

# ***Transatlantic Responses to Global Challenges: The Way Forward***

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## ***Transatlantic Strategy Group on Security and on Economics, Finance and Trade***

Discussion Outline and Follow-up topics

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## Providing International Security and Global Economic Stability in an Uncertain World: New Strategies for the Transatlantic Partnership

### International Security:

- 1) There are three possible interpretations of the change within transatlantic relations, each delivering valid facts:
  - a) The problems depend on the concrete actors on the stage of transatlantic relations. As long as Bush and Schroeder are the top figures in the field, the partners are going to face problems. This is part of politics.  
=>First interpretation: It is all a question of political leadership and its domestic background.
  - b) Taking fellowships, sister cities, individual trips and other concrete data into account, the transatlantic partners have a most intensive network infrastructure and anyone who speaks of deep conflicts or deep rifts is wrong because the relations are more intensive than ever.  
=>So the second interpretation would be: Problems are a bit over-dramatized and upon closer examination the situation appears quite stable.
  - c) There is a change of substance in the transatlantic relations. The old transatlantic community was constituted around a precise existential threat with a precise organizational answer, the North Atlantic Treaty Organization. Today the threats are by far more diffuse; they are outside the western countries as well as inside and so NATO right now does not seem to be the right instrument to face these new challenges.  
One consequence is that Europe is looking inside while the U.S. is looking outside. Combined with the main challenges of our societies, this creates trouble. The European weakness is quite obvious: There is a clear deficit of strategic thinking. Europe lacks power instruments and has to deal with an internal split over questions of war and peace.  
=>Third interpretation: When the partners head in different directions, this creates problems for the relationship.
- 2) A series of transatlantic bargains is needed in which
  - a) the US sees that it needs to improve its cooperation and consultation with its allies and sometimes needs to work with international organizations as well;
  - b) but in return the Europeans have to be much tougher in dealing with new security threats and more prepared to use force. They also have to overcome their own divisions, the new world-old world split, because a healthy transatlantic relationship is not possible if Europeans themselves are divided.
- 3) Iraq: It will only be a question of time before the US asks its allies for help. Right now the Pentagon is running Iraq at a cost of \$4 billion a month, in peacekeeping costs alone. There is a great opportunity for NATO to play a role.
- 4) Iran: There is quite clearly scope for a compact between Europeans and Americans. The Americans have to stop telling the Europeans that they should not trade and engage with the Iranians per se, but the Europeans have to make it quite clear that their conditional engagement really is conditional. And if Iran doesn't do the things it is asked to do, then no more engagement. The US and the EU have very simple and clear objectives in Iran, as do the Russians:
  - a) to sign the additional protocol;
  - b) to stop meddling in Iraq and Afghanistan;
  - c) to have a better human rights record.

It seems possible that Russia, the EU and the US can develop a joint line on Iran.

- 5) On Weapons of Mass Destruction (WMD): Perhaps the greatest ground for optimism is in the general debate about weapons of mass destruction and what to do about them.
  - a) On the EU side: In Luxembourg, on June 16, 2003, the EU agreed on a statement on WMD that says: "When these measures including political dialogue and diplomatic pressure have failed, coercive measures on the chapter seven of the UN Charta and international laws, such as sanctions, interceptions and the use of force could be envisioned." That is a much tougher attitude than many people thought the EU could collectively endorse.
  - b) On the US side: The US appears to be a bit more enthusiastic about some arms control treaties than it had been. The US is proposing a bigger budget for the IAEA and has taken the NPT seriously. So it is selectively favorable to arms control regimes, but this seems to be the obvious bargain the partners need to work towards.

As a result, the language of the US-EU summit at the end of June was quite surprising. The summit conclusions were that both sides want to strengthen the international system, treaties and regimes against the spread of WMD.

- 6) *A European perspective on the transatlantic security relationship in the aftermath of the Iraq war.* Europeans have been split on what to do about Iraq, but all Europeans actually agree on the major foreign policy challenges in the world today, including Iran, the Middle East peace process, arms control treaties, the Balkans, the approaches to Russia. The problem is that they don't agree on what to do if America disagrees with the European line. The British and the French have a divergent view on that, with the French thinking Europe should be strong so that it can at times say no to the US, the British saying Europe should be strong so that it can help the US it solve the world's problems. The rift between New Europe and Old Europe can only be overcome when the British and the French reach common position on how to cope with the US, which is to create a strong Europe that can act autonomously when necessary, that is normally supportive of and cooperative with the US, but on some matters may have to say no. From there a united, strong CFSP can be built and that will be a much better foundation for a more balanced transatlantic relationship – not quite a G2, as on the economic side, but perhaps a G1-and-a-half.
- 7) *An American perspective on the transatlantic security relationship in the aftermath of the Iraq war.* The Iraq crisis was really only partly about Iraq. What was really at stake was a set of more fundamental questions that the crisis brought to the surface. The first had to do with the appropriate role of American power; the second had to do with the conditions under which the use of force is lawful and legitimate; the third had to do with the role and authority of international institutions; and the fourth had to do with the preferred instruments for pursuing common objectives.
  - a) The Iraq crisis revealed that US and European preferences on these basic issues diverge rather considerably. There are many reasons why this relationship still is valuable; there are many reasons why we have had some collective impulse to preserve it. Nevertheless one finds significant differences in perception and priority on either side of the Atlantic.
  - b) What has emerged out of the Iraq crisis is a much more skeptical view of the European integration project. America has been generally favorable to the project, although occasionally uneasy about certain proposals. But out of Iraq

came two notions, two perceptions, that could be quite difficult and damaging were they to become openly prevalent as American policy toward Europe.

