
Europe's Strategic Choices Building Prosperity and Security

17 – 19 October 2014, Ritz Carlton, Berlin

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CONFERENCE PROGRAMME

Friday 17 October

1300–1415 Registration and lunch

Welcome

1415–1420

Professor Dr Joachim Krause, *Director, Institute for Security Policy, University of Kiel*
Dr Robin Niblett, *Director, Chatham House*

Keynote speech

1420–1500

Peter Altmaier, *Head of the German Federal Chancellery and Federal Minister for Special Tasks*

Chair: **Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*

Opening remarks

1500–1505

Dr Dietmar Woidke, *Prime Minister, Federal State of Brandenburg*

Plenary Session One | Ensuring Europe's Future Competitiveness

1505–1620

- What lessons can the least productive European countries learn from those that are most productive?
- Can a Europe-wide balance be struck between export-led growth and growth driven by consumer spending?
- How can governments keep their electorates onside while implementing necessary structural reforms?
- Financing the recovery: how can investment be boosted to ensure business has access to finance?
- To what extent should governments involve themselves in industrial policy? Should their role be limited to large infrastructure projects?

Philipp Mißfelder, *Member of the German Bundestag and Foreign Policy Spokesman of the CDU/CSU Parliamentary Group*

Jean Pisani-Ferry, *Commissioner-General for Policy Planning, France Stratégie, Services of the Prime Minister*

Katherina Reiche MP, *Parliamentary State Secretary, Federal Ministry of Transport and Digital Infrastructure, Germany*

Moderator: **Quentin Peel**, *Mercator Senior Fellow, Europe, Chatham House*

1620–1640 Refreshments

Plenary Session Two | Defining Europe's Global Role and Agenda

1640–1800

- What are the threats that Europe now faces? To what extent do these come from within?
- To what extent can Europe sustain a coherent joint foreign policy? How can it balance competing international priorities among member states?
- With military spending and consequently military capabilities under pressure, how does Europe envisage its future global role? Is soft power possible without hard power?

Franco Frattini, *President, Italian Society for International Organization (SIOI)*

François Heisbourg, *Chairman, International Institute for Strategic Studies*

Dr Norbert Röttgen, *Chairman, Foreign Affairs Committee, German Bundestag*

Moderator: **Dr Robin Niblett**, *Director, Chatham House*

Keynote conversation

1800–1830

Dr Markus Ederer, *State Secretary, Federal Foreign Office, Germany*

Moderator: **Dr Robin Niblett**, *Director, Chatham House*

Drinks reception

1900–2000 Hosted by the British Embassy
in Berlin

Saturday 18 October

0900–0930 Refreshments

Break-out Session One

Security: what are the external strategic challenges for Europe in the next few years?
0930–1100

Dr Hannes Adomeit, Professor, Warsaw Campus, College of Europe (2007–13)

François Godement, Director, Asia and China Programme, European Council on Foreign Relations

Florian Waetzel, Research Fellow, Institute for Security Policy, University of Kiel

Moderator: **Professor Dr Joachim Krause**, Director, Institute for Security Policy, University of Kiel

Prosperity: what are the global risks and opportunities for European manufacturing?
0930–1100

Dr Karsten Mühlenfeld, Director Corporate and Engineering, Rolls-Royce Germany

Philipp Schack, Managing Director, TITAL GmbH

Dr Reinhilde Veugelers, Senior Fellow, Bruegel

Moderator: **Dr Robin Niblett**, Director, Chatham House

Energy: rethinking EU leadership in fighting climate change
0930–1100

Paul van Son, Chief Executive Officer, Dii GmbH

Dr Hans von Storch, Director, Institute of Coastal Research, Helmholtz-Zentrum Geesthacht

Moderator: **Paweł Świeboda**, President, demosEUROPA

1115–1130 Refreshments

Break-out Session Two

Security: finding the right mix between soft and hard power
1130–1300

Camille Grand, Managing Director, Fondation pour la Recherche Stratégique

Dr Patricia Lewis, Research Director, International Security, Chatham House

Professor Dr Hanns Maull, Senior Distinguished Fellow, German Institute for International and Security Affairs (SWP)

Dirk Niebel, Federal Minister for Economic Cooperation and Development, Germany (2009–2013), and Policy Adviser and Enterprise Consultant, Niebel International Consulting

