

Club of Three
12th Plenary Meeting: Summary Note

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“Enlarged Europe in a Difficult World”

Session One: COPING WITH THE NEW SECURITY THREATS

- **Does Europe have the will and the capacity to resist terrorism?**
- **Are national or transnational responses most effective against the new security threats ?**
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- **How will the EU’s eastward expansion affect its relations with the greater Middle East, the US, and Russia?**
- **How much further can Europe enlarge? Would Turkish EU membership help solve the problems – or make them worse?**

It was recalled that with its ten new members, the European Union now comprises 25 countries with 460 million inhabitants and 4 million square kilometres. Given that peace and prosperity had been the hallmark of the European Union, it was encouraging that such a large entity could exist. But to assure security and justice for its population, the Union needed to be strengthened.

Cross border crime could only be tackled through cross-border cooperation. This applied to organised crime and also to international terrorism. The only way to respond to new security threats was with better cooperation between security authorities. This need went beyond the borders of the European Union: we needed to optimise cooperation with our American partners as well as with our immediate neighbours.

In order to take advantage of the new possibilities in an enlarged EU, we had to be clear that competences and responsibilities were clearly defined. Trust in Europe needed to be the basis of our cooperation on internal security. There were some problems: why, for instance, should the British, French and German police forces not work better together? On issues such as the centralised exchange and evaluation of data, there were always reservations. There may be legal reasons for this, going back to differing legal traditions. The crucial question always seemed to be whether we knew what would happen to our data? We needed to turn that question around and ask what would happen if we did not exchange our data. What would happen then?

Europe needed a more far-reaching information network under Europol, providing the foundation for successful operational police work at the European level. Mutual trust would be fostered through the experience of practical cooperation as well as through the establishment of shared standards and norms.

One of the key challenges was international terrorism. There had been some successes. But could we do better? How could we share our knowledge sooner and more effectively? The key to fighting Islamist extremism was prevention and early warning.

To be successful, the fight against international terrorism had to be international and transnational.

Each of our international partners had its strengths which had to be used efficiently. Europe would always have to rely on the military power of the US. We didn't have to place ourselves in opposition to the US. We had rather to seek to strengthen the transatlantic partnership. Good relations with the Russian Federation were extremely important: they complemented the western alliance; they were not in competition with it.

It was also pointed out that agreement on a European constitution would enhance the effectiveness of European foreign policy in future. But the future foreign minister of the EU would face a difficult task. He would have to be diplomatic but also brave, and rely on the strategic partnership with America, as well as good relations with the Russian Federation. The EU would be able to do more in the Greater Middle East, whose stability and future development were of vital importance to Europe.

Some were convinced that the European Union would benefit from the entry of an Islamic country, and that we should not be afraid to make such strategic decisions. The EU owed its existence to the strategic vision and courageous action of men like de Gasperi and Adenauer, Churchill and Monet. It was argued that we should be confident enough to accept into the Union a great country like Turkey which had been actively striving towards European membership. It would be unfair to rob Turkey of the prospect of joining. It was back in 1963, after all, that Turkey was formally given the prospect of joining. On the German side, the Adenauer government was responsible for the association agreement of Ankara. Especially in recent years, Turkey had made amazing progress: in political, legal and economic terms. It still had a long way to go, but it was on the right path.

There were other, more cautious voices on the question of Turkey's EU entry. Norway and Iceland always knew they could join if they wished. But Turkey was different because of its size and its religion. A decision whether to start negotiations would be made this December: it would be a technical decision on whether Turkey was likely to satisfy the requirements. Yet there were huge strategic implications. Some give and take was required – it was perhaps worth the risk. Turkey's accession would, it was suggested, force the pace of political and economic reform within the EU. And such a move would show that a secular Muslim country can join the EU.

And yet there were those who said that we should not underestimate the downside of admitting Turkey. Turkey would not be a bridge to the Arab world. The Turks after all suppressed the Arabs for over 200 years. They had also turned an Islamic society into a lay society. Turks were the only allies and the best allies of Israel, which was a sin in the eyes of the Arab world. We therefore needed to be more sober about what Turkey offered. We must also remember that some 46% of the population was in agriculture, providing about 16% of incomes. The revolution there had caused a big

trauma. Atatürk's revolution left out a vast mass of people who were prey to more Islamic doctrines. We needed to be honest to the Turks. Germans had shied away from the assimilation of Turks in Germany: they needed more of an integration strategy.