- One notion, that an integrated Europe could act more effectively to impose American preferences, is undesirable. Many people outside the administration and the neo-conservatives who are the strongest supporters of the current foreign policy line, actively and openly state right now that the EU and its integration process is a threat to American power and interest. And the more the euro-American perspective diverges along these lines, the less attractive it is to have a single entity on the other side of the Atlantic, capable of effectively acting as an opposition to American power.
- On the other hand, Washington found a divided Europe very convenient and advantageous. This gave the US room to maneuver, gave it opportunities for diplomatic bargaining, and enabled the US to play some Europeans off against others.

Seen together, these notions – that an integrated Europe acting coherently is a potential threat to American interests and a divided Europe is advantageous – don't seem to be very healthy in terms of building a good relationship across the Atlantic.

c) There are four realities that need to be taken into account when making proposals:

- The partners need to tone down the confrontational rhetoric that is based on the fact that both sides are fundamentally reconsidering basic questions, such as, "Do we really need NATO and what is it for?"
- The EU and the US need to guard against the instinct to punish each other. In many small and large ways one sees impulses to punish and that is very unfortunate. If they want to improve their relationship, the partners need to deprive themselves of the satisfaction of punishment over the collision they had in Iraq.
- The general proposition is to focus on pragmatic cooperation where interests converge; one such area is the reconstruction of Iraq. Both partners need to get real collaboration on track on serious issues where their interests are both large and identical.
- The EU and the US must confront their differences in areas where there is potential common ground; for example, both are opposed to proliferation and have a huge interest in preventing it. Surely there is enough common ground that they ought to be able to harmonize their understanding and handling of the threats in the proliferation area – and likewise on the whole question of enforcement.

So if one takes a very crude dichotomy between primacy and order, Americans now prefer primacy, Europeans prefer order and the challenge of the years ahead is to manage that difference in a way that enables both to constructively pursue their common interests.

#### Global Economic Stability:

8) In the economic field the United States and the European Union still have the world's greatest partnership. The US and the EU dominate most aspects of international capital flows, mergers and acquisitions as well as foreign direct investment, where the US and the EU each has a stake of about \$500 billion euro in the other. One question that must be addressed is how this unique position of economic strength and interlinkage might serve the guiding principles of

transatlantic partnership and how it can be used to guarantee worldwide sustained economic development, including environmental questions.

- 9) Two major ideas on linking the security and economic agenda – ideas that already have been discussed by the groups in earlier meetings – must be further pursued. They are:
  - a) that to use a renewed re-invigorated approach to economic cooperation could start pulling the overall alliance back together and
  - b) that one attractive way to achieve that re-invigoration of the economic relationship and to use it to promote re-strengthening of the overall relationship might be the G2 informal consultation mechanism, designed as an informal caucus, working from the bottom up through specific areas of cooperation, like for example in trade, environmental policy, migration and others.
- 10) Trade tensions have increased greatly. On one hand the partners pride themselves in having a G2 with Pascal Lamy and Bob Zoellick on trade, but the fact is they are very close to a trade war. The United States is now taking Europe to court over the issue of GMOs; the US might take the European Union to court one of these days over this massive new chemical directive that could enormously distort a major sector of the world economy. Europe already has taken the US to court and won on our export tax incentives and our steel actions; in both cases Europe has been authorized to retaliate. And if the underlying political tensions were to escalate, the two trade representatives – despite their very good working relationship – could not control it.
- 11) There also have been some increased tensions on the monetary side: the dollar continued to decline very sharply against the euro, which went back to its starting point. This is creating some angst in Europe's exporting quarters.

## **Separate Session on Security**

### ***After Iraq: The Future of the Transatlantic Security Relationship***

1. The security problem in Iraq is two-fold, having to do with (a) continuing action of the Saddam loyalists and (b) very heavy-duty black market gangs that still operate.
2. There is a central triad of inextricably connected issues that the Americans and their allies will have to deal with in Iraq: security, electricity and oil. If we do not get security, which is essential for reliable electricity, you neither are going to be able to build a government that has credibility, or pump oil and get the revenues to generate long-term economic recovery.
3. The situation in Iraq is such that there are three basic, generic paths that the US can go down now.
  - a) The US could try to cut its losses quickly and pull back. But that would obviously be a true disaster.
  - b) Another path is to basically stay on the current path and put in more energy, more muscle: Putting more troops, more money and more pressure.
  - c) The third path would be a change in strategy, a change in approach with two elements to it. One would be a dramatic internal movement toward

more Iraqi involvement. The question is whether the Iraqis are ready for it. And the second part would be internationalizing the efforts.