Moderator: **Professor Dr Joachim Krause**, Director, Institute for Security Policy, University of Kiel

Prosperity: technology and innovation: does Europe have a bright future?
1130–1300

Günter Butschek, Chief Operating Officer, Airbus SAS

Sir Mark Walport, Government Chief Scientific Adviser and Head of the Government Office for Science, UK

Moderator: **Dr Robin Niblett**, Director, Chatham House

Energy: what is the right energy mix for Europe?
1130–1300

Rainer Baake, State Secretary, Federal Ministry for Economic Affairs and Energy, Germany

Sir Philip Lowe, Director General for Energy, European Commission (2010–2014), and Director General for Competition, European Commission (2002–2010)

Moderator: **Paweł Świeboda**, President, demosEUROPA

1300–1430 Lunch

Break-out Session Three

Security: addressing transnational threats: how can Europe best balance liberty and security?
1430–1600

Dr Emily Haber, *State Secretary, Federal Ministry of the Interior, Germany*

Gerhard Schmid, *MEP (1979–2004) and Rapporteur, Echelon Committee, European Parliament (2000–01)*

Professor Shlomo Shpiro, *Director, Political Studies Department, and Senior Fellow, Begin-Sadat Center for Strategic Studies*

Moderator: **Professor Dr Joachim Krause**, *Director, Institute for Security Policy, University of Kiel*

Prosperity: is the European social model compatible with globalization?
1430–1600

George Alogoskoufis, *Professor of Economics, Athens University of Economics and Business*

Philip Stephens, *Associate Editor, Financial Times*

Moderator: **Dr Robin Niblett**, *Director, Chatham House*

Energy: can Europe have a unified energy policy?
1430–1600

Brendan Devlin, *Adviser, DG Energy, European Commission*

Tomas Käberger, *Professor of Industrial Energy Policy, Energy and Environment, Chalmers University of Technology, and Editor in Chief, Energy Science and Engineering*

Ingo Ramming, *Co-Head Commodity Solutions, Commerzbank AG*

Moderator: **Paweł Świeboda**, *President, demosEUROPA*

1600–1900 Bilateral meetings

Conference Gala Dinner and Keynote Speech

1900–2130

James Brokenshire MP, *Minister for Immigration and Security, UK*

Sunday 19 October

0900–0930 Refreshments

Plenary Session Three | Report Back from Break-Out Sessions

0930–1015

Professor Dr Joachim Krause, *Director, Institute for Security Policy, University of Kiel*

Dr Robin Niblett, *Director, Chatham House*

Paweł Świeboda, *President, demosEUROPA*

Moderated discussion: A Slide into Global Disorder? National and International Responses

1015–1115

James Brokenshire MP, *Minister for Immigration and Security, UK*

Dr Karen Donfried, *President, German Marshall Fund*

Jean-David Levitte, *Associate Professor, Sciences Po and Senior Diplomatic Advisor and Sherpa to President Sarkozy (2007–2012)*

Moderator: **Dr Robin Niblett**, *Director, Chatham House*

Final summary

1115–1120

Hans-Jürgen Beerfeltz, *Secretary General, Westerwelle Foundation, and State Secretary, Federal Ministry for Economic Cooperation and Development, Germany (2009 – 2013)*

1120 End of conference and refreshments

INTRODUCTION:

AN ESSAY ON THE BERLIN CONFERENCE ABOUT EUROPE'S STRATEGIC CHOICES

Quentin Peel, Mercator Senior Fellow, Chatham House

Berlin is a good place to debate Europe's strategic choices. In the German capital, no question of foreign or security policy can be seriously discussed without considering the European dimension.

If Chatham House were to host a similar event in London or Paris, it would probably focus far more on whether Europe was relevant at all to questions of strategic choice. Both Britain and France are going through periods of deep national introspection, with little inclination to appeal to Europe to solve their problems.

There are no such doubts in Germany. Whether the question is about relations with Russia after the crisis in Ukraine, or energy security and sustainability, or future economic growth and competitiveness, the centrality of policy-making via the European Union is paramount.

That is the core conclusion emerging from the foreign policy review being conducted in the German foreign office, and it is the guiding principle for the office of Angela Merkel, the German chancellor.