The next meeting of the Blair, Chirac and Schroeder in the autumn would be devoted to security issues. This might pave the way for further improvements – for a strong and secure Europe in a difficult world.

Meanwhile, it was also suggested that despite the great opportunities afforded by the enlargement of Europe, the pressing security questions that we face - from drugs and crime to immigration – had also to be framed in the context of our immediate neighbours to the South and to the East. There were a number of ways in which Europe should be able to meet the challenges presented by those neighbours. There was what might be called the "Israeli model" which would entail building a physical barrier between us and them, and there was a "European model" which involved reforming and integrating them.

This so-called "Israeli model" would, it was suggested, be anathema to Europeans. There should be no fence around the EU. Barriers should be tough on crime but not on the causes of crime. The Israeli fence did provide some security for Israel but not in the long-term. Another policy which had been used in recent years to address tensions was EU enlargement, which allowed us to offer aspirant members access to our market. In return we expected them to follow our models. The best way of striking a bargain was to invite those countries to join the club. The drawback was that we could not offer this incentive to everyone. So how did we offer the reform programme without the reward of membership? Europe was now looking at a new neighbourhood policy which was designed to prevent the emergence of new dividing lines, and to give outsiders the feeling that they too could benefit through the new insiders.

On enlargement, there were simple things that we were not doing: the examples of Poland and Cyprus were highlighted. A small criminal fraternity in Poland was plugged into Russia and the Ukraine: they were better prepared for enlargement than the rest of us. The EU process on Cyprus was all very well but there remained a major loophole: it was one of the centres of money laundering in Europe and we had to react at the European level. We needed a Commissioner for Homeland Security. We had no criminal police at the European level. At that level we had to show we were serious and ambitious.

It was argued that we had the will and capacity to stand up to terrorism, but we needed a comprehensive approach that was different from Bush's war on terrorism. We needed to have a properly transnational approach. Member states would bring new experience, passions and insights. Further discussion developed over the way Bush had characterised "the threat" after 9/11. He had been broadly correct: WMD proliferation and Islamic terrorism were the threat. But some speakers doubted that the policies Bush had developed had done anything to meet those threats. In many ways proliferation was worse now than it was two years ago. The numbers of radical Islamicists had grown. Bush's politics were actually contributing to the growth of the threat. North Korea and Iran were both now violating the Non-Proliferation Treaty; and the Iranians were playing with the IAEA. The only success story was in Libya

which hadn't been a threat anyway. There was a greater spread of terrorist networks: the active members of Islamic terrorists, and the number of sympathisers, had significantly increased. The general security situation had deteriorated significantly because of the US approach.

Not all speakers were so pessimistic about our ability to deal with the threat. The fight against terrorism was partly cultural – and we needed a priori intelligence to penetrate networks ahead. In many ways Europe had a greater ability than the US to do that kind of work: Europe could take an active role in the conflict. We didn't need to wait for the US to do the job. We could be more effective in our military response than many delegates had assumed. The Venus/Mars distinction was false. In that sense, we had to transform our approach perhaps, but we were capable of dealing with the new challenges. It was suggested that the Europeans could have done a far better job in Fallujah. But the problem was that we pursued separate approaches: France and Germany, and the UK, had all acted too independently.

Overall, there was considerable pessimism on the question of WMD. North Korea and Iran were both using them as a bargaining counter. There was a crisis of credibility after Iraq for governments to justify using armed force based on fear of acquiring WMD. The war had provided a reason for advancing their WMD programmes: we needed to think through the consequences. Failure to find them would make it far harder to justify action. Furthermore, the Non-Proliferation Treaty was widely misunderstood: it divided the haves and have-nots. Terrorists would let off their dirty bombs. Where states were concerned, deterrence still worked. Iran centrifuge technology was seriously threatening.

On the European Constitution, varying opinions were expressed. The constitutional treaty would be very hard to ratify, especially in the United Kingdom. It could take two years. The 'clarifications' on the constitution could themselves take two years and the policy improvements would get caught up in an institutional morass. How could we meantime build up the competences and the trust?