4. The transatlantic relationship will not change over the question of Iraq. There is no formula for success at present, since for the US transatlantic issues are quite secondary. And when the US talks about internationalizing its efforts in Iraq, the EU still cannot offer 100,000 troops
5. The Iraq issue has confronted the EU once more with its own inability to react to a global security crisis unanimously. The swift decision of the EU to send troops to Congo in a peacemaking mission was a reaction to this failure and left an impression among the European population that the EU wants to improve its security side.
6. The Iraq war has increased the discussion in Europe concerning the CFSP mainly on two issues: the draft of the European constitution with its foreign political aspects as well as the debate on majority voting on foreign policy and the strategic concept of the EU, which showed (a) that strategic thinking and security thinking were way behind and (b) that there is a shared threat perception with the US.
7. From a European perspective the question of whether the Iraq war was legitimate has to be resolved, since this issue is the source of the danger and guerrilla warfare the US now faces in Iraq. The right to self-determination of the Iraqi people must be respected in order to ease the current tension.
8. European contributions to stabilization forces in Africa, Afghanistan and Iraq will, however, raise the questions of what the European responsibility for these areas is and where the end of such contributions will be.
9. An open question for the EU remains whether the current US Administration is honest about what they want and demand from the transatlantic partners, whether they are only asking for commitment for this legitimacy question, or whether they are committed to a European approach of security with the European Union as a stabilizing factor and with an integrated European force that increasingly will be able to substitute for NATO.
10. Europe has more to offer to the US than just help in achieving legitimacy in the Iraq question: The EU can help greatly in building up a civil society. The EU has experience in training police forces in the Balkans and in Afghanistan and could provide similar training for Iraqis. Furthermore, the huge exile Iraq community in many European countries can assist in rebuilding their homeland.
11. A big obstacle in transatlantic relations is currently a psychological one: President Bush's personal relations with President Chirac, and even more so with Chancellor Schroeder, have suffered in a way that requires a huge psychological step on the US side to overcome the divide.
12. The future of transatlantic relations lies in a common agenda, going beyond the Middle-East peace process and the safe destruction of Russian nuclear military material, based on a common threat assessment, leading step by step to joint action. The European strategic analysis „A Secure Europe In A Better World,“ is a good starting point. The European ministers identify four threats: terrorism, proliferation of weapons of mass destruction, failed states and organized crime. This document can be the basis for a strategic US-EU dialogue.
13. In spite of the transatlantic divide concerning military action in Iraq and Afghanistan, transatlantic co-operation works rather smoothly in the fight against terrorism, not in the military field, but in the field of co-operation in justice, home affairs and intelligence. Here the transatlantic dialogue works.

14. Concerning Russia's national interests, seeing an American presence in Iraq is much more preferable to any other outcome in the foreseeable future. Russia is not interested in an American defeat in Iraq. In fact, based on the Russian intelligence experience in the region, there are reasons for Russian-American collaboration here. However, the United States has to learn from the Iraq issue and become wiser as it approaches coming issues, including North Korea and Iran. Both have a tremendous potential for degrading international relations, and in particular US-Russian relations.
15. Iran is another area of potential transatlantic co-operation, but it could also become the next stumbling block in the US-European relations. In the past, the Iran issue was often a case of struggle between Europeans and the United States. The United States has imposed sanctions on Iran and wants a regime change. The Europeans are engaged in trade negotiations and want to achieve a change of behavior. But in the critical issue of Iran acquiring nuclear weapons, the US and EU have common goals: that Iran sign the additional protocol and perhaps abandon its goal to get a full nuclear cycle within its own borders. Here the European Union really has something to offer: If it links trade negotiations strongly to the nuclear question in Iran, the EU - unlike the US - can use the economic tool as a leverage to change Iranian behavior.
16. A potential challenge to transatlantic relations could be Europe's loss of interest in the US. Europe increasingly is focusing inwards: first, the convention and the constitution; second, the future of EU enlargement; third, justice and home affairs; fourth, the financial package that member states have to deal with in the near future; and, last but not least, ESDP. Europe is preparing itself to become a global actor on all sectors.
17. Many Europeans do not understand the US Administration's attitude towards international organizations. The Iraq issue is internationalized, however not through the multilateral instruments that other countries would prefer. The US Administration is concerned about the form and character of internationalization and it is hypersensitive to cause and constraints associated with multilateral operation. The judgment about internationalization hinges on the Administration's conclusions about what works, since the US stakes in a successful outcome in Iraq are so high. Nevertheless, the Administration's view is that they have a very strong set of international partners. These partners are mostly approached on a bilateral basis and form the so-called coalition of the willing. The co-operation on fighting terrorism as such is not an illustration that transatlantic co-operation still works. The view of the administration – that this works because it is all done on a bilateral basis – is just the opposite. And the experience of the Bush Administration is that in the Iraq crisis the coalition of the willing as a collection of bilateral arrangements actually worked out well and was organized, reasonable, efficient. But the flip side is that the Bush Administration encounters with the UN and NATO during the Iraq crisis were debacles. And so in the Administration's view the coalition of willing worked well, while the traditional institutions were primarily troublesome.

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| <b>Separate Session on Economics, Finance and Trade</b> |
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***Global Economic Leadership and the "G2" Approach to Transatlantic Trade and Finance***

