

EUROPE IN 2005: A DISTRACTED PARTNER

Robin Niblett and Derek Mix

- There are positive indications of a willingness to work for transatlantic reconciliation at the start of the second Bush administration. A growing list of issues, some with a relatively high degree of urgency, demand the concerted attention of the United States and its European allies.
- The European Union will remain greatly preoccupied with its ambitious and daunting agenda of internal integration in 2005. Securing an unbroken record of national ratifications of the constitutional treaty is of prime importance. The EU will also have to focus on managing the aftereffects of the 2004 enlargement, strengthening domestic security, and the pressing need to stimulate economic growth and create jobs.
- Major European leaders face complex domestic political situations that impinge on their maneuverability and create challenges to their respective political legacies.

Now that the confetti and garlands from the inauguration balls in Washington have been swept away and political appointees and officials fix their sights on the pressing demands and ambitions of the second Bush administration, policymakers in Europe's capitals are holding their breath. What to make of the new U.S. administration? Wary and scarred after the transatlantic conflicts that were the public hallmarks of the U.S.-European relationship during the first Bush administration, Europeans are waiting anxiously to see how the machinery of the transatlantic relationship works over the coming year. Reading the tea-leaves of possible new appointments to key deputy, assistant, and under secretary positions in U.S. government departments has become the new obsession of Europe's chattering classes — an inverted version of the Cold War's "kremlinology." Although some important appointments are still to be announced, the overt efforts by the President, Condoleezza Rice, and officials in the National Security Council to reach out to their European counterparts during the past couple of months and signal their desire for a strong transatlantic partnership offer a promising start to transatlantic relations in 2005.

But this is just one side of the picture. What should Washington make of Europe at the start of 2005? That this question is more rarely asked is an indicator of the imbalance in the transatlantic relationship. Seen from both sides of the Atlantic, the United States is the

independent variable, and Europe its dependent cousin. And yet the governments and peoples of Europe continue to work independently through their remarkable agenda of transformation, an agenda whose roots penetrate over fifty years into the past, and whose reach continues to stretch out into the unknown; an agenda that remains one of the most innovative experiments in political organization in history and that is extending the geographic reach of that experiment to the east even as it deepens its effects across the countries of Europe.

The enormity of the post-1945 European experiment is hard to perceive month by month, or even year by year, but its effects are no less dramatic, including monetary union in 1999 and enlargement of the Union from fifteen to twenty-five member states in 2004, to name but two recent milestones. And as Europe evolves, it evolves as a partner to the United States. While Europeans look to the United States every four years to test how a new administration might affect established patterns of transatlantic partnership, the United States faces the tougher task of trying to understand the incremental, evolutionary, but no less profound changes in its European partner. How has Europe changed in 2004, what are its prospects for 2005, and what might this mean for Americans interested in strengthening the transatlantic relationship over the coming year?

Drivers of the Integration Agenda

Europe's process of integration has always been driven by a combination of external and internal pressures. During the Cold War, fear of the Soviet Union, U.S. encouragement, and the need to find a peaceful Franco-German *modus vivendi* provided an important impetus to the process of European unification. The record in 2004 and the prospects for 2005 reveal a similar combination of internal and external forces at work on the integration agenda of the European Union. Some fifteen years after the collapse of the Warsaw Pact, 2004 witnessed the EU's formal expansion into central and eastern Europe, living up to the commitment made at the Copenhagen European Council in 1993 to include all European countries that met the criteria of market economics and democratic government. 2004 also witnessed agreement among EU governments and the signing on October 29 of the constitutional treaty that will, among other effects, provide a new decision-making and leadership structure for the European Union capable, it is hoped, of managing an EU of twenty-five member states.

These achievements are profound milestones in the course of European integration, of serious historical and symbolic significance, yet neither represents any kind of an endpoint. Rather, Europe has overcome the hurdles of last year only to face an equally challenging course of internal and external pressures ahead.