There was a suggestion that we also needed to look beyond conventional 'hard' elements of power to the 'softer' threats. Disease could be conceived of as a threat. An initiative three years ago on quality in healthcare between the US and the UK had a codicil on bio-terrorism. It was important for us to collaborate on health matters, and to treat them as an element of foreign policy. We needed to think beyond terrorism. Healthcare could offer a way of building bridges to peace through dialogue in our neighbourhood and in the Middle East. A recent meeting in Lisbon on healthcare had looked at the role of civil society in preventing terrorism; SARS, with costs of \$100 billion to China had showed the huge scale of these issues. AIDS carried even greater costs. Developing resilient communities was a key aim, and the Three were a good place to start: we were uniquely placed to deal with health emergencies and infectious diseases.

Our own civil societies were themselves changing in the face of the terrorist threats. The defences of the British Houses of Parliament were just one example. We needed to be sensitive to what was happening in our own societies. Were we sensitive enough to the changing threat? There had, after all, been a paradigm shift: from deterrence to protection. The US had a different perception from us in Europe. It was asked whether

a 'strategic culture' existed at the European level or only nationally? We needed to think about how to develop our political institutions to this end.

Islamic schools in Berlin were encouraging suicide bombing. Should we close schools where they teach children to commit suicide? Such questions presented difficult choices. We needed a sociological and a political approach. Many suicide bombers were highly educated. We must be prepared for sophisticated attacks. We must not neglect Chechnya. We needed to change our way of integrating the Muslim world. Maybe France had the most to do.

We in Europe, with such a bloody past, were in a good position to understand terrorism. We had a different way of responding from the Americans. But different policies between Europe and the US could not be afforded in the long-term. We shared the problem of what to do about rogue states at global level. Unity between the US and the EU was the only answer, not 'good cop and bad cop'. Were we being honest with public opinion or was the danger smaller, or greater, than it really seemed? The US had seen themselves as fighting World War Three. They were spending money, changing legislation and being pro-active. We in Europe were not going to war as they were. But a laissez-faire approach would ultimately get us into trouble. The best response would be a co-ordinated one.

Specifically on the Middle East, it was argued that we had to be where the US were, but we must use our influence to direct them the right way. It was problematic to have separate policies, since this would mean we had less influence on the outcome of events.

SESSION TWO: ECONOMIC REFORM AND TECHNOLOGICAL INNOVATION

- In which areas is Europe competitive and where are we lagging the US and the new economies?
- How realistic is the Lisbon process? Why has it taken so long to implement? Will Europe stay the course?
- Does Europe have the right structures to make the most of enlargement?

In Europe today, we were widely seen to be lagging behind the US, but technological innovation was not the core of the economic problem (though it was important for geopolitical power). The key problem for Europe was not its competitive performance in global trade. The current account surplus and the export performance were in fact good. America had its deficits. But US demand growth had been significantly above that of Europe.

The problem in Europe might thus lie in deficient domestic demand. Productive growth over 20 years was fine – over the last eight less good vis a vis the US. But 80% of the difference for that period was in retailing and wholesale distribution. And all of that was to do with new entrants: large stores such as Wal-Mart and the like. The recent success of the US was to do with more aggressive appropriation of tried and tested techniques of retailing. The availability of large greenfield sites rather than innovative technology was the heart of the matter. Absolute growth rates were driven by demography. Per capita growth rates over the past 20 years were almost identical. 0.8 or 0.9% annual demographic growth for the next generation the US was bound to be ahead of Europe. Our efficiency and innovation was actually comparable with that of the US, but our commitment to a leisure dividend was different. There were not the same aggressive growth rates in the service sector. The failure to apply these approaches in Europe had a lot to do with planning constraints.

How realistic was the Lisbon process? Energy market liberalisation was the key to the Barcelona programme. In the end it was all well and good but maybe marginally useful. A certain higher productivity growth had already occurred vis a vis the US. Product market liberalisation was not really the point. Our biggest problem in the short-term was on the macro economic front. The Eurozone had been created without adequate fiscal stabilisation. Therefore we didn't actually have fiscal expansion: this was the core reason why the eurozone was in the short-term slow growing. In the medium term, labour markets were important: this was where the biggest difficulty lay. The ECB had legitimate concerns about inflation in the labour market, even when our capacity utilisation was so low. In the long-term we needed to think about demography and pensions.