1. With the recent erosion of EU-US relations in foreign policy, efforts to enhance US-EU convergence in the area of capital markets take on a new urgency. Cooperation in the regulation of capital markets could play a major role in helping improve the overall relationship between the US and the EU.
2. There are three areas where actions or potential actions by the US are impacting the EU. One is the possible accommodation of US GAAP to international accounting standards (IAS); the second is the extra-territorial reach of the Sarbanes-Oxley Act ("SOX"); the third is direct access of US investors to European trading screens.
  - On Global Accounting Standards: For most European companies, conversion to US GAAP is the single biggest barrier to making a public securities offering in the US or registering securities to trade on a US stock exchange. This has inhibited companies based in Continental Europe from registering their shares with the SEC and list in the US.  
=> A uniform set of accounting standards that could be utilized on a global basis needs to be established. Such standards would substantially reduce accounting costs of multinational companies and would allow them to more easily access capital markets throughout the world.
  - On the extra-territorial application of the Sarbanes-Oxley-Act (SOX): The SOX Act requires a personal certification by both the CEO and CFO to be included with each filing by a Reporting Company of its annual report on Form 20-F. This certification includes a verification that the report complies with the requirements of US law. To make these certifications, Reporting Companies are required to have in place internal controls and procedures effective for generating complete and accurate financial information. This and other provisions show that the enactment of the SOX Act had the potential of dramatic and severe extra-territorial application of US law outside the United States, which would contravene recognized principles of comity in international law.  
=> The SEC should more broadly and flexibly exercise its interpretive discretion and exemptive authority under the SOX Act in relation to a limited number of important issues for non-US Reporting.
  - On trading screens: One of the official European complaints about the US regulatory environment in the capital markets context is the demand for access by European exchanges directly to US investors by placing trading screens on the desks of US broker-dealers. European securities exchanges are effectively prohibited by the SEC from directly accessing the US market without first registering as a US exchange.  
=> Two alternative approaches to accommodate the EU's interest in trading screens would be (a) to limit the use of European trading screens to institutional clients and (b) to qualify specific products listed primarily on specific EU markets for direct access to US broker-dealers. An easy start would be common stocks trading on the London Stock Exchange.
3. There are also three aspects of US-EU regulatory convergence that involve situations where the EU may move toward or accommodate US norms. One is the proposed liberalization of EU rules on investing pension assets; the second is the proposed revision of EU rules on takeover defenses; the third is the EU's new directive on supervision of financial conglomerates.
  - On EU pension management: In the EU, the provision of retirement benefits has operated under various national laws and practices. With a few exceptions, these national laws and practices have created barriers to entry

for other global financial firms skilled in the management of pension funds. This area is particularly significant because many of the EU's largest countries (e.g., Italy, France and Germany) are facing an imminent pension crisis. Some of the problems with managing pension funds in Europe are addressed in the EU Institutions for Occupational Retirement Provision (Pension Directive) passed by the Council on May 14, 2003. The Pension Directive establishes a common prudential framework for occupational pension schemes across Europe. Its main value is in the signal it sends to member states to make pension reform a priority, and in establishing a solid legislative foundation for further work on policy reforms.

=>The key focus is now implementation of the Pension Directive.

Implementing legislation in every EU country should consistently incorporate the following key requirements:

- a) Prudent person rule – No EU country should quantitatively restrict how pension assets can be invested, but rather should rely on principles of diversification and prudence.
  - b) Level playing field for providers – All types of authorized financial services firm, including EU subsidiaries of US securities firms and asset managers, should be allowed to offer services and products to EU pension plans. The competition among providers and products will help maximize returns to plan participants and beneficiaries.
  - c) Cross-border flexibility – Financial institutions that qualify to manage pension funds should be free to provide services or products from any location within the EU. Allowing managers such locational freedom will achieve efficiencies that reduce the cost of plan management to the benefit of plan participants and beneficiaries.
- On takeover defenses: In the US, most publicly traded companies are owned by a widely dispersed group of shareholders, even though a few institutions may hold blocks of shares as large as 10 percent of the outstanding. One of the key checks on inferior company performance in the US is the potential for non-negotiated changes in control. While the SEC rules on corporate takeovers are neutral, some state statutes and state case law have allowed poison pills to be implemented. Availability of such measures has not had the effect of preventing hostile takeovers, but may have resulted in achieving higher prices for target shareholders.

In Continental Europe, by contrast, ownership structures of publicly traded companies are more heavily concentrated, with the dominant block of shares frequently held by the national government, local families or commercial banks. These dominant shareholders control the board of directors, which often have legal duties to labor and community interests as well as to shareholders. The board may appoint a CEO who is more responsive to the interests of the dominant shareholder than to minority shareholder concerns. In turn, the dominant shareholder or primary bank serves as an effective check on the CEO, as hostile takeovers are relatively rare in the EU (outside of the UK).

The attitudes and rules toward hostile takeovers in the EU have been slowly approaching those in the US, although substantial differences remain. One significant barrier to hostile acquisitions is the “golden shares” retained by EU member state governments in partially privatized companies. These “golden shares” take different forms, but typically provide for special intervention rights or veto rights for the government, particularly in change of control situations.

=>Given the adoption of the new German Takeover Code (2002) and the current delay in proposing a EU Takeover Code, defensive measures should only be permitted with prior or subsequent shareholder approval within a reasonable time period. Such a provision would afford shareholders and companies the opportunity to fully consider, in a deliberate fashion, any bid offer, while granting boards flexibility to seek an alternative “white knight” bidder or to mount a persuasive case for continued independence.

- On the Financial Conglomerate Directive: The EU’s new directive on the enhanced supervision of financial conglomerates and its extraterritorial application to financial groups with a parent based outside the EU is high on the list of issues under discussion between the EU and the US. US securities firms argue that this new directive places them at an unfair disadvantage relative to European universal banks, because US securities firms are regulated by the SEC rather than by the Federal Reserve (Fed). The new directive also has brought to the fore perceptions by the US and EU of the faults in each other’s supervisory structures and practices. For US securities firms operating in Europe, the key issue is the directive’s requirement of verification by the EU competent authority of “equivalent supervision” by third-country authorities. There is concern among US authorities and the financial services industry that if the EU were to consider US supervision as not equivalent, it would raise the cost to US firms of doing business in the EU and thus place them at a significant disadvantage to their EU-parented competitors.

