

OCCASIONAL PAPER

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Am 1. Januar 2007 übernahm Deutschland die EU-Ratspräsidentschaft für die nächsten sechs Monate. Parallel dazu hat Deutschland ebenfalls den Vorsitz der Gruppe der G8 Staaten für ein Jahr angetreten. Beide Entwicklungen werden sowohl innerhalb Europas als auch seitens der USA mit großen Erwartungen verfolgt.

Eine transatlantische Erörterung von Themengebieten und Forcierung von Initiativen wurde bereits von Kanzlerin Angela Merkel während ihres ersten Treffens als EU-Ratspräsidentin mit U.S. Präsident George W. Bush Anfang Januar begonnen. Dabei galt die Aufmerksamkeit der Kanzlerin vor allem der Wiederbelebung des Quartetts, um den Friedensprozeß im Nahen Osten konstruktiv zu unterstützen.

Diese Initiative findet sich ebenfalls in den Ansätzen, die Dr. Daniel Hamilton, einer der renommiertesten Kenner der amerikanischen Außenpolitik und der transatlantischen Beziehungen, im Auftrag der Konrad-Adenauer-Stiftung Washington aus Anlaß der deutschen EU-Ratspräsidentschaft in einem sehr lesenswerten Beitrag dargelegt hat.

Dr. Norbert Wagner
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Memo to the Chancellor

TO: Chancellor Angela Merkel

FROM: Daniel Hamilton*

SUBJECT: Working with the United States during Germany's Dual Presidencies

Sehr geehrte Frau Bundeskanzlerin,

Germany's dual Presidency of the EU and the G8 offers you an opportunity to reaffirm Germany's position as the continental anchor of the Atlantic world, and to use a reinvigorated German-American partnership as a motor behind more effective multilateral approaches to the vast agenda facing Europe and the United States.

This will be challenging, since the Bush Administration is weakened and winding down as it faces divided government with a Democratic Congress. Moreover, leaders in both branches of government are consumed by Iraq and will be distracted partners. Nonetheless, American expectations of German leadership are high.

Your dual Presidency – and the effectiveness of US-EU relations – is likely to be judged by performance on three immediate priorities: Kosovo; the Doha Round of multilateral trade negotiations; and a swirl of

issues related to the Broader Middle East. Ultimately, however, your leadership may be judged, abroad as well at home, not just by your ability to deal with crises, but by your capacity to give US-EU relations the strategic dimension it has always lacked, through initiatives lasting well beyond your Presidency to open our markets, better protect our societies, tackle environmental challenges, advance democracy, and accommodate the rise of new powers.

The transatlantic relationship faces a strategic agenda with three pillars. The first centers on the challenges of wider Europe. The second deals with issues beyond Europe, particularly those in the Broader Middle East. The third arises from the deep connections binding our societies and our economies across the Atlantic. Each area presents you with immediate challenges, and each offers the opportunity to set in place a more effective framework lasting beyond your dual Presidency.

Putting the Relationship to Work in Europe

Kosovo's Return: The most sensitive and potentially explosive European issue confronting your EU Presidency will be to manage expectations and ensure the closest coordination regarding Kosovo's future status. UN Envoy Martti Ahtisaari is walking a delicate balancing act between the incompatible positions of Belgrade and

Pristina. While various models for Kosovo's future can be envisaged, a largely independent Kosovo is likely to emerge with some elements of its policies, such as human rights issues, under broader EU or international auspices for some indeterminate time. EU institutions will almost certainly play the lead role as the

successor to the UN mission (UNMIK). Ahtisaari has postponed his presentation of Kosovo's final status until early in the new year, following parliamentary elections in Serbia. There will inevitably be disappointment with whatever solution is proposed, however, and the potential for violence is high.