After-Shocks of the 2004 EU Enlargement

With the May 2004 enlargement, the EU added more countries (ten) than it had done in the sum of its last enlargements over the previous thirty years (1973, 1981, 1986, 1995). The EU has grown in population from around 370 million to over 450 million. And yet, this is just the first phase of a profound transformation in the geographic reach and political and cultural character of the Union. In 2005, membership negotiations will continue with Bulgaria and Romania — possibly to conclusion in April, thus keeping them on track for full membership at the beginning of 2007 — and accession talks with Croatia are scheduled to start in March. The other states of the Western Balkans

(Macedonia, Serbia-Montenegro, Bosnia-Herzegovina, and Albania) were officially confirmed as potential candidates at the Thessaloniki European Council in June 2003, and it is assumed they will come in line for EU membership by 2015 at the latest, provided they continue to make progress on fulfilling membership criteria.

In the meantime, the newly-enlarged EU Council of Ministers of 25 will inevitably challenge established bargains and patterns of decision-making within the EU. The fact that, on balance, the new member states are net recipients when it comes to the EU budget complicates an already problematic situation in negotiating the next financial perspective for 2007-2013. In addition, many of the new states are, in relative terms, substantially rural, impacting the perpetually contentious Common Agricultural Policy (CAP), the largest single component of the EU budget. Enlargement means that, for unanimous adoption of the

...the first phase of a profound transformation in the geographic reach and political and cultural character of the Union.

constitutional treaty, ratification is required in ten more states. While most of the new members appear to be the least of the EU's worries in this regard — Hungary and Lithuania have already ratified — a Polish referendum in late 2005 and a

Czech referendum in 2006 may present significant challenges. Moreover, a Union of 25 makes it that much more difficult to achieve consensus in Common Foreign and Security Policy as, among many other factors, the new members from central and eastern Europe tend, on the whole, to be more pro-American than many of their western neighbors, while also being focused almost exclusively on Europe's "eastern" agenda.

The one enlargement controversy of 2004 was over the EU's decision at the European Summit on December 17 to open membership negotiations with Turkey in late 2005. The reasons for the heated internal debate are clear: Turkey's population — 70 million today; a projected 82 million in 2015 — would make it the largest country in the EU by the time it completed its negotiations. Its accession would change the balance of power among the EU's largest member states, and make Turkish legislators the largest national group in the European Parliament (EP). Turkish average per capita income is one quarter of the EU average and half that of the central and eastern European members. The

implications of this imbalance are hard to predict for EU budgets, financial support policies, and its commitment to allow free movement of people within the EU. Then there is the Islamic dimension. Turkey's accession would increase the percentage of Muslims in the EU population from almost 4 percent to roughly 20 percent, although this increase, like many of the scare stories about Turkish accession, is misleading since the bulk would remain within one country — Turkey.

The deep concerns about Turkey's possible accession led to the insertion of a number of provisos beyond the standard Copenhagen criteria (including recognition of the Greek Cypriot government and 'safeguards' restricting the free movement of Turks within the EU). But the negotiations will start in October 2005, unless the Turkish government were unexpectedly to reverse its process of political reform and new guarantees of human rights. The EU's decision to open negotiations with Turkey will have no effect on the EU economically in 2005 nor through the course of the negotiations, which should last at least ten years. Its effects are more likely to be felt within Turkey, as pressure for real economic reform builds and foreign investors re-examine its value as a location for research, production, and service delivery. The greatest possible effect of the EU's decision to open up to Turkey is likely to be on the EU's main institutional priority for 2005: achieving a strong record of national ratifications of the new constitutional treaty.