=>Since the debate on the supervision of financial conglomerates is very much up in the air, one fruitful suggestion might be that the European regulators accept the SEC as well as the Fed as the primary regulator for US financial conglomerates. If necessary, the European regulators could ask the SEC to consult with the Fed on specific issues such as money laundering or capital requirements.

4. Transatlantic leadership toward financial regulatory convergence would illustrate several of the basic elements of the “G-2” concept. Europe and the United States could operate as a very informal steering committee, reaching agreements on how to proceed as a kind of “G-2 caucus” and then promulgating their concurrence through formal and multilateral structures. Such informal steering efforts at this point in history would be especially valuable, in light of the acute tensions in overall Europe-United States relations and the developing tensions even in the traditional areas of G-2 success like trade and competition policy.
5. Effective cooperation in financial services would indicate a willingness on the part of the “G-2” to exercise leadership in an area where global responsibility clearly lies on its shoulders. Such leadership would demonstrate the practicability of the “bottom up” approach to overall G-2 activity. Such leadership on financial issues would also meet the basic G-2 criteria of both improving relations between Europe and the United States and contributing to a more effective global economic order with tangible benefits for the rest of the world

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| <b>Separate Session on Security</b> |
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***Bridging the Transatlantic Divide***

1. Transatlantic relations are based on two elements: common interest and values in principles. Democracy, rule of law, political pluralism, freedom of expression, human rights, justice and free market economy are the common values shared throughout the last century.
2. In the past, European integration has been strongly supported by the United States. In the United States, skepticism about the progress of European political, monetary and economic integration is growing, particularly concerning the ESDP. The American worries, however, are unfounded, as long as the development of the ESDP is compliant and done in co-operation with NATO. The challenges that remain are two-fold. First of all, we need to enhance incentives for both European and North American members of NATO to continuously perceive the alliance as a crucial pillar of the security policy. Secondly, the challenge is to ensure that ESDP and NATO converge harmoniously and without overlapping and rivalry.
3. NATO is the key organization responsible for the collective defense and security of the Euro-Atlantic community. It also has the best potential to conduct out-of-area operations. On the other hand, the EU increasingly is prepared and capable of carrying out crisis management operations including pre-emptive engagement. These two structures have to be seen as neutrally re-enforcing, interlocking and supporting each other. There is a need to adapt them to the changing requirements of the day and the evolving of new political and security environments. If the spirit of partnership is there, it will not be difficult to divide or share the tasks.
4. An important factor that will help bridge the transatlantic divide is the converging perception of global threats: terrorism, proliferation of weapons of mass destruction, failed states and organized crime. A common approach in this area will undoubtedly be fruitful for both the European Union and the United States. First steps have already been taken, for example, by anticipating co-operation in the field of non-proliferation of weapons of mass destruction and delivery assistance announced at the EU-US summit, and discussed at the meetings in Madrid and in Brisbane/Australia as follow-ups of the proliferation security initiative presented by president Bush in Krakow at the end of May last year.
5. Further European benefit can be gained from co-operating with the United States as far as the EU's emerging new neighborhood policy is concerned. The US has been present in the area for years, so there is a natural synergy.
6. In EU-US relations there is a need to consult each other regularly; there is a need to explain each other's position and communicate before forming opinions. The dialogue cannot be confined to the governments and administrations, but shall include legislative bodies and broader public.
7. Neither American nor European projects can be unilateral, as they are not realized in a political vacuum. Simultaneously, no multilateral arrangements can be efficient without the United States on board. Multilateral co-operation must be sufficiently effective to keep the US involved.
8. Two fundamental changes have hit transatlantic relations after the end of the Cold War: (A) Until September 11th the United States, like most largely status quo powers, basically saw that the risk of action, particularly of military action, was sufficiently great that one had to have quite a compelling and overwhelming case before one acted. Since September 11th it is very prominent in the Bush doctrine and the security strategy that, given the magnitude of the risk of the combination of terrorism and weapons of mass destruction, the balance does not favor inaction anymore. Pre-emption has become a key word for US foreign policy. Many Europeans have not yet understood this shift in the US-American policy, although

even European policy has shifted toward action rather than restraint. However, Europe has maintained belief in one aspect of restraint: to stay within the framework of law. Europe was bound to take that view, because the EU is built on law. (B) The European integration has proceeded enormously and many Americans have not realized how profound that shift is. All new strategies have to take these changes into account.