Yet, another big question inevitably arises from any discussion of the future of European policy, especially in Berlin: is Germany ready to assume more responsibility in foreign policy, as well as economic policy? With François Hollande and David Cameron disinclined to give any clear foreign policy lead, will Mrs Merkel step up and fill the gap?

The answer that came from this conference was ambiguous: 'yes' and 'no'. There is a realisation that Germany must do more, but there is also hesitancy about how to persuade German public opinion to engage and pay the price of global leadership – especially if it involves any hint of military engagement.

Europe's strategic choices are certainly not seen as easy in the German corridors of power. Peter Altmaier, the chief of staff in the chancellor's office, spelled out the two greatest challenges for the EU: the proliferation of foreign and security crises, from Ukraine to the Middle East and Africa; and reviving sustainable economic growth.

Beyond those, he sees the biggest underlying challenges for the continent as coping with climate change and mastering the digital revolution to maintain Europe's global competitiveness.

Yet in the face of manifold external troubles, from the outbreak of Ebola in West Africa to the spread of fundamentalist terrorism embraced by the ISIS movement in the Middle East, and pan-Slavic Russian nationalism inspiring separatist militants in Ukraine, Mr Altmaier remains stubbornly optimistic. He set the conference off with a keynote speech that amazed his audience with its upbeat message.

'The European Union is in better shape than it has been for the past 10 years,' he said, dismissing the doubters who see grounds for deep dismay in the economic stagnation in the eurozone and the Eurosceptic rebellion in the recent European elections.

His argument was that after proving largely irrelevant during the eurozone crisis, the European parliament had reasserted itself by dictating the choice of Jean-Claude Juncker as president of the European Commission. Mr Juncker in turn, as a hugely experienced former prime minister of Luxembourg, would head a powerful EU executive because he knew the inside story on the whole legislative process. The European Council would be chaired by Donald Tusk, the former Polish prime minister and a man with a global reputation.

On the other hand, Mr Altmaier admitted that Europe needed to move from merely containing crises to rebuilding stability, post-conflict. 'It is quite easy to remove a dictator,' he said. 'The question what to do next, how to restore order is in many cases unresolved.' The relevance of his comment to the situation in Libya was not lost on his audience.

'The same applies to Ukraine and Russia,' he added. 'We have avoided the worst, but we haven't yet found a formula to guarantee the future.'

The crisis in Ukraine, and the consequent deterioration in EU relations with Russia, was a recurring theme throughout the conference. In the break-out sessions on security, Russia was seen to pose a fundamental challenge to the rules-based approach of the EU.

'Russia violates all rules of political order agreed after 1989,' said Joachim Krause of the Kiel University Institute for Security Policy in his summing up. Moscow no longer recognized the invulnerability of borders, and had no respect for the sovereignty of its neighbours, let alone the non-use of force.

There was a clear divide in the public sessions on how far Europe should move to repair relations with Russia. Franco Frattini, the former Italian foreign minister, argued for swift action to end the confrontation and by implication suspend the EU sanctions regime. François Heisbourg, chairman of the International Institute for Strategic Studies, and Norbert Röttgen, chairman of the foreign affairs committee of the German Bundestag, insisted that there could be no 'business as usual' without legal agreement on the status of Crimea and Ukraine's wider borders.

But the underlying problem for the EU came out most clearly in the refreshingly revealing session with Markus Ederer, state secretary at the German foreign office. 'We have an accumulation of crises which I have not seen before,' he said. 'They are coming around faster, and they are less predictable. The Crimea was gone before we really understood the consequences.'

Alluding to both the confrontation with ISIS and the outbreak of Ebola in West Africa, he added: 'We have to constantly react to new challenges. My concern is that our toolbox is not fully replenished for this situation.'

The mood on the economic challenges facing Europe was sober, but not as gloomy as that during the sessions on security. On the subject of energy security, and the sustainability of switching to far greater reliance on renewables, it was surprisingly upbeat.

Yet there was a clear divide between German participants and those from France and southern Europe on the right way to stabilize the eurozone crisis and revive economic growth. French participants predictably favoured more spending to boost growth, especially by Germany. German participants were much more insistent that France must act first to reform its ailing economy.

Robin Niblett, the director of Chatham House, summed up the economic debate by underlining the need for a greater sense of urgency in Europe on overcoming regulatory fragmentation and promoting skills and innovation, and greater investment, especially in transport, digital connectivity and energy.