Road to Ratifying the Constitutional Treaty

The constitutional treaty that was signed last October is designed primarily to reform EU decision-making for a Union of twenty-five member states. Its principal reforms are: the assertion of qualified majority voting (QMV) as the general rule for Council of Ministers decision-making (excepting taxation as well as aspects of social policy and foreign and security policy, where unanimity will still be required), and the implementation as of November 2009 of a double majority system in QMV, wherein 55 percent of the member states carrying 65 percent of the population are

needed to approve a measure; discarding the 'pillar' approach to give the EU a single legal personality; replacing the six-month revolving presidency of the European Council with a permanent president, elected by QMV to a renewable term of two and a half years; and the appointment by QMV of a European Minister for Foreign Affairs to conduct the Common Foreign and Security Policy. Legally, the treaty can enter into force on November 1, 2006

— but only if it has by then been ratified by all EU member states. With at least ten national referendums on ratification scheduled over the next two years, the EU is entering a truly challenging phase in its evolution.

The most difficult vote will be in the UK — likely in May or June 2006 — whose population remains deeply euroskeptic and where anti-European parties performed

CONSTITUTIONAL TREATY RATIFICATION PROCEDURES

<u>Country</u>	<u>Method</u>	<u>Date</u>
BELGIUM	Parliamentary Vote	Possibly May 2005
CYPRUS	Parliamentary Vote	Possibly March 2005
CZECH REPUBLIC	Referendum	June 2006
DENMARK	Referendum (<i>Binding</i>)	Undetermined
FRANCE	Referendum	Possibly May 2005
GERMANY	Parliamentary Vote	Spring 2005
HUNGARY	Parliamentary Vote	Approved Dec. 20, 2004
IRELAND	Parliamentary Vote and Referendum (<i>Binding</i>)	Undetermined
LATVIA	Parliamentary Vote	Possibly early 2005
LITHUANIA	Parliamentary Vote	Approved Nov. 11, 2004
LUXEMBOURG	Parliamentary Vote and Referendum (<i>Consultative</i>)	July 10, 2005
NETHERLANDS	Parliamentary Vote and Referendum (<i>Consultative</i>)	First Half of 2005
POLAND	Undetermined: Likely to Be Referendum (<i>Binding</i>)	Possibly Autumn 2005
PORTUGAL	Referendum	Possibly April 2005
SLOVENIA	Parliamentary Vote	February 1, 2005
SPAIN	Parliamentary Vote and Referendum (<i>Consultative</i>)	Planned for Feb. 20, 2005
SWEDEN	Parliamentary Vote	Possibly December 2005
UNITED KINGDOM	Parliamentary Vote and Referendum (<i>Consultative</i>)	Possibly May or June 2006
AUSTRIA, ESTONIA, FINLAND, GREECE, ITALY, MALTA, AND SLOVAKIA: PARLIAMENTARY VOTE, DATE UNDETERMINED		

Source: European Union official website, www.europa.eu.int

strikingly well in the June 2004 elections to the European Parliament. The prospects of returning a ‘yes’ in the French referendum however, which could be held in May or June, look promising following the decision of the Socialist Party in December to endorse the treaty and its endorsement also by the ruling Union pour un Mouvement Populaire’s (UMP) charismatic new leader, Nicholas Sarkozy. Two additional referendums set for late 2005 are also of interest: in Ireland (which initially rejected the Nice Treaty in 2001) and in Denmark (which initially rejected the Maastricht Treaty in 1992).

Rejection by any member — but especially by one of the large states such as the United Kingdom — would be catastrophic for the overall adoption of the treaty. The operative question, however, is how damaging

to deepen their integration, in parallel and intertwined with whatever decision-making structure is available.