9. The United States needs to figure out a strategy to cope with the possibility that allies may disagree with the US on important issues. Europeans on the other hand have to learn that there are times when action becomes the best choice.
10. The new threats require a strategy that develops an international legal framework allowing for quick and meaningful action to deal with the challenge of WMD in transit. This strategy needs to address the European desire for legitimate action with respect to international law as well as the US-American desire to deal with the problem effectively.
11. The future of NATO is uncertain. If the EU develops its ESDP and the US sticks to its "coalition of the willing" principle, then the EU will one day have to contemplate its contribution to such coalitions and in what situations such coalitions with the US are justifies. This, of course, would be the end of the currently rather frustrating work of NATO. However, at the moment NATO is the only instrument with access to the US-American strategic planning and operational capacities that do not yet exist in Europe. In addition, the US contribution in reconnaissance, electronic and information processing ranges between 60 and 85 percent of NATO capabilities. Furthermore NATO offers a unique forum for transatlantic diplomatic contacts and discussions and it maintains important relations to Russia and Ukraine, which the EU doesn't.
12. The EU demands that military action occur with an appropriate mandate and be pursued in a multilateral and non-zero-sum way. The EU seeks security not just in a selfish sense, but also as non-zero-sum, building security and possibly developing new partners.
13. The basic difference between many European countries and the US is not ideological; it's practical. It's not about threats, action or inaction. It's about the means to address the threats, the role of international rule, organizations and institutions in fighting this threat.
14. The French attitude towards NATO has changed dramatically over the past year. France has gone from considering NATO a great evil to considering it an effective, well-organized multilateral institution able to fight the war against international terrorism. France now agrees with out-of-area operations and favors a two-pillar structure of ESDP for Europe and NATO for global missions.
15. The question of a strategic partnership between NATO and the EU following the Berlin Plus arrangements must be considered a question of a close partnership between the US and Europe, preferably – and hopefully – with a strong strategic component. Therefore the US-American attitude that Europeans have outdated military equipment and hence cannot assist the US has to change. The Europeans have to improve their military capabilities, minimize parallel and double structures, downsize the total number of troops by pooling capabilities, as well as improve the decision-making process to become more effective in multilateral forums and to avoid purely bilateral negotiations. The European military will lead into the direction of a European army, although it's not yet politically adequate to use that concept.

16. From a Russian perspective, the transatlantic divide is permanent. It proves not only the end of the Cold War, but it also shows that the “West” as a whole no longer exists. Russia therefore will treat the EU and US as independent actors.
17. The EU will in the midterm future further develop its military capabilities. The strategic lift is on its way. Galileo is another example of a European structure replacing a US-American one. Even if the US loses strategic interest in NATO, the Europeans will not, because NATO offers a unique standing conference for security issues on the European continent. Slowly replacing US-American capabilities in NATO with European capabilities (“Europeanization of NATO”), but nevertheless keeping NATO’s structures, may therefore be a more effective way of building a European security system without having the US leave NATO altogether. According to this interpretation, NATO as a transatlantic military alliance would be dead, but NATO as a transatlantic security system would be alive. NATO thus would be transformed into a standing diplomatic conference similar to the OSCE.
18. A major advantage of NATO for the US is that it legalizes the US military presence in Europe and in the new NATO member states, which brings economic benefits to both sides.
19. The midterm political agenda for the US and Europe is quite different. For the US the number one priority is global security against terrorist threats that impact domestic security. With the upcoming elections it will shift slightly to domestic economic issues. For Europe, domestic issues rank on top: EU enlargement (2004, 2007), the question of Turkey, the constitution, the euro, the economy. Although common interests exist, they must be clarified and codified for everyday political business.
20. The common interests of the EU and the US are evident, especially in economy, trade and the monetary sector. Europe has more direct investment in Texas than in Japan. The United States has more direct investment in the Netherlands than in China. Military common interests include the fight against terrorism and the proliferation of WMD as well as the fight against organized crime.
21. Institutions, structures, organizations always reflect the situation of the moment in which they are established. But they outlast this situation. Most static institutions do not respond adequately to new needs and requirements of the dynamic situation. The same holds for NATO.
22. Strategic co-operation à la carte cannot be the solution. In contrast to a partnership based on a broad consensus of common interests, it implies that if there is even the slightest diversion, partners just agree to go their separate ways, which will eventually lead to real conflict.

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| <b>Separate Session on Economics, Finance and Trade</b> |
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***Developing Transatlantic Policies on Energy, Environment and Migration***

Energy

1. High oil prices have adversely affected the world economy. In addition, volatile oil prices have asymmetric impacts that exacerbate the negative economic effects. Oil exporting countries are frustrating the workings of the free market by

withholding production when demand falls. Consumer countries have made oil prices more volatile and *raised the overall level of oil prices* by creating strategic petroleum stocks and then systematically refusing to use them. These government stocks have caused private firms to hold lower inventories and left the market more vulnerable to supply disruptions. The combined effect of these conditions has raised the level and volatility of oil prices. It also has reduced real economic activity as measured by GDP. These factors alone provide a basis for market intervention.

2. A program to neutralize the impact of high and volatile energy prices through a collaborative scheme between producers and consumers is needed. The following proposal consists of six elements.
  - a) First, substantial expansion of government-controlled inventories is recommended.
  - b) Second, government-controlled stocks, created under the auspices of the International Energy Agency, should be converted into economic buffer stocks and used frequently to stabilize prices.
  - c) Third, the stabilization program should select an initial price target for crude oil of between \$18 and \$20 per barrel, which is the price most studies suggest would prevail in the absence of anticompetitive actions by the Organization of Petroleum Exporting Countries (OPEC).
  - d) Fourth, the responsibility for adjusting oil output during periods of market surplus should be accepted by all countries in the world and no longer left to the eleven OPEC members.
  - e) Fifth, the industrialized countries should agree to eliminate barriers to trade in energy-intensive manufactured goods such as chemicals and metals. Removing these barriers would allow energy-exporting countries to capture a portion of the value added for these basic products, in which they enjoy a large, natural competitive advantage due to the location of oil and natural gas reserves.
  - f) Finally, this program should be negotiated at a second energy summit between the leaders of the industrialized countries (the G-8) and the leaders of the principal oil-exporting nations. The format should follow on that of the 1975 Washington Energy Conference convened by then-Secretary of State Henry Kissinger.
3. Arguments for an Oil Price Stabilization Scheme:
  - a) If implemented by the end of 2003, a program like this could provide the type of external economic stimulus required to pull the global economy out of its deflationary cycle. The reduction in oil prices by one third could boost the GDPs of Europe, the United States and Japan by perhaps a percentage point. The achievement of such gains in 2004 would be timely.
  - b) The implementation of an oil price stabilization program can benefit oil producers. Economic efficiency would be best served by allowing low-cost producers to fill demand first and then allocating the residual portion of the market to the higher-cost producers. Such a strategy may not be feasible because high-cost producers are located in industrialized countries such as the United States. However, introducing a program that spreads the reductions in world output equally across all parties would provide a much more equitable and probably more acceptable approach.
  - c) Instituting an oil stabilization program would reduce oil price volatility and help stabilize income in producing countries, possibly facilitating more balanced growth.