Surprisingly perhaps, R+D and universities were not actually the central issue of difference between the US and Europe. They would have little impact in the short/medium term. Europe's geo-political power was going to decrease. Meanwhile, the US population was going to grow. It was also said that in military areas, we did not have economies of scale which suggested that we would not be able to close the gap between the US and ourselves. It was not a question of importing proprietary technology – that didn't raise the prosperity of citizens.

The implications of the decline of patriotic feelings on economies was also explored. French national patriotic feeling was described as significantly in decline. The US, China, and Korea had a cohesion and national solidarity to achieve material advancement. Babies and work were the key. Health systems were crucial. And understanding the need to work hard was critical. Eastern European immigrants show that they understood this. The US, Japan, and Korea had a different engagement with work.

On the other hand, if Poland were to take up the Euro, it could become the Argentina of Europe. How would it fare without fine-tuning of its own currency? When considering where to invest in Eastern Europe, businessmen now had to consider who was going to be joining the euro.

The old continent did continue to have its attractions for the US, which was investing more in Ireland than in China, in the Netherlands than in the Far East. The stability pact then the euro were girders for reform. Europe still had competitive economies, but structural reform imposed pain on voters in both Germany and France. Did protest votes derive from reform, the absence of reform or badly-handled reform?

The 'decline of France' was a cliché. The two great economies were holding Europe back. Would we be able to handle enlargement and reform at the same time? Enlargement might otherwise be known as de-localisation. The Siemens/Alstom case missed the point. Since 1997 we had had 'open co-ordination' at the European level. Comparing notes and benchmarking were loosely co-ordinated in Brussels, but had been fundamentally unsuccessful.

We should be mindful of the fact that the US spends 15-16% of its budget on defence while Europe spends 7%, and this had huge implications for R&D. A further pessimistic note came on labour market flexibility, where it was clear we were meeting 'strong resistance'. Would politicians be able to drive change? Were our constitutional systems up to driving through the necessary reforms?

It was suggested that there was in reality no technology gap across the Atlantic. Look at commercial aircraft, air traffic management systems and commercial satellites: these were all competitive. We in Europe could actually hold our own. But we had two issues: in defence there was a gap in funding of R + D, and in fragmentation. Then there were military communication satellites. This technology could be shared more appropriately. Network-centric and network-enabled systems required action from us in urging governments to collaborate. Supply-side problems like seniority systems for researchers were a structural not a cost question. Space communications systems were precisely the kind of systems that could be shared. Unco-ordinated policies in these areas were a major problem: the way the research community was not fully incentivised, with senior researchers protected against junior researchers.

There was disagreement with the notion that we had simply made a social choice in favour of leisure and more relaxed hours, and against free labour markets. Part of the problem was that we had made the wrong choice for an unsustainable welfare state. It was difficult to explain the major differences as being to do with retailing: structural changes in retailing had gone some way in Europe – one only needed to think of

Carrefour. It was the increase in productivity and manufacturing that had sustained growth in the US. In some ways Europeans were more efficient. But Americans worked harder than we do. Our version of the welfare state no longer carried us along. We were running a real unemployment rate of 9 or 10%, which had destroyed the basic foundation of the welfare state: we could no longer sustain it. That we cannot reform is a bad signal as to the future of Europe. The university systems were 7 or 8th rate. The German elite routinely sent their children abroad to study.

The US understood what the information society meant. In Europe there were too many barriers to a fluid and efficient market, and a lack of leadership in content technology. We drafted constitutions which were unintelligible; we spoke different languages; we couldn't get people to vote. They had an entertainment industry at the heart of their politics. We still elected leaders from industrial society. We needed to get better at giving people simple answers, and producing leadership in messages that they understood.

There was an illusion of satisfactory under-performance which could not be sustained. Export statistics veiled other realities. Who made the social choices for labour mobility and social rigidity? We didn't have any real perception of risk assessment. No-one ever shrank their way to greatness. Setting goals that are not attainable had no incentive effect. We had to be more motivational, in giving people the feeling they could benefit from change. European and even US schools were losing at technology vis a vis their Chinese colleagues, indeed top US schools could not compete with the top technology schools in China. Who, after all, made the choice for the gardener who could not work after he is 60; or for others who could not work after 10pm. Or for the 68 year old who couldn't take on work as a part-time driver? How could we deal with negative attitudes to change?