Yet there was general agreement that Europe should not abandon its social model in its pursuit of global competitiveness. That would undermine popular support for maintaining open European markets.

Europe needs reform and is capable of reform, Mr Niblett said. But there was a danger that it will not do so before the challenges have become much more painful than they are today.

In the end, a conference on Europe's strategic choices inevitably also focused on the challenges the continent faces. In a time of troubles, it is far easier to identify the problems than the solutions.

ENERGY BREAK-OUT SESSIONS

- a. *Rethinking EU leadership in fighting climate change*
- b. *What is the right energy mix for Europe?*
- c. *Can Europe have a unified energy policy?*

a. Rethinking EU leadership in fighting climate change

Current science of climate change

There is a good deal of certainty about the anthropogenic character of climate change, although more research is needed, especially into the consequences. The language of catastrophe has confused the debate, especially given that scientists are culturally disinclined to agree with each other.

Adaptation

Economies need to be more resilient to a rise of between 2C and 4C in temperature compared with pre-industrial levels, and it will be important to ensure the integration of comprehensive risk management. Importantly, while mitigation is a global phenomenon, adaptation is a local one.

EU leadership

The EU has provided leadership in fighting climate change, but it accounts for only 11 per cent of global emissions, which are forecast to fall towards 4 per cent. It will therefore be increasingly necessary to bring others players on board.

Technology

Given that power systems could be made carbon-free in 15 years, technology offers the best opportunity to address the problem. To achieve this would require hard targets and organizational stability, but it is feasible from the technical point of view. German households have borne the brunt of the enormous cost of investments in making solar energy affordable, but these efforts are gradually bearing fruit.

B. What is the right energy mix for Europe?

The decision on the energy mix rests with individual member states. However, there are two limitations on that freedom of choice: climate targets and the market. The market will punish those whose prices are too high.

Interconnection as a driver of change

Security and industrial policy were the initial drivers of decisions about energy mix. However, increasing interconnection is eroding the historical preoccupation with the national character of the energy mix. The EU single market in energy is functioning increasingly well and the level of interconnection is likely to go up from 10 to 15 per cent. This will naturally lead to regional markets. For example, when offshore tendering starts in 2017, Germany may launch a bid with Denmark and Sweden. Similarly, tendering for large-scale solar energy might be done together with France. This may be a model for other countries.

The choice of technology

The present situation continues to be shaped by decisions about the choice of technologies rather than by applying the market test. At the same time, there is also a growing list of technologies that are unacceptable. It is not clear whether market neutrality will be reached with respect to the choice of technology, but the choice will increasingly be which renewables to use, rather than whether to use them. Under some circumstances, renewables may also provide network stability.

Market functioning

Less distortive solutions are needed to direct the functioning of the market. Consumers and households should be at the centre of that system. There should be upstream support for technologies, not downstream support for production, which feed-in tariffs provide. It will also be important to change the way the market works, to create more certainty for producers and buyers.

More work is needed on how the energy system is run, with particular focus on its flexibility and adaptability. Some issues remain to be clarified, such as network codes and financial compensation for flow across borders. With the price of renewables falling, it will be important to focus less on targets and more on other market-regulating rules. At the same time, the EU should be careful not to over-regulate.

Consumption and energy efficiency

Most discussions in Europe's boardrooms have to do with the supply side of the equation. More attention needs to be devoted to how energy is used. Many firms in Germany have already switched to weekend production patterns to take advantage of lower energy prices.

More demand-response mechanisms are necessary. There is also need for a much more binding framework for improving energy efficiency, as well as greater incentives and regulation on using energy in transport, building and products.

Coal

One big challenge for Europe's energy and climate policy has to do with cheap coal, which has encouraged its use. Only a price of €45–€50 per tonne of coal would allow for the switch from coal to gas. In the meantime, gas consumption in Europe is falling and the only reason for investment in gas pipelines in Central Europe is to avoid excessive dependence on Russia.

US v Europe energy systems

Wholesale electricity prices in Europe are not far from those in the US, or at least not further apart than they used to be. The difference in retail price is made up by taxes and surcharges. However, the European electricity sector uses energy more efficiently than the US sector does. In Europe, the electricity system also has fewer interruptions on average than in the US, which puts an additional cost burden on US consumers.