- d) Removing trade barriers to the importation of energy-intensive goods from oil-producing countries would yield real benefits for consumers and producers.

### Environment:

1. Due to the Bush Administration's decision to back away from the Kyoto Protocol and its failure to advance a serious alternative response to the problem of climate change, environmental policy has drawn a great deal of attention in transatlantic relations. There is a high degree of antagonism between the United States and the European Union: the broader international environmental agenda is in tatters. This array of disputes provides a strong practical argument for an initiative to bring the United States and Europe closer together on environmental issues. But there is also a deep theoretical logic to strengthened transatlantic efforts to develop a program of international environmental cooperation.
2. Ecological interdependence, economic integration and the benefit to national environmental efforts of data and information exchange at the international level all argue for a vigorous worldwide program of environmental cooperation. Because some environmental problems — climate change, ozone layer depletion, biodiversity, over-fishing, etc. — are inescapably trans-boundary in their scope, international environmental cooperation is essential. In this regard, an EU-US environmental initiative could kick-start the drive to establish a better functioning international environmental regime and could be used to identify a sensible set of core issues on which to focus global cooperation efforts.
3. Environmental policy choices inescapably affect trade. Regulations and standards that are not carefully crafted can become impediments to trade. In some cases, protectionist interests may even manipulate environmental rules to create disguised trade barriers. International environmental cooperation thus emerges as a necessary counterpart to international economic collaboration.
4. Environmental issues have to be taken up on a transatlantic basis because of the opportunity for the United States and the European Union to demonstrate worldwide leadership and energize a global response. An EU-US Environmental Agenda should include the following:
  - a) Global climate change emissions trading: Two initiatives within this realm should be considered: a global greenhouse gas emissions trading mechanism, that allows companies to claim credit for greenhouse gas emissions reductions on projects that they fund anywhere in the world and an expanded research agenda aimed at fostering new technologies to abate the climate change problem. Establishing methodologies and protocols for such an emissions trading mechanism would demonstrate EU-US leadership and provide an opportunity for the key actors to design an economically rational and environmentally effective climate change regime.
  - b) Environmental issues in the Doha Round: Subsidies — particularly environmentally damaging and trade-disruptive agricultural subsidies — are a major issue on the table in the Doha Round of Multilateral Trade Negotiations. And trade-environment tensions could be eased with new commitments to build environmental sensitivity in to the WTO structure on a systematic, narrowly tailored and non-protectionist basis. Such language might help the trading system put the beef hormones, GMO food and other pending "trade and environment" disputes behind it.
  - c) Strengthened international environmental governance: The range of geographic scales of pollution harms and shared natural resources argues for

a multi-tier environmental governance regime. A transatlantic environmental governance initiative might focus initially on data collection, problem tracking, trend analysis and policy evaluation to provide the foundations for effective concerted action. Such an emphasis on environmental information and performance metrics would also provide a model for broader global efforts.

- d) Environmental Research & Development initiative: An EU-US environmental research and development initiative would help emphasize the important role that technological innovation plays in improving environmental quality. In many cases technological breakthroughs made it possible to reduce harmful pollution and better manage natural resources.

### Migration:

1. The number of people crossing borders is rising. About 60 percent of the global flow goes to Europe and North America. Some migration into European countries is family unification, but much of it is asylum seekers and illegal aliens in both the US and Western Europe. The heart of the dilemma is that most people coming and settling are not coming as traditional, planned-for immigrants.
2. The basic issue in Western Europe is that it is easier to get welfare than a job, while in the US it is easier to get a job than it is to get welfare. So the European dilemma is to avoid associating newcomers with welfare, while for the US it is to ensure that immigrants who get work eventually rise into the economy with their families, especially since on both sides of the Atlantic there are many people who are relatively poor.
3. Managing migration so that it provides mutual benefits requires ongoing bilateral, regional and global discussions to ensure that flows of people over borders are mutually beneficial. Calculating the benefits of migration and discussing how to increase and distribute these benefits as well as calculating and mitigating associated costs are key to sustainable migration management.
4. The fact that Europe and North America are likely to remain destinations for immigrants leads to the following recommendations:
  - a) Migration policies should anticipate further immigration and should clearly establish priorities for admission. The aim should be to facilitate the admission of those whose presence is desired and to deter the entry of others, particularly those who would pose a security risk. Facilitating and deterring policies are likely to be more effective if there are ongoing bilateral, regional and global forums for cooperation.
  - b) Immigrants tend to be concentrated at the extremes of the education or job ladder. Some have more education and, often, higher incomes than average citizens; others have significantly lower levels of education and income. Integration—helping newcomers to become full members of their new society—needs a new impetus, especially for those with little education. In Europe, the problem is getting unskilled newcomers into jobs and the solution is likely to include deregulating labor markets. In the US, the problem is helping unskilled newcomers earn enough to climb out of poverty and the solution is likely to include higher minimum wages and mandated benefits.
  - c) Since the mid-1990s, remittances to developing countries from migrants abroad have exceeded Official Development Assistance. Today, ODA is about \$55 billion a year and remittances \$75 billion a year. Remittances are rising fast enough that they may be twice ODA by 2010. In a globalizing world with freer trade and capital flows, developing countries are likely to ask industrial