Looking for Economic Growth

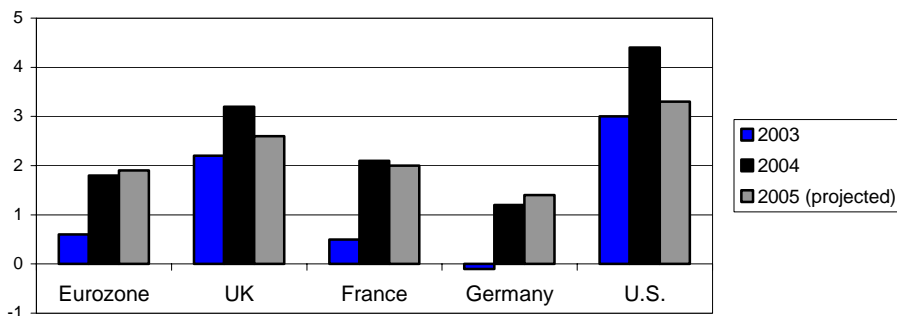
A third key internal priority for the EU and its member states during 2005 will be to put its collective economy on track for stronger growth and job creation. Both the Irish and Dutch EU presidencies in 2004 placed a central focus on jump-starting progress on the so-called Lisbon Agenda — the self-imposed goal for the EU to be the world’s most competitive knowledge-based economy by 2010. By the end of 2004, the picture that had emerged was a bleak one. With Eurozone growth at 1.8 percent for the year, a report led by former Dutch Prime Minister Wim Kok concluded that the EU would “seriously miss” the target of the Lisbon strategy.

Two important economic variables for the EU in 2005 will be the level of oil prices and the persistence in the strength of the euro, both of which stunted EU growth prospects in 2004. The strength of the euro is especially worrying for EU governments. While the strong currency helps to hold down inflation and interest rates, it hurts EU exports, which have been the cornerstone of Europe’s recent modest growth (especially in Germany). Europe has borne the brunt of the recent weakening of the dollar in

international markets because many Asian currencies are pegged to the dollar. The possibility that the euro could rise to \$1.40 or even \$1.50 in 2005 if the U.S. government is unable to bring its twin deficits under control prompted European Central Bank President Jean-Claude Trichet to label the euro’s rise “brutal and unwelcome” in December.

Given these factors, Eurozone growth is projected by the OECD to remain a sluggish 1.9 percent in 2005. Beating this target will depend largely on an upswing in the economic performance of the Eurozone’s largest national economy, Germany. With positive signs of growth emerging in France in the latter half of 2004 and the continued solidity of the British economy, the formal addition of the new EU member states of central and eastern Europe, many of which boast growth rates in the 6 to 7.5 percent range, could play a modest role in injecting some economic dynamism into the Union.

GDP Growth
(% compared to previous year)
source: OECD



would a failure to ratify the constitution be for the European Union as a whole? The EU would not automatically break up — it would continue to function legally, as it does today, under the terms of the Treaty of Nice. It is widely recognized, however, that the Nice Treaty mechanisms do not contain the necessary streamlining of decision-making procedures for an EU of twenty-five members. Rather, it entails a temporary extension of the procedures that were used for the EU of fifteen.

Given the potential expansion of the European Union’s integration agenda over the coming years — from harmonizing immigration policy, to instituting new procedures for domestic security, seeking more harmonized corporate tax rates, and building the more coherent voice and capability in foreign and security policy that its new size and its new European Security Strategy demands — it is more likely that those EU members that are willing and able will find *ad hoc* ways

To achieve more than marginal improvements, however, EU governments are aware that they need to tackle the structural obstacles to growth in Europe. In 2004, there were signs — the Hartz reforms in Germany, pension reforms in France, as well as instances of workforce concessions regarding pay cuts and longer hours in order to keep jobs in companies such as Volkswagen — that the political establishments and electorates had started to grasp the importance of such steps. Some ten years after a first effort at instituting structural reforms, EU governments now appear to possess the determination to move this agenda gradually forward.

A growing consensus on the need for domestic economic reform has not transferred itself, however, to the institutional level. In 2005, for the fourth consecutive year, both France and Germany look set to break the ceiling of 3 percent of Gross Domestic Product for annual government deficits imposed by the Eurozone's Stability and Growth Pact. Chancellor Schröder is spearheading a drive to reform the Pact to allow countries greater leeway to run deficits in times of recession or in the context of government spending on long-term national investment.