Washington wants the EU to lead the successor presence to UNMIK, although it will remain an active partner. Kosovo's future status is of significant interest to Members of Congress. Washington will expect Berlin to use its position to define the modalities, authority and support mechanisms of a EU High Representative in Kosovo, prepare EU institutions and mechanisms to assume such authority, ensure that the EU provides the lion's share of the international assistance to be provided to Kosovo and the western Balkans generally, and get the EU to respond quickly and effectively to cases of violence. Kosovo has made some progress in setting up political and economic institutions. But the economic situation is bleak; the police and judicial systems are weak; and the prospects for a multi-ethnic society grim. The closest degree of communication and coordination will be necessary, not only between the Contact Group, UN and regional leaders, but also between EU and NATO officials. U.S. leaders expect Germany to ensure that this happens.

Engaging Wider Europe: The U.S. has a major interest in extending democracy, peace and stability further into Eurasia and the wider Black Sea region, but the EU has more comprehensive capabilities to lock in positive changes. U.S. leaders realize that the burden of change rests primarily with

reformist nations themselves. But there is bipartisan support for the view that the West can both assist such efforts and help create an environment that reinforces positive trends and keeps these countries on a westward path.

Germany's announcement that it will use its Presidency to renew EU engagement with wider Europe and to take a strategic approach to Central Asia and the Caucasus has been greeted warmly by American opinion leaders. But there is residual concern in the U.S. – and in the region itself – that ultimately Germany prefers stability over change, and will not take the risks for freedom that could ultimately put these nations on a firm course of reform and anchor them to the West. American interlocutors wonder about the nature and extent of German commitment. Is such engagement foremost about mollifying nations unlikely to ever have the perspective of membership? Or is it about advancing a truly transformative approach to align and, in a generational perspective, eventually integrate these nations into the European and Euro-Atlantic community through more innovative, tailored and flexible approaches to integration than the EU has demonstrated thus far? Does this initiative mean that Germany will push its EU partners to resolve the region's "frozen conflicts," or are they content to let them fester, absorbing energy and draining resources from countries that are weak and poor? How does this initiative square with Berlin's agenda with Moscow, which continues to foment instability along its own borders?

Dealing with Moscow: Your ability to work with Putin while avoiding his embrace is appreciated by Americans

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disgusted by your predecessor's antics and concerned by negative trends in Russia. The post-Cold War framework for Western-Russian engagement, premised on "integration" and "strategic partnership," is fraying as Putin centralizes authority at home and uses energy to pressure neighbors abroad. None of the integrationist schemes has delivered much – whether Russia-in-the-G8, the NATO-Russia Council, or EU-Russian road maps to create “common spaces.” Emboldened by its energy wealth, the Kremlin is moving away from the integrationist model toward a nascent Russo-centric system. This poses a challenge to US-EU coordination, since the U.S. is increasingly inclined to an issue-by-issue approach based on mutual self-interest, whereas the EU is split between those, especially in Germany, who seek to intensify the integrationist framework and others, especially in eastern Europe, who favor selective engagement.

Despite growing U.S. concern, the Bush

Administration has just committed to an important plank in the integrationist path: Russia's WTO accession. This means, however, that the President must now convince the Congress to repeal the Jackson-Vanik Amendment originally imposed on the Soviet Union for restricting immigration. This sets up a fight with Congressional Democrats eager to embarrass Bush, amidst growing bipartisan concerns about Putin's path.

Your dual Presidency will be tested by these internal Western differences, which will be aggravated by difficult Russian positions on Kosovo independence (which Moscow wants to use as a precedent for resolving stalemated conflicts in Georgia and Moldova in its favor) and your own wider Europe agenda (where the Kremlin is inclined to wield its energy weapon) – at the same time that the EU and the US need to ensure Russian support on Iran and other issues.

Use your Presidency to shift EU agricultural support funds away from export subsidies and other trade-distorting measures, thus opening the possibility for compromises on all sides and a successful Doha deal.

Putting the Relationship to Work Beyond Europe

Sealing the Doha Deal: The Doha Round of trade liberalization talks is in trouble, and there is only a small window of opportunity to seal the deal. As the world's number one exporter, Germany has a significant stake in the success of multilateral market-opening initiatives. In earlier such rounds, Germany often made the difference in the final stages by throwing its considerable weight behind freer markets. It needs to do so again now.