Conclusion

Europe is not ready for a single solution, but national solutions are not the way forward either. Attention should be focused on the development of regional markets. For example, the European Commission is currently considering a proposal for North Sea regional market integration. To go beyond regional markets will require an agreement on common definitions and common forecasts at the EU level, followed by a common framework. In the area of energy security, different mechanisms are needed in different parts of Europe.

C. Can Europe have a unified energy policy?

Weaknesses of the current system

Energy union is a useful term, although there is no consensus over what it would mean in practice. The need for an energy union was made clear by the stress tests carried out in the European energy market. The situation has parallels with the one in the banking sector, where it took a crisis to make the risks apparent. The tests revealed that some member states had accumulated risks in terms of where they source their fuels. It also became clear that there is a misalignment of risk.

Benefits of an energy union

The tests also revealed the extent of free-riding by some member states, which poses a great threat to the security of supply. Altogether, huge benefits could be achieved by working together; some estimates suggest €50 billion annually could be saved, especially given that transmission costs amount only to 5-10 per cent of electricity generation, which would enable energy to be purchased where it is cheapest. However, there is no incentive for a single member state or company to move ahead.

Other advantages

Others believe energy union might be useful in ensuring better optimization of resources. It could be used to support communities in need, to create a research and development community, or to export European solutions to the outside world. Energy union could also be used to renew the market model for electricity generation and transmission. Finally, the energy

union brings with it the question of trust: if there is peak demand in France and Germany at the same time, it is not clear who should decide whose needs should be met first.

PROSPERTY BREAK-OUT SESSIONS

- a. *What are the risks and opportunities for European manufacturing?*
- b. *Technology and innovation: does Europe have a bright future?*
- c. *Is the European social model compatible with globalization?*

Overview

Europe faces many challenges as it strives to reignite growth in a sustainable manner. National governments need to undertake painful structural reforms in order for Europe to remain a prosperous region within an increasingly competitive global economy. Whether Europe succeeds rests squarely in its own hands.

There are many available opportunities to help the reform process and offset risks. They could reduce pressure on budgets, to help ensure that the social model remains affordable and allow the inevitable and necessary increase in immigration to be absorbed. However, policies designed to meet these challenges and exploit these opportunities must be implemented with a sense of urgency. The global economy is in a period of disruption, and Europe can no longer afford an incremental approach.

A. What are the risks and opportunities for European manufacturing?

Workforce and skills

The cost of labour in Europe is high compared with emerging markets such as China and developed markets such as the United States. Europe must compensate for this through increased productivity. Bottom-up approaches to raising productivity may be of particular use.

However, the labour cost differential that has priced many in Europe out of past jobs is eroding as labour costs rise in emerging economies. Demand for a better work-life balance and social welfare spending is increasing steadily in emerging markets too. This trend will help to reverse Angela Merkel's characterization of Europe as having 7 per cent of the world's population, 25 per cent of the world's GDP, and 50 per cent of the world's social spending.

There is also great variation in the level of skills and education across Europe. Unfilled positions in Germany, for example, reveal an uneven distribution of skilled labour. Production occurs where a critical mass of necessary skills, such as engineers, already exists – encouraging a concentration of skilled labour in small pockets. If such areas are not fostered within and across Europe, talented Europeans will continue to move away to find work rather than build up their local economies.

The European population is underemployed: young people and women are not sufficiently represented in the workforce in many EU countries. Europe needs a new and different approach to building skills. There should be a move away from the rigid university system towards one that develops people with hybrid skills, who can invent, operate and maintain systems. The ability of education systems to encourage lifetime learning could be enhanced by greater use of modular open online courses (MOOC).

Europe's population is ageing at such a pace that there will be labour shortages in many countries, regardless of reforms in innovation and education. Immigration will be essential to increasing Europe's skills base, and to sustaining social spending. Germany, for example, has been able to absorb a large number of immigrants in recent years thanks to its rate of economic growth. A pan-European policy approach led by the EU might help to calm national debates and contain the pace of migration out of the 'ring of fire' around Europe.

B. Technology and innovation: does Europe have a bright future?

Exploiting intellectual property and innovation

The best European ideas and innovations are not reaching the market. Theft of intellectual property, the vulnerability of highly networked economies, and the geo-economic approach taken by other governments are all contributing to the erosion of Europe's competitive edge. Specific policies already in place to encourage innovation – R&D tax credits, for example – are helpful, but they are often difficult for small and medium-sized enterprises (SMEs) to manage.

