Danny Alexander and Ambassador Carles Casajuana at the CER's 13th birthday party, London

general for Europe, and Jan Hofmokl of the Polish government. Whatever happens to the EU budget, the Common Agricultural Policy (CAP) will continue to take the biggest share of it. In May we held a roundtable to launch a policy brief by Lord Christopher Haskins. This proposed a smaller CAP that would concentrate aid on the smallest farmers.

The European Parliament's growing power requires think-tanks to pay it greater attention. At the end of 2010 we had published a paper by John Peet and Anand Menon that was highly critical of the European Parliament. Julian Priestley, former secretary-general of the Parliament, responded in the CER bulletin, defending the institution. And Guy Verhofstadt, the leader of the Liberals in the Parliament, was an unabashed advocate of parliamentary

power when he spoke at a CER breakfast in Brussels in February. Then in April an essay by Denis MacShane MP was constructively critical of the Parliament.

In June we hosted the launch of Professor David Marquand's book on the future of the EU, 'The end of the West: The once and future Europe'. Marquand's analysis of the EU's failings – institutional and economic, and as a power – is very gloomy. One trend that alarms the CER is the relative weakness of the European Commission, vis-à-vis the member-states. But Catherine Day, that institution's secretary-general, told a CER breakfast in Brussels in December that it has no intention of becoming anybody's poodle. In the same month, after the historic Brussels summit that left the UK isolated on the issue of treaty change, we held a breakfast seminar at which Jiri Schneider, the Czech deputy foreign minister, and our own analysts discussed the strategic consequences of the summit.

Despite the gloomy tone of much of our work in 2011, there were lighter moments. Our 13th birthday party, hosted by Spanish Ambassador Carles Casajuana in May, with Danny Alexander, Chief Secretary to the Treasury, as guest of honour, was a cheerful occasion.

Charles Grant, Director

CER Publications 2011

Delivering energy savings and efficiency
policy brief by Stephen Tindale (January 2011)

A chance for further CAP reform
policy brief by Christopher Haskins (February 2011)

A new neighbourhood policy for the EU
policy brief by Charles Grant (March 2011)

**Europe's parliament:
Reform or perish?**
policy brief by Denis MacShane (April 2011)

**The EU and Russia:
All smiles and no action?**
policy brief by Katinka Barysch (April 2011)

**Surviving austerity:
The case for a new
approach to EU military collaboration**
report by Tomas Valasek (April 2011)

Thorium: How to save Europe's nuclear revival
policy brief by Stephen Tindale (June 2011)

Germany's brief moment in the sun
essay by Simon Tilford (June 2011)

Innovation: How Europe can take off
report by Esko Aho, Jim Attridge, Amar Bhidé, Albert Bravo-Biosca, Nicholas Crafts, Máire Geoghegan-Quinn, Malcolm Harbour, John Kay, Helga Nowotny, Andreas Schleicher, Michael Schrage and David Willetts, edited by Philip Whyte and Simon Tilford (July 2011)

**Britain, Ireland and Schengen:
Time for a smarter bargain on visas**
essay by Michael Emerson (July 2011)

**What Libya says about the future of the
transatlantic alliance**
essay by Tomas Valasek (July 2011)

**Green, safe, cheap:
Where next for EU energy policy?**
report by Christof van Agt, Václav Bartuška, Katinka Barysch, Jonathan Gaventa, Connie Hedegaard, Dieter Helm, Maité Jauréguy-Naudin, Agata Łoskot-Strachota, Nick Mabey, Günther Oettinger, Pernille Schiellerup, Stephen Tindale, Frank Umbach and Georg Zachmann (September 2011)