The key to Doha is agricultural trade liberalization, which would do more than almost anything else to raise the developing world from poverty. You must be prepared to use your Presidency to shift EU agricultural sup-

port funds away from export subsidies and other trade-distorting measures, thus opening the possibility for compromises on all sides and a successful Doha deal. Failure of Doha on Germany's watch will overshadow much of the agenda you seek to advance. Without a deal on the table, Congress will refuse to reauthorize the President's fast-track trade negotiation authority, which expires on June 30, 2007, and the Bush Administration's term will expire. Meaningful trade talks could only resume in 2009 or later.

The Broader Middle East: The turmoil engulfing the Broader Middle East is clearly

the most dangerous complex of issues you will face. Iraq will consume and divert U.S. attention throughout the German Presidency. The bipartisan Iraq Study Group report has won broad support for its proposals in Iraq, but they depend in large measure on progress by the Iraqis themselves, which appears doubtful. The Study Group's strategy for regional diplomacy failed to convince the President, and was furiously rejected by neoconservatives.

The threat of spillover throughout the Middle East from all-out civil war in Iraq means the U.S. can't just walk away, and most American opinion leaders realize this. As the Bush Administration and the Congress seek new approaches, EU leaders could offer flanking support in the region. The Iraq Study Group's recommendation that the U.S. must reengage on the Arab-Israeli conflict reflects the prevailing mood in the U.S. – but not yet in the Administration. Nonetheless, Germany should reinvigorate Quartet efforts on Israeli-Palestinian peace negotiations, extend such efforts to related regional conflicts between Israel and Lebanon and Syria, explore ways to push Egypt, Saudi Arabia, and Jordan to help stop the anarchy and bloodshed, and promote the creation of a Palestinian government capable of undertaking the peace negotiations offered by Israel in November. The chances of success are low. Nonetheless, we must try.

This leads to twin challenges involving Iran: how to engage Tehran productively on Iraq; and how to address the nuclear stand-off. The Iraq Study Group has recommended that the U.S. begin talks with Iran to solicit its assistance in stabilizing Iraq. Iranian influence over Shiite militias could be helpful. But we should not exaggerate Iran's influence. We cannot count on Iran to solve

Iraq's problems, and we cannot – and must not – drop our objections to their nuclear program. The President and his closest advisers remain opposed to engagement with Iran. The mood has shifted, however, elsewhere in the Administration, in Congress, and among the American public. Germany could explore the formation of an international support group – as proposed by the Iraq Study Group and including Syria and Iran – focused on a shared interest in preventing Iraq's further implosion and avoiding a regional sectarian war.

The next key challenge is managing the nuclear stand-off with Iran. Three aspects bear consideration. The first is that rising oil prices have not helped Iran's economy, which is crippled by corruption and in desperate need of reform. Tehran needs to tap U.S., European and Japanese capital markets and to access Western technology. Second, the Iranian regime is not monolithic, it is riven by division. The nuclear issue is not the first priority for many Iranians, who fear that it will deepen their isolation and damage their economy. These two factors underscore the need for the international community not only to remain resolute, but willing to impose heavy economic sanctions to coerce Iran into abandoning its efforts to acquire the full nuclear fuel cycle. This leads to the third consideration: most Iranian (and American!) policymakers doubt Europe's resolve on this issue. Sentiment is widespread in the U.S., including but going beyond the Bush Administration, that Washington met European concerns halfway by supporting the EU3 and multilateral engagement. That engagement produced clear deadlines, which the Iranians – and the UN – have ignored. Failure to take these dead-

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lines seriously emboldens Iranian hardliners and damages U.S. confidence in the multilateral effort. The German Presidency faces a choice: making good on UN demands; considering targeted US-European sanctions outside the UN track; or risking unpredictable and unilateral American adventures.