Nevertheless, there is a huge potential for innovation within Europe. As one participant noted, 35 per cent of world patents are held in Europe, compared with 24 per cent in the US.

There is also a growing demand for niche European brands producing high-end value-added products, particularly in emerging markets, with the growth of the global middle class creating new economies of scale. One participant noted that although manufacturing accounts for only 15 per cent of value-added production and employment in Europe, it accounts for 60 per cent of productivity growth in the EU, and 65 per cent of both R&D in the EU and exports from the EU.

Protecting European companies against the theft or illegal use of the fruits of their research is unlikely to work in all cases. Europe needs to ensure that it has the skills to sustain a pace of innovation that is faster than the rate at which outsiders can copy it.

Manufacturing and trade

The EU must not set unhelpful targets, such as its aim for industry to make up 20 per cent of Europe's GDP by 2020. It would be more constructive to measure the contribution of industry and manufacturing to overall growth.

There is scope to shift European manufacturing towards a more service-based model that boosts employment creation: 40 per cent of jobs in manufacturing are in 'pre-processes' such as design or 'post-processes' such as marketing. Moves towards digitalization, such as Germany's Industry 4.0, which aims to create an intelligent factory, offer great investment opportunities. Such shifts might help Europe better absorb high labour and energy costs, and would present big opportunities for SMEs.

There is also scope for building greater integrated value chains within the EU Single Market, much as German companies do with their industrial partners in Central and Eastern Europe. Initiatives to expand the Single Market could also bring economies of scale to new sectors, such as pan-European air traffic control via the Single European Sky initiative.

Europe should persuade the US to conclude negotiations on the Transatlantic Trade and Investment Partnership (TTIP). By removing remaining trade barriers and agreeing common or mutually recognized standards, TTIP will give European companies improved access to an expanded market of more than 800 million people.

Investment

European banks are hesitant to invest in riskier but potentially more profitable and innovative enterprises. They have historically preferred stable companies that provide guaranteed returns, and have not given riskier investments the time to create the scale necessary for success.

Likewise, venture capital in Europe has delivered lower returns than it has in the US. Factors may include risk aversion due to the high number of state-backed funds in European venture capital funds and bankruptcy laws that do not allow for failure.

The growth in government debt across Europe is also crowding out long-term investment, which is especially noticeable in major infrastructure projects. This shortfall is true of transport and digital connectivity, but is particularly pronounced in the energy sector.

Regulation

EU governments need to create a common regulatory space within which European companies can create their own large-scale home market. This will encourage companies to increase spending on R&D. Public procurement can play a greater role in helping to kick-start this process.

In spite of a drive towards harmonization, differences in regulation remain a problem across the EU, particularly for large cross-border procurements and in the services market. Europe must provide an enabling environment for investment and growth. This includes: simplifying certification for large-scale industrial procurements such as railways; opening the services market to support and encourage product-service systems (PSS) in manufacturing; continuing to set market standards for new technologies; creating bankruptcy laws that allow for failure and help overcome risk aversion; and encouraging labour market reform by offering schemes such as eurozone-wide unemployment funding.

Europe's approach to risk needs rethinking. Bureaucracies should not be incentivized say 'no' rather than 'yes'. Governments need to increase the level of scientific debate and engage in more consistent conversation with citizens on the difference between risk and hazard. Genetically modified organisms (GMOs), fracking and stem cell research offer good examples of how to manage risk by minimizing exposure to hazards.

The potential for digitization to contribute to growth must not be unnecessarily repressed. The creation of a single digital market will depend upon EU governments coming to agreement on how to address public concerns over privacy.

C. Is the European social model compatible with globalization?

Social models

European government budgets are already in difficulty as a result of the financial crisis. The ageing population will put them under even greater strain, due to increased spending on pensions and health care.

It should be noted, however, that EU countries with the highest levels of social spending are, in many cases, the most economically successful. If governments respond to pressure on their budgets by hollowing out their social models, the result will be an even sharper rise in support for parties that reject globalization, further disrupting European politics.

The European social model must be made more affordable. Spending should be shifted away from the healthy elderly to child care and quality education.