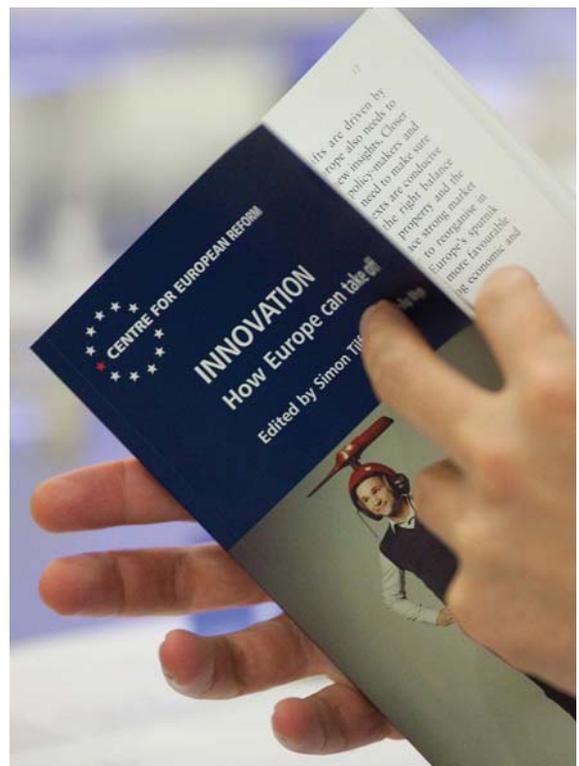
**EU climate policies without an international
framework**
policy brief by Stephen Tindale (October 2011)

**Britain and France should not give up on EU
defence co-operation**
policy brief by Clara Marina O'Donnell
(November 2011)

Why stricter rules threaten the eurozone
essay by Simon Tilford and Philip Whyte
(November 2011)

**Russia, China and the geopolitics of energy in
Central Asia**
report by Alexandros Petersen with Katinka Barysch
(November 2011)

**The EU and migration:
A call for action**
essay by Charles Clarke (December 2011)



CER Events 2011



17 January: CER-RUSI roundtable on 'Understanding Turkey's new foreign policy' with Sinan Ülgen and Ünal Çeviköz, London

27 January: Breakfast with Adam Posen on 'The future of the euro', London

2 February: CER-Interel breakfast with Guy Verhofstadt MEP on 'The future of the European Parliament', Brussels

8 February: Breakfast with Anders Borg on 'The economic reform agenda for Europe – lessons from the Swedish model', London

16 February: Seminar on the future of Russia. Speakers included: Wolfgang Ischinger, Fyodor Lukyanov, George Robertson, Nikolai Spassky (above) and Igor Yurgens, London

28 February: Brainstorming on EU defence reviews/budget cuts, London

1 March: Breakfast with Kemal Kılıçdaroğlu, leader of the CHP, London

2 March: Allianz-CER European Forum: 'The future of European economic and monetary union'. Speakers included: Herman Van Rompuy (below), Jörg Asmussen, Mario Monti, Didier Reynders, George Soros, Antonio Borges, Brussels

15 April: CER-Carnegie roundtable with Marina Ottaway and Lahcen Achy on 'Upheaval across the Arab world', London

29-30 April: CER-SWP-Brookings Daimler US-European forum on global issues. Participants included: Geoffrey Adams, Jacques Audibert, William Burns, Emily Haber, Michael McFaul, David Miliband and James Steinberg, Washington

4 May: Launch of 'Surviving austerity: The case for a new approach to military collaboration', Washington



4 May: Lunch with Joseph Nye on the future of US-China relations, London

11 May: Roundtable to launch 'A chance for further

CAP reform', with Christopher Haskins and Tamsin Cooper, London

16 May: Dinner with Joaquín Almunia (right) on EU competition policy, London



17 May: 13th birthday party hosted by the Spanish ambassador. Speaker: Danny Alexander MP (centre), London

19-20 May: Seminar on 'The future of European foreign policy'. Speakers included: Patricia Flor, Carl Hallergard, James Moran, Hryhoriy Nemyria and Marc Otte, Stockholm

24 May: Allianz-CER European forum: dinner on 'The challenges facing European foreign policy' with Pierre Vimont, Brussels

25 May: CER-Interel breakfast with Stefan Füle on the EU's neighbourhood, Brussels

26 May: GBF-CER conference on 'The ECB in a global perspective'. Keynote speaker: Lorenzo Bini Smaghi, London

3 June: Debate on the future funding of the EU. Speakers included: Marta Andreasen MEP, Richard Ashworth MEP, Petros Fassoulas and Mats Persson, London

6 June: Roundtable to launch 'The end of the West: The once and future Europe', with David Marquand, London

13 June: Roundtable on 'Courts, rules and corruption: Russia's modernisation and the rule of law'. Speakers included: Alena Ledeneva, Philip Hanson and Christopher Granville, London