Time is also running out for success in Afghanistan. NATO is in a real fight with a resurgent Taliban and al-Qaeda, but Afghanistan cannot be “won” by military means alone. The central government is weak and the country remains desperately poor. It is dependent on soaring poppy production, and challenged by a fundamentalist insurgency operating out of sanctuaries in Pakistan. Given difficult U.S.-German bilateral discussions about easing German caveats on its forces, Washington – together with other allies – expects Berlin either to find ways to do more on the caveats, such as agreeing that German forces could support other allied forces in emergencies, or to do more in other areas. The key is greater EU engagement on the ground. NATO is not equipped to advance the range of civil efforts, from economic development to police and judiciary training to voter registration, that will ultimately determine the success of its military intervention. In the Balkans NATO, the EU and the UN joined together to promote regional transformation. In Afghanistan this synergy is missing. Although Germany and other individual EU nations are engaged in significant ways, the EU itself is not. There is a clear American expectation that Germany use its Presidency to bolster EU engagement in Afghanistan.

This immediate challenge will need to be addressed. But Germany could use this challenge to lay the foundation for a new stage in relations between the EU and NATO. Until now, the strangely difficult NATO-EU dia-

logue has focused almost exclusively upon how NATO can help the EU conduct military operations. Yet in nation-building challenges such as Afghanistan, NATO’s success ultimately depends on the willingness and ability of the EU, together with other multilateral organizations, to advance civilian stabilization and reconstruction. It is time, therefore, to start a new EU-NATO dialogue, one focused less on the modalities under which NATO can support the EU, and more on the modalities by which the EU can support NATO. Germany could take the initiative to launch a EU-NATO dialogue on improving modalities in joint civil-military stabilization and reconstruction operations. Thanks to previous German leadership, current EU-NATO modalities are known as “Berlin Plus.” A German initiative to deepen this partnership further would be a real plus for both institutions.

Energy/Environment/Climate Change: Energy security is a central plank in Germany’s EU and the G8 presidencies. This can be pursued on different tracks across the Atlantic, and not only with the Administration. Using the energy prism to encourage transatlantic parliamentary dialogues on “energy crops,” the strategic importance of Central Asia/Caucasus, or how to engage Russia could reinforce various German initiatives and advance US-EU cooperation.

The Bush Administration remains unalterably opposed to the Kyoto Protocol, and no German Presidency initiative will change this. German energies are better spent drawing U.S. interlocutors in the Congress, in U.S. states, and in the business and NGO communities into international discussion on a post-Kyoto framework to cut greenhouse gas emissions after 2012.

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Democracy Promotion: Despite American travails in Iraq, both the Administration and the Congress continue to support efforts at democracy promotion. There is an expectation that the German G8 Presidency will take the Forum for the Future more seriously than did the Russian Presidency. Moreover, there is interest in advancing transatlantic efforts to secure democracy in weak or failing states, to stop the erosion of democracy where it is fading, and to promote cooperation among political foundations and other NGO efforts on the ground.

Fixing the G7/8: It is important to recall the original impetus for what has become the G8. It was the perceived need, in the mid-1970s, by west European leaders to discuss directly with the U.S. President a few key issues, primarily in economics. The G-8 has strayed far afield. What were once short, specific agendas are now broad, comprehensive themes accompanied by a confusing array of action plans and supporting papers. The G8 could perform an important

agenda-setting function by prioritizing a few key themes and mobilizing energy and resources behind them. At St. Petersburg this year, however, the G8 signed up to a record 311 collective commitments. Follow through on these commitments is the key test – and the continuing weakness – of the G8. Will the G8 nations really make good on these 311 commitments? What about the 253 commitments made the year before? If past performance is any guide, only a few initiatives are likely to survive. This has diminished the G8's credibility and is why some critics view it more as a photo opportunity for hortatory declarations than a serious effort to tackle issues. The recent G8 focus on Africa has been useful, but the Bush Administration has been content to let European allies lead; it will lend rhetorical support but little else regarding German priorities on good economic development, poverty reduction, and the fight against HIV/AIDS.

More could – and should – be done to address challenges common to both partners, beginning with your own proposal for a new transatlantic economic initiative.