countries to reduce migration controls that impede the provision of services. To avoid making the GATS negotiations another source of north-south disagreement, there could be more cooperation to ensure effective operation of the 3 R's that govern the development impacts of migration: recruitment, remittances and returns.

## Common Session

### ***Rebuilding the Transatlantic Partnership: Strategies, Mechanisms and Procedures***

1. The G-2 concept as an informal caucusing consultation mechanism could be brought into many transatlantic discussions, either on US-EU level or bilaterally.
2. Concerning energy, a future scenario to break the OPEC cartel and stabilize prices might be to go to a commodity agreement, regulating prices and in return opening up to petrochemicals production in the producing countries, rather than, for example, transporting LNG and using existing IEA buffer stocks, not just for security, but also for economic-security, for fighting volatility and influencing prices.
3. Concerning the environment, the EU and US must join a dialogue on what is to be done on these critical issues in a post-Kyoto environment. Policy and research on alternative energy sources could be combined with the development of an ambitious emissions trading scheme, which again can be combined with WTO negotiations.
4. Migration, including the impact of ageing societies, is a field that offers opportunities of mutual learning for the transatlantic partners that will eventually lead to more co-operation.
5. The security issues related to NATO's future are exacerbated by the fact that experts often are aware of certain problems while many national governments, politicians and the public are not. Raising public attention to this issue is thus a primary task.
6. It is unclear what the future role of NATO will be, whether the structure can persist without the mission, or whether the institution will die or change entirely into an informal diplomatic caucusing conference.
7. Depending on the future of NATO, Europe must decide what to do in a security crisis if the US decides to stay out of it (e.g. the initial phase of the Balkan wars). Co-operation in this case also implies a degree of autonomy.
8. The linkage between economics and security is two-fold. The two can work hand in hand, but this connection also can backfire if trade relationships are bound to a certain "right" foreign policy, since trade relations often lead to better political co-operation.
9. The US-Administration is very receptive to the linkage of security and economics. The administration sees the strategic dimension of what has traditionally been seen as economic policy (poverty, AIDS, WTO rounds). This opens further space for EU-US co-operation.
10. Close EU-US co-operation already is taking place in many economic and social aspects. SARS was a recent example where unilateralism proved impossible and even neo-conservatives relied on multilateralism. However, this was not counted as security co-operation.

11. Though economic issues often are – or have an influence on – issues of national security, economy and security cannot be too closely related since an economic solution to threats such as terrorism would rather see the opponent as a potential partner and increase incentives for co-operation. Economists would also see the population outside the EU and US as potential partners and not as puppets or a potential source of terrorism. Economic globalization also can contradict national security issues such as national protection of the military industry.
12. The war against terrorism and the US-led war in Iraq are not cost effective. With further terrorist attacks and conflicts with Iran and North Korea looming, the Europeans must plead for a more concerted, more unified and more cost-effective war against terror and rebuilding of Iraq than is the case now. This must be done both for reasons of global security and economy.
13. A field in which security issues hinder mutual economic benefit is the visa issue, with many European applications delayed due to security background checks etc. Closer political co-operation between the US and the EU could quickly lead to mutual benefit here.
14. The ease of discussions on multilateral agreements and institutions in the economic field should translate into the security sector, which is currently blocked by the US-Administration's unwillingness to see additional diplomatic instruments as a legitimate way of sealing agreements, specifically treaties and organizational procedures.
15. The EU and US need to start talking about smart security, which has to be based on intensive nation/state collaboration on law enforcement and intelligence. That is a very positive step that the United States and Europe could take in an agenda for the future.
16. The implementation of the established free-market liberal agenda on virtually all economic issues is already a great challenge for the transatlantic partners, offering room for all kinds of co-operation.
17. The Russia NATO council is potentially useful, but it is not the focus for strategic thinking between Russia and its partners in Europe and the United States. There are two possible benefits of Russia NATO collaboration: the demilitarization of the Russia-Western relationship and external help for Russian domestic military reform.
18. The Middle East is a case for US European Russian common thinking and action. However, a solution like that used in Kosovo, where the agreement of western countries provided sufficient legitimacy, will not work in the Middle East and will cause many problems between the West and those countries that are not part of this discussion and solution.
19. The short-term political agenda for the transatlantic partners must be the reparation of bilateral relations, especially with Germany and France. As long as these relations are not repaired on the top level, they remain a significant impediment to the ability of NATO and any other transatlantic arrangement to operate effectively. Iraq may not be the topic on which to reconsolidate the transatlantic relations.
20. For future collaborative transatlantic endeavors the question will be whether the terms and conditions that are acceptable to the Bush Administration will be satisfactory to the European partners.