15 June: Breakfast with David Lidington MP on 'The EU and its Southern neighbourhood', London

21 June: Dinner on 'The Middle East and North Africa: What are the EU's interests and how should it promote them?', with Hugues Mingarelli and José Ignacio Torreblanca, Brussels

30 June: Breakfast with Charles Hendry MP (right) on the future of EU energy policy, London





4 July: Roundtable on 'Reworking the EU budget'. Speakers included: Vasco Cal, David Hannay, Jan Hofmohl, Simon Manley, John Peet and Mats Persson, London

8 September: Launch of 'Innovation: How Europe can take off' with David Willetts MP, London

18 September: CER-BNE fringe event at Liberal Democrats party conference: 'Will the euro crisis split the EU?'. Speakers included: Sharon Bowles MEP, Jeremy Browne MP and Michael Moore MP, Birmingham

21 September: Launch of 'Green, safe, cheap: Where next for EU energy policy?' with Philip Lowe, Brussels

22 September: Launch of 'Surviving austerity: The case for a new approach to military collaboration', with Christian Mölling, London

27 September: CER-BNE fringe at Labour Party conference: 'Will the euro crisis split the EU?' Speakers included: Urban Ahlin and Jan Royall, Liverpool

29 September: CER-Interel breakfast with Peter Hustinx on 'What is at stake in the EU's data protection debate?', Brussels

4 October: CER-BNE fringe at Conservative party conference: 'Will the euro crisis split the EU?' Speakers included: Willem Buiter and George Eustice MP, Manchester

4 October: CER-BNE-Open Europe fringe at Conservative party conference: 'Will Brussels run EU foreign policy?' Speakers included: Gunilla Carlsson, Douglas Hurd, David Lidington and Alexandr Vondra, Manchester

7 October: Roundtable on 'The future of NATO' with General Richard Shirreff, London

14-17 October: CER-EDAM Bodrum roundtable. Speakers included: Egemen Bağış, Pervenche Berès, Carl Bildt, Kemal Derviş, Alexander Graf Lambsdorff, David Miliband MP and Cem Özdemir, Turkey



24 October: Dinner with Jonathan Faull (left) on 'Europe's emerging

framework for financial regulation and supervision', London



24 October: Allianz-CER forum on 'The EU and the emerging powers'. Panelists included: Carl Bildt, Robert Cooper, Pascal Lamy, Fyodor Lukyanov, Pramit Pal Chaudhuri, Peter Sutherland and Feng Zhongping (top left), Brussels

25 October: Roundtable on 'Enhanced Franco-British Defence co-operation: One year on'. Speakers included: Charles Guthrie, Lawrence Freedman and Alexis Morel, Paris

27 October: Launch of 'Green, safe, cheap: Where next for EU energy policy', with Charles Hendry MP, London

3 November: Dinner with Michel Barnier on the future of Europe's single market, London

3 November: Roundtable with Dominic Grieve MP (centre) on 'EU police and justice co-operation: The pros & cons for Britain', London



4 November: Breakfast with Robert Visser on 'A European asylum system', London

11-12 November: Conference on 'The state and the market after the financial crisis'. Speakers included: Peter Bofinger, Charles Goodhart, Sylvie Goulard (top right)

Anatole Kaletsky, John Kay, Pier-Carlo Padoan, Jean Pisani-Ferry, Paul Tucker, Adair Turner (bottom right) and Bart Van Ark, Ditchley Park

18-19 November: CER-SWP-Brookings Daimler US-European forum on global issues. Speakers included: Carl Bildt, Ivo Daalder, Simon Fraser, Phil Gordon, Alexander Stubb, Wendy Sherman, Alexander Vershbow, Brussels