Putting the Relationship to Work Across the Atlantic

Opening Transatlantic Markets: Much of the US-EU agenda focuses on how the transatlantic partners should address third issues. More could – and should – be done to address challenges common to both partners, beginning with your own proposal for a new transatlantic economic initiative. Your political instinct is right. The US and the EU muddle through their annual summits with liberalizing rhetoric and few results. You must be careful, however, not to fall into the “TAFTA trap.” Transatlantic trade tiffs often steal the headlines, but they represent only 1-2 per cent of overall transatlantic economic activity. Trade barriers

are actually very low, averaging only about 3-4 per cent of the \$500 billion in annual transatlantic trade. Moreover, trade accounts for only 20 per cent of transatlantic commerce; the rest is comprised of foreign investment, which is the real backbone of the \$3 trillion transatlantic economy, and distinguishes our relationship from all others. German affiliate sales in the U.S., for example, are more than three times larger than German exports to America. Despite all the media hype about “big emerging markets,” over the first half of this decade U.S. direct investment in slow-growth Germany was three times that of

U.S. investment in turbo-charged China and twelve times that in emergent India. Germany alone accounts for 17 per cent of total research and development expenditures (R&D) of U.S. foreign affiliates worldwide, and German R&D expenditures in the U.S. account for 20 per cent of its global total. These dense flows of investment reach so deeply into our economies that we are literally in each other's business. As a result, the most important economic obstacles are not "at the border" trade barriers, but "behind the border" non-trade barriers to the free flow of capital, goods and services. Even small changes in domestic regulations could generate far bigger economic payoffs than reductions in residual trade barriers.

The transatlantic economy is the freest in the world, but it is not free. A truly transformative initiative would go beyond another trade deal and seek an Open Transatlantic Market by tackling domestic barriers to transatlantic commerce. The payoff could be substantial – the OECD estimates it would be the equivalent of giving every American and every European an entire year's extra salary over their lifetimes.

The benefits would be widespread. An open transatlantic market for air transport services could boost transatlantic travel by up to 24 per cent, increase consumer welfare by over \$6 billion annually, and boost economic output in related industries by at least \$9 billion a year. The Open Skies deal is ready to sign, despite recent setbacks regarding foreign ownership of US airlines. This is a significant "deliverable" to agree on this spring.

Full transatlantic integration of securities markets could lead to a 9 per cent reduction of the cost of capital for listed companies, 60 per cent reduction in transaction costs, and

an almost 50 per cent increase in trading volume. Aligning US and EU automotive regulations could reduce the cost of every car and truck by up to 7 per cent, with important knock-on effects for the extensive networks of suppliers and distributors across each continent. Liberalizing Europe's service economy alone could create up to 600,000 European jobs and boost investment by the US and other nations by up to 34 per cent.

Freer transatlantic markets could also unleash the transatlantic knowledge economy. Bioscience is emerging as the innovation driver across many economic sectors, from health care to energy to food, and is deeply rooted in transatlantic interconnections. Further life science innovation is hampered by domestic barriers on each side of the Atlantic. The benefits of regulatory cooperation in information and communications technology would be enormous.

Some worry that an ambitious transatlantic economic initiative could threaten the multilateral system. The reverse seems nearer the mark. Europeans and Americans certainly share an interest in widening the circle of prosperity through multilateral trade liberalization. But even a successful Doha agreement will not address such pressing "deep integration" issues affecting the European and American economies as competition policies, corporate governance, more effective regulatory cooperation, tax and other issues. Nor will it address cutting edge issues raised by European and American scientists and entrepreneurs, who are pushing the frontiers of human discovery in such fields as genetics or nanotechnology.

Transatlantic markets are the laboratory of globalization. Together we face issues that

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neither of us yet face with others. That is why the “multilateral versus transatlantic” dichotomy is a false choice. The US and EU should advance on both fronts simultaneously: push multilateral liberalization through Doha and press transatlantic market-opening initiatives in services, financial markets, telecommunications, energy, innovation policies, and other areas not yet covered by multilateral agreements. The alternative is not drift; it is growing protectionism and US-EU rivalry in third markets.