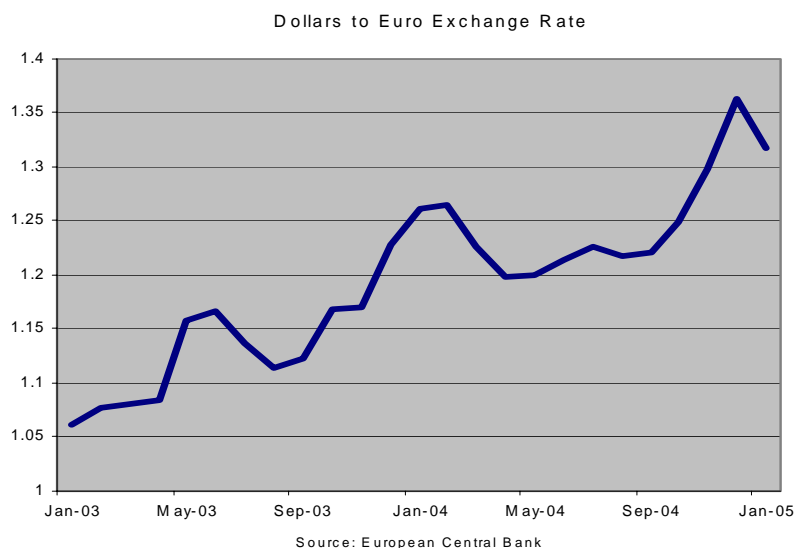
While he has some support from both the United Kingdom (still outside the euro, but keenly interested in its legal framework) and French governments, this idea has generated spirited resistance from smaller member states, particularly the Netherlands and Austria, toward whom the Pact had originally been targeted. Proponents of maintaining the Stability and Growth Pact *status quo* have found a leader in the person of Luxembourg Prime Minister (and Finance Minister) Jean-Claude Juncker, who has just begun a two-year term as head of the group of Eurozone finance ministers.

A final important economic distraction for European Union member states lies in the need to start preparing agreement this year on an EU budget for 2007-2013. The six net contributor states to the European Union budget (which, at 2004 prices, totals over €12 billion for 2005), Germany, the United Kingdom, France, the Netherlands, Austria, and Sweden, are demanding to make reduced contributions, at a time when the Commission is calling for a modest overall increase to

help fund EU support programs for a dramatically enlarged Union.

Continuing Slow Steps on Defense And Domestic Security

The security agenda has been one of the most active areas for European integration over recent years. Steps to create a European Security and Defense Identity (ESDI) have been spurred by continuing instability around Europe's periphery, from the Balkans to Central Africa, and by a concern that U.S. security priorities lie elsewhere. Steps to create a capacity to confront the many dimensions of terrorism within Europe's borders have been spurred by the realization that popular opposition and, in some cases, government opposition to U.S. intervention in Iraq, has not prevented radical Islamic terrorists from perceiving European countries as



legitimate targets, whether because of their support for the war against Al Qaeda and the Taliban in Afghanistan, or because of the perceived mistreatment of Muslim populations. Europe has also been shocked to discover the extent to which small parts of its Muslim population have chosen to reject totally their countries of residence and become sleeper cells capable of committing blatant murder, as in Holland, or a major terrorist attack, as in Madrid on March 11, 2004.

During 2005, EU governments will place increasing attention on their plans to improve intelligence and law enforcement cooperation and to vigorously combat terrorist financing. Focus is also being directed toward strengthening border security, protecting critical

infrastructure (transport, communications, and energy), and improving capabilities to respond to a terrorist attack. With European publics now ranking terrorism as by far the greatest threat to their security, European governments need to be seen to be responding aggressively, while also developing a longer-term strategy for dealing with radicalization and terrorist recruitment within their territory.

On the defense front, EU governments will move forward in 2005 to make operational “battle groups” designed specifically to respond to the crises of a changed strategic environment. The units envisioned will consist of around 1,500 multinational troops capable of rapid deployment — within two weeks of the order — to a crisis area as far as 5,000km away. The European Defense Agency (EDA), created in November 2003, swings into operation in earnest this year with the task of harmonizing and coordinating national military capabilities, procurement strategies, and research and technology efforts. There is a general recognition that high levels of redundancy and inefficiency continue to hamper Europe’s ability to generate military power and harm the competitiveness of the European defense industry. EDA is intended to streamline and rationalize Europe’s defense plans, acting as the key impetus for European defense integration and, it is hoped by its proponents, evolving into the primary institutional instrument of European Security and Defense Policy, operating in complement to — rather than competition with — NATO.