28 November: Lunch with Peter Ricketts on the Arab Spring, London

2 December: CER-Interel breakfast with Catherine Day on 'The future of the European Commission', Brussels

9 December: Breakfast with John Cridland on 'What Europe and Britain should do on climate change', London



12 December: Breakfast on the euro with Fabrizio Saccomanni, London

Financial support 2011

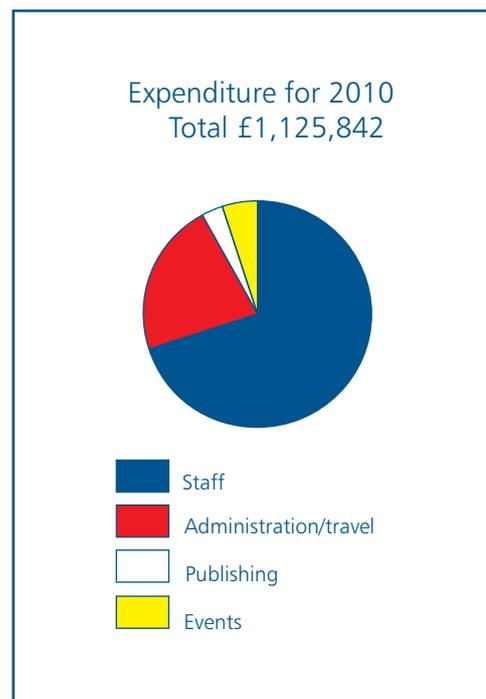
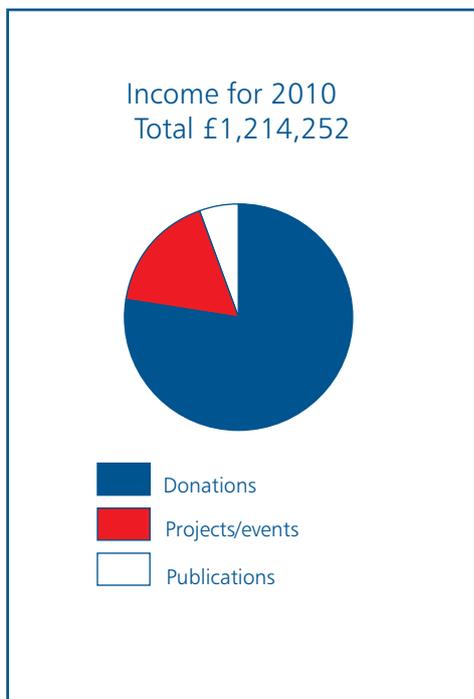
Corporate members of the CER included:

Accenture, AstraZeneca, BAE Systems, British American Tobacco, Barclays Bank, BG Group, BNP Paribas Fortis, The Boeing Company, BP p.l.c., BT plc, Citi, Clifford Chance, Daily Mail and General Trust, Deutsche Bank AG, Diageo plc, The Economist, EDF, Finsbury, Ford, G3, Goldman Sachs, Lundbeck, JP Morgan, KPMG, Lockheed Martin, Mars, Montrose Associates, Nomura, North Asset Management, Raytheon Systems Limited, Rio Tinto, Rolls-Royce, Shell, Standard Chartered, Tesco, Thales, UBS AG, Unilever and Vodafone

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

Financial information

Audited accounts for year ending 31.12.2010



Advisory board members 2011

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ANTONIO BORGES	Former head, European Department, IMF and former Dean of INSEAD
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TIM CLARK	Former Senior Partner, Slaughter & May
IAIN CONN	Group Managing Director and Chief Executive, Refining & Marketing, BP p.l.c.
TIMOTHY GARTON ASH	Professor, European Studies, University of Oxford
HEATHER GRABBE	Director, Open Society Institute, Brussels and Director of EU affairs, Soros Network
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LORD HASKINS	Former Chairman, Northern Foods
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ANTÓNIO VITORINO	President, Notre Europe and former European Commissioner
IGOR YURGENS	Chairman, Institute for Contemporary Development, Moscow

Staff 2011

Charles Grant is the director.

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



Katinka Barysch is the deputy director.

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



Simon Tilford is the chief economist.

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



Tomas Valasek is director of foreign policy & defence.

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



Philip Whyte is a senior research fellow.

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



Hugo Brady is a senior research fellow.

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



Stephen Tindale is an associate fellow.

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



Clara Marina O'Donnell is a research fellow.

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



Edward Burke is a research fellow.

He specialises in EU foreign and security policy, the Middle East and South Asia.



Catherine Hoye is the director of operations and finance.

She is also PA to Charles Grant.



Kate Mullineux is publications manager and website editor.

She designs all CER publications and organises their production.



Susannah Murray is the events co-ordinator.

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



Liliana Mulvany is the administrative assistant.