Tax policies should be put in place to encourage employment, and unemployment benefits should be linked to training.

Conclusion

As a group of nation states that have pooled aspects of their sovereignty in and through the EU, the question remains whether Europe is able collectively to use this unique arrangement to its full advantage, and whether there is a will to reform to do so.

In order to succeed in a more competitive international strategic context, Europeans need to think about values and prosperity without fearing that the latter is antithetical to the former.

It is clear that reforms must happen and are possible. But it is equally clear that reforms may not happen before the necessary choices become more painful.

SECURITY BREAK-OUT SESSIONS

- a. What are the external strategic challenges for Europe?*
- b. What is the right mix between soft and hard power in light of the security challenges?*
- c. How can Europe best balance liberty and security in light of transnational security challenges?*

A. External Strategic Challenges for Europe

The return to political and specifically geographical threats

The first session started with the differences between today and 2003, when the European Security Strategy (EU-SS) was written. It was recognized that the EU-SS was pointing to generic risks, such as proliferation of WMD, transnational terrorism, failing states, regional instability, and organized crime, but that today we are living in a period where most of the generic risks are becoming quite specific risks and threats, politically and geographically. Real geo-strategic challenges and threats are returning (Russia) and new geo-strategic challenges are emerging (ISIS, and China as a salient new regional and global actor) for which there are no historical precedents. Some of the ghosts of the past are also back again, such as territorial revisionism,

violent nationalism, and militarization. With the jihadist version of Salafism, an ideology has been created that serves as a pretext for mass murder, incredible brutality, slavery and ethnic and religious cleansing unparalleled since Hitler and Stalin.

Russia

Most observers agreed that Russia's policy vis-à-vis Ukraine is merely of regional concern, but should be understood as a game-changer in its relationship with the West. Russia is posing a fundamental political challenge to the cooperative and rules-based approach of the EU, as it violates all rules of political order agreed after 1989. Among these rules are: (1) the invulnerability of borders; (2) the non-use of force; (3) the respect for territorial sovereignty; and (4) the renunciation of invasion capabilities. Current developments also show that efforts to bind Russia into a peaceful international order through economic interdependencies and repeated offers of political partnership have failed. Russia is, instead, leading an economic war by exploiting gas dependencies. It is conducting a hybrid war against Ukraine with the clear intention of annexing territory. Russia is also undertaking an unparalleled war of propaganda against the West and military activities that give reason for concern about the future. Russia may spark a 'ring of fire' for the EU by instigating unrest in Ukraine, Transnistria and the Baltic States (or intervening there), and by trying to break Hungary, Bulgaria and Serbia away from EU.

The Middle East

The Middle East is another region of serious concern, posing both traditional and new risks and threats. The failure of the Arab Spring has given rise to various forms of sectarian extremism, violence and state failure. Salafist extremism now has two competing factions: Al-Qaeda (AQ) and Islamic State (ISIS). ISIS is more powerful and more versatile than AQ and is posing a new kind of threat after taking over a territory the size of England. Of particular concern is the great attraction that ISIS and its cruel and brutal approach has for young Muslims around the world. The competition between AQ and ISIS may spell renewed terrorism threats to Europe. However, the Salafist jihadist threat has become more variegated, it is no longer just a terrorist threat.

Syria has fallen apart into different fiefdoms and become subject to extreme state and sectarian violence during the past three years, and Iraq has split into three parts with an equally extreme level of sectarian violence. ISIS is not only controlling a sizeable territory, it has up to 50,000 fighters, among them 15,000 foreigners. ISIS will most likely continue to exist unless there is a sizeable international intervention to destroy it, which seems unlikely for the time being. The ISIS-held territory will probably become the main starting point for further jihadist and terrorist activities in the region and beyond. Extreme violence by the state of Syria, ISIS and other Salafist Sunni and Shia militias in the region has forced millions of people to flee to other Arab countries, to Turkey and to Europe.

Besides the grim outlook for Syria and Iraq, there are other concerns more or less related to the above-mentioned problems: Iran's nuclear programme; the disintegration of Libya and rise of violent Salafists; the unstable situation in Gaza; the civil war in Yemen (which has also become a sectarian war between Sunni and Shia); tensions in Lebanon and Jordan; and the lawlessness on the Sinai peninsula. Afghanistan, too, is still an unfinished business and only the withdrawal of the International Security Assistance Force (ISAF) will show whether the newly elected government will hold.