We needed to challenge assumptions, such as the view that ageing was a problem. Handled positively, healthy ageing could be the answer to our demographic problems. We should learn more from the successes and failure of ourselves and others, especially among European countries. Politicians alone could not do it. 'Focus' and leadership were key issues.

SESSION THREE: DOES EUROPE HAVE THE ELITE IT NEEDS

- **Is European culture less focused on economic growth than the US and its competitors? Are our universities failing?**
- **How can corporate Europe attract more of the talent, reverse the brain-drain, and perform better in the global recruitment market?**
- **How can Europe's leaders be more effective socially and politically as well as commercially?**

It was recalled that almost every big political and economic idea had emanated from Europe. These ideas tended to be developed and commercialised by immigrants in America, where there was a 3 sided dimension to elites: these being universities, the political structure and commerce. Europeans had a big problem in the brain drain: among the fastest growing companies in America, eBay was founded by French Lebanese, Google was by Russians, and Amazon by a Greek Puerto Rican.

In any trial of the elite by the elite, a prosecutor would be right in saying that the elite in Europe is insufficiently commercial. And that it is too homogeneous, keeping out those who bring aggressive drive. It was suggested that it was too narrow, and didn't allow enough immigrants to break through. Also that our elites lack courage, and that they are dominated by the media. It was true that our societies are overwhelmingly designed by elites: and that decline is certain. But to be fair, we all had our national challenges: for instance, the British had to get rid of the welfare state, the Central Europeans their communist heritage and so on. But there always tended to be one European country that was ahead of the others. We should not be too ashamed of the European elite, but we must be better at attracting the right sort of immigrants.

The US was no more a Western country: it had a world culture, with a kind of syncretism at work. We were losing the battle for knowledge. No university had the critical mass of MIT or Stanford. This could not be addressed at the national level. And self-deprecation would not help. We needed to be more optimistic.

Europe had created and exported elites for centuries, until the middle of the last century. Jewish elites were exported during the 30 and 40s, and again in the 80s and 90s when the US attracted dynamic performers. Highly skilled immigrants made an exceptional contribution because of their talents. The US had the highest score of 10% of the immigrant population being highly skilled, compared to the UK, (4%), and Germany (2.7%). In 2001 alone, 9,700 highly skilled British people went to the US, in the same year, 2000 French, and 2000 Germans did so also. The US had the highest number of non-nationals in the workforce (10%), as compared to 4% in the UK and Germany, and 2% in France. The biggest problem was that those elites did not intend to come back to Europe. The brightest were attracted by the US: the Nobel prize winners in natural sciences and the like. This brain drain had a directly negative effect on macroeconomic growth and jobs. It didn't give talent the right reward. It was not just a question of money, but the culture of social acceptance of talent. Elites needed more freedom to act.

We must find an effective way of promoting talent. As long as we did not introduce real competition for students and for the best faculties, we would fail. We didn't invest enough. The US spent 7% of GDP on education, compared to the Europeans who spent 4%. The US had six times the research budget. Of the 1.3m immigrants to Europe, a third were asylum seekers. Of the 850,000 to the US, some 10% were asylum seekers; the others had better qualifications. The global resource of the brain is what we needed most if we were to stand up to our global competition.

There was some discomfort about the very word elites. The Nazis had elite schools: could the concept be rehabilitated? The word elite was a dangerous expression. It meant something different in each country. In Britain, there has been an effort to talk about the rise of the meritocracy and equality of opportunity rather than about how best to serve society: if we wanted to change the elite culture in Europe, we needed leadership.

The Lisbon aspiration for the European economy to be the most competitive, dynamic and knowledge based economy in the world by 2010 was not on course. Four years into the ten-year programme, we had to ask if we in the elite were too far ahead of our troops. At the European Group of the Confederation of British Industry, only two member states were seen as going in the right direction. There was 72% employment participation in the US and UK, compared with 62% average for continental Europe. Sweden and Denmark were actually higher than the US. Against tax-take of 30% in the US, Europe took 43%, with France at 48% and Germany at 51%

Within Europe, labour market flexibility showed huge variation as compared to the US. Where the US recorded an index figure of 22, the EU showed a figure of 51 (the UK at 28, France 50, and Germany 51). British industry needed to defend its flexibility against Brussels on ageing and working hours. The US in general favoured small government. The EU showed signs of going in the opposite direction. In 1993, there were 19 European laws or directives; in 2003 there were 594.