You have posed the right question: Shouldn't Europeans and Americans position themselves to absorb the shocks of global economic change and be true pathfinders of the global economy, rather than waste their time on banana-and-beef trade disputes and fruitless competition to eke out marginal advantage in third markets? If you lift your sights beyond trade and are prepared to tackle the real barriers to freer transatlantic commerce, your European and American counterparts should welcome your leadership and launch this attractive new project at the U.S.-EU Summit this spring in Washington.

Safer Societies/Networked Security:

When former U.S. Secretary of Homeland Security Tom Ridge stepped down he said his greatest regret was not engaging the EU earlier in his tenure. The Bush Administration and the Congress are open to developing more effective cooperation in protecting our societies, and they realize that US-EU cooperation is essential. There have been some promising beginnings, but they have been ad hoc achievements rather than integrated elements of a more comprehensive approach. The German Presidency could lay the foundation for more effective transatlantic cooperation in this area by pushing a transatlantic “Safer Societies” initiative in areas ranging from intelligence, counterterrorism, financial coordination and law enforcement to customs, air and seaport security, biodefense, critical infrastructure protection and other activities. Such efforts, in turn, would reinforce the CDU's position that distinctions between “internal” and “external” security have blurred, and that networked security approaches are essential to 21st century threats.

Rebuilding a Sense of Common Cause

There are many other items on the transatlantic agenda. But these rise to the top, both in terms of challenges you will face and opportunities you can seize.

As you address these issues of substance, however, it is important to underscore the unique opportunity the U.S.-EU Summit and the 50th anniversary of the Treaty of Rome offer you, personally, as Germany's Chancellor, to cast the US-EU relationship in strategic terms, to underscore the Atlanticist roots of the European project, and to

rebuild a sense of common cause with your American partners and allies.

This can be done in three related ways. First, you should tackle head on the unholy alliance between American skeptics disdainful of the European project and Europeans intent on building the EU as America's counterweight, rather than its counterpart. The Bush Administration's efforts to divide and conquer has undercut European Atlanticists and strengthened the hands of European Gaullists. The chorus of

European voices claiming that an unbridled U.S. has become a, if not the, global danger has undermined American Europeanists and boosted the Euroskeptics. America's problem with Europe is not that it is too strong but that it is too weak. A vigorous vision of a strong, unified, outward-looking, Atlanticist EU would resonate mightily across the Atlantic. Today, you are the one European leader who can credibly make the case.

That leads to the second opportunity: use the Washington Summit and the 50th anniversary of the Treaty of Rome to celebrate the Atlanticist roots of the European project and to project a strategic future for US-EU partnership. For the EU's founding generation, a strong transatlantic tie and a strong Europe were two sides of the same coin. You have the chance to make this case again, for a new generation and for a new time. Use the Summit for this purpose; don't allow the inevitable Summit laundry list of issues to define our relationship; frame the relationship in ways that enable both sides to tackle the "to-do" list together. Ask the President to advance this vision together with you in public. Engage the Congress.

This relates to the third issue – the need to build new constituencies for US-EU partnership. Perhaps the greatest transatlantic deficit we face is not one of trade, payments or military capabilities, but deficit in knowledge about the EU by U.S. leaders, particularly in the Congress. Build a legislative element into the US-EU Summits by meeting with the relatively new Congressional Caucus on the European Union, perhaps reinforced by the Congressional Study Group on Germany and bilateral Caucuses on France, Spain and other EU nations.

Germany's dual Presidency will be challenging. But it is foremost an opportunity to re-concile Europe's grand experiment of integration with a reorientation and strategic transformation of transatlantic relations to create an Atlantic partnership that is more global and more effective.

You are uniquely positioned to make the case for such a partnership, and if you do I am confident that you will succeed.

Mit Hochachtung! – und mit freundlichen Grüßen,

Dan Hamilton

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