East Asia

East Asia is another area where conflicts may arise that could affect Europe. China is clearly pursuing a revisionist foreign policy increasingly reliant on military forces. Although this leads other states in the region to raise military spending and seek closer military ties with the US, China is trying to force US military presence out of East Asia and signalling that it views any alliance building in the region as an attack on China's security interests. This forebodes a no-win-situation and rising conflicts in the region.

Conclusion

There are some issues common to the three regions mentioned above: (1) geopolitics is back again; (2) border revisionism is being exercised; and (3) the prospect of widespread and indiscriminate violence has become a reality. There is also a new historical 'Holy Alliance' between Russia, Middle Eastern dictatorships such as Iran and Syria, and China as regards 'colour revolutions', which are deemed to be instigated by Western secret services and need to be oppressed. There is also a tacit alliance between Moscow, Beijing and Tehran in pushing back Western influence.

These developments all imply a relative loss of power for the West and a deterioration in the international order, which has in essence been Western order. This is a strategically new situation for the West, which is aggravated by the fact that not much leadership can currently be expected from the US and Europe is in one of its biggest internal crises. France and Britain face serious economic problems that affect their ability to lead Europe. Germany has become the leading power by default, but the German leadership has no strategic concept (except being cautious and trying to keep the EU and NATO together) and seems reluctant to take up more responsibility, particularly if this might involve the use of armed forces.

B. What is the right mix between soft and hard power?

The second session addressed the balance between hard and soft power instruments. It was agreed that hard power was defined as the ability to impose one's will on others (through military means, economic sanctions, diplomatic pressure), while soft power was the ability to influence structures, belief systems and norms. The term smart power was also raised, meaning the ability to combine soft and hard power intelligently in foreign policy.

There was broad consensus that the current international situation has led to a crisis in the 'soft power' approach that has become the hallmark of the common European foreign and security policy and that of many individual states, in particular Germany. The issue was: how fundamental is this crisis? And how to adapt European policy to the new circumstances?

During the debate at least two different positions emerged: one line of argument is that the current change is fundamental. Europeans have to understand that they are in a serious and dangerous geopolitical competition, and must go back to basics. They must invest more in military capability and redress the imbalance between welfare and defence. The other position holds that the change is not fundamental; soft power is still Europe's strength, but Europeans need to invest more in hard power and must apply it in a smart way. The important thing is that Europeans keep a fine-tuned balance between hard and soft power.

Despite these differences, there are many areas of agreement for further work:

- (1) Europeans need to find a new concept of deterrence that is not characterized by the notion of existential nuclear deterrence but by the intent to deter actors from violating the ban on the use of violence in international relations;
- (2) 'Escalation dominance' is a necessary precondition for dealing successfully with states that break international law by using military force in an unprovoked fashion; and
- (3) We need to draw conclusions from the experience in Afghanistan and elsewhere in combining civilian and military efforts in nation building.

C. How can Europe best balance liberty and security in the light of transnational security challenges?

The third session dealt with the balance between security and liberty in addressing transnational security threats, such as terrorism and organized crime. The panellists agreed that after the [Edward] Snowden disclosures it was very difficult to find common political ground to discuss the subject. In Germany, for instance, privacy is such that it is almost impossible to frame legislation that would allow the retention of meta-data, even to a limited degree. In contrast with the public image of all-powerful intelligence services having 'total control', these services are struggling to overcome new encryption techniques increasingly used by terrorists and organized crime. Some already speak of 'intelligence blindness'.

There was agreement that a broader picture is needed. We have to accept that the digital world is full of opportunities to gather information, both for private and state services. Intelligence services need to have access to the digital world, to provide strategic intelligence effectively. The big challenge is how to provide access to information relevant for strategic intelligence (including the possibility to search through huge amounts of data) without impinging on the rights of bona fide individuals to privacy.

Within the US, where intelligence capabilities are well developed and where privacy is being protected in many ways, it hasn't been possible to find a right balance. In Europe things are even more complicated, because there are so many national intelligence services (of different sizes) and so many different legal provisions to protect privacy.

One of the panellists proposed an international agreement within the framework of the Council of Europe, to establish a procedure that might help to protect the privacy rights of individuals against intelligence services.

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