Where were we in terms of entrepreneurial culture? If we looked at the regulation side of this: there were 12.3 entrepreneurs per 1000 citizens in the US, as compared to 4.9 in Europe (5.4 in the UK, 4.6 in Germany and 3.2 in France). The ambition to be an entrepreneur was at 67% in the US, as compared to 45% in Europe, 71% in Portugal, 42% in France, and 35% in Germany. The average US worker clocked up 40% more working time than Europeans.

Changes in the culture had to come from the top, it was argued. For Europe it was a Cinderella backwards syndrome: a princess turned into a scullery maid. It has been a deep sleep. The elite needed vision over the next 5-10 years and it had to wake from sleep if the necessary social change was to be achieved.

It was also argued that the US comparator was not always so relevant: mutual dependence was axiomatic and we had to build on it. During much of the discussion Europe was being compared to America. And the US actually showed a very mixed picture. Harvard was very different from Texas. We needed to encourage educational institutions to work more closely together. The European and US economies were dependent on each other.

On secondary education, there was a flourishing private sector in the UK but state dominated education was bad. In the US higher education was better than in Europe, in general because it was private. We spent a lot on higher education but through a remote, bureaucratic service. We actually spent less on education because it was a state monopoly where the supplier had no interest in the outputs.

But it was also important to ask whether elites were really created by society or whether they created themselves. Gates didn't finish his degree at Harvard. He had better things to do. Was it necessary to belong to an elite to be successful? Studies today got longer and longer. Perhaps we should not just be looking at universities. There were alternative channels, avenues, routes. The Chinese didn't study until they were 28.

It was also noted by an American employer that it was usually very easy to bring US employees to Holland and Sweden because they were not worried about their ability to speak the host language there: they were open to using English speakers. This was not the case in France and Germany because too often employers there insisted that guest workers speak the host language. This made it difficult to get Americans to come and work in Europe. Maybe we should be looking more keenly to China for comparisons rather than to the US, not least because a lot of Chinese understood the US very well, not least the principles of cheap labour and outsourcing.

The resistance to change and dynamism in Europe was highlighted. In a high-ranking French business school, one speaker had noted that every single speaker at a conference he attended had attacked globalisation. This kind of attitude was alarming: we needed to show early that regulation was not the only path. We also needed to define elites with skills and responsibilities. Links between science and innovation and further education were crucial: the city college networks in the US were seen as being highly effective.

Within European universities there was a considerable absence of flexibility: American universities had presidents, not rectors, who were chosen because of their academic record. American and Israeli colleges were, as a result, more able to take quick decisions.

In contrast, it was suggested that European choices – being less fertile, more leisure driven, less keen on identification with politics and power - may have their own rationale and it may be that the US was the oddity. Japan may be a more relevant model. They may be heading in our direction: there was slower growth there but the Japanese didn't seem to mind. Also, elitism was usually workaholic but might derive its status from special national projects that conferred a certain exceptionalism: diplomacy, and defence and security, came to mind as elite projects that worked differently in Europe from the US, and which had had implications for the divisions over the war in Iraq.

It was argued that where innovation was taking place in Europe, it was through large companies. Small companies aimed to be taken over by larger companies. We had to recognise that were major obstacles to change: miners and farmers and industrial workers still dominated wage negotiations. Old rituals affected our culture and our way of thinking. Every large organisation suffered from bureaucracy. Most of the perceived values came from industrial values of the past. Maybe we should target

centres of excellence rather than elites. Teach the teachers. Exploit the internet better. Give the female population more access to leadership positions.

But finally, it was observed that the experience of failure should be better understood: in the US, a record of failure was seen as experience, in Europe it was not. It was hard to get re-employed after an experience of bankruptcy. This was a mistake, as people who have experienced failure are valuable. This was part of a wider recognition of the leadership and vision vacuum we have in Europe. A new constitution might provide the framework for success. But it did not constitute the vision itself.

September 2004