European Leaders Building Legacies

While European leaders appeared to let their relations with the United States slip into suspended animation in the months leading up to the U.S. presidential election, President Bush’s victory was quickly followed by a flurry of diplomatic activity that removed some outstanding elements of transatlantic tension — in particular, Germany’s decision to find a compromise on the forgiveness of much of Iraq’s external debt and France’s removal of obstacles to the approval of establishing a NATO training mission in Iraq. At the start of 2005, however, it is already

apparent that a busy European integration agenda and the continuing search for ways to bring about robust economic growth will be central preoccupations for the time and attention of European leaders this coming year. Furthermore, European leaders face complex domestic political challenges that may influence their ability to open or close possibilities for transatlantic partnership on the large list of challenges that the United States and Europe now face in common.

On the one hand, whatever the strategic logic of mending fences with the Bush administration, public opinion across Europe has remained solidly opposed to the administration’s policies long after the conclusion of the formal hostilities in Iraq, thus constraining European political leaders’ room for maneuver. The German Marshall Fund’s Transatlantic Trends 2004 poll, for example, found that 76 percent of Europeans disapprove of the way President Bush is handling international policies, 80 percent do not believe the war in Iraq was worth the loss of life and other costs, and 73 percent believe the war in Iraq increased the threat of terrorism around the world.

In addition, a quick look at the domestic political situation facing three of Europe’s top leaders reveals that circumstances in 2005 are likely to pose serious tests to their political authority. Tony Blair, Gerhard Schröder, and Jacques Chirac, leaders who have already been in power for lengthy terms, now find their legacy at stake.

TONY BLAIR

There is little doubt Prime Minister Blair, President Bush’s principal European ally, will win a third term in the general election that will take place sometime between early May and mid-June this year. However, Labour’s victory will come with a substantially reduced majority — polls indicate that his policy on Iraq could cost Blair 3 million lost votes compared to his second landslide victory in 2001. Iraq remains the prime minister’s greatest political liability and the course of events there after the January elections will play a primary role in determining the extent of public discontent toward Downing Street.

Popular opposition and, in some cases, government opposition to U.S. intervention in Iraq, has not prevented radical Islamic terrorists from perceiving European countries as legitimate targets.

The domestic unpopularity of his handling of Iraq and his relationship with President Bush aside, Blair can rightly point to the economic and fiscal successes achieved under his leadership, successes for which Chancellor Gordon Brown deserves a fair amount of credit, but which are now being muddied by the very public spat between them over when or whether Blair will turn the reins of the party over to Brown before the end of his expected third term.

The UK will take on not just one, but two additional leadership responsibilities in 2005. Great Britain assumed the year-long presidency of the G8 on January 1, and will hold the six-month EU presidency in the second half of the year. Prime Minister Blair has announced that the UK will use its G8 presidency to focus attention on alleviating poverty and combating AIDS in Africa, as well as addressing the issue of climate change.

The fate of Blair's third term will be greatly affected by the referendum in France on the EU's constitutional treaty. A 'no' vote in France gets Blair off the hook of a perilous situation he created by doing a "U-turn" and pledging the UK to hold a similar referendum on a future date to be determined. A "yes" in France, as well as all of the other member states that hold a referendum prior to the UK, will put great pressure for Blair to secure a "yes" in the UK. Not only would the UK's failure to ratify the constitutional treaty trigger a major political crisis for the European Union, it would also push the decision over whether to hold a second referendum during his next term on the UK joining the euro from very difficult to impossible.

GERHARD SCHRÖDER

For Chancellor Gerhard Schröder, who does not face his next election until 2006, 2005 is the year in which he has to make a success of the Agenda 2010 reform program that his government passed last year. With the "Hartz IV" changes to the unemployment benefit system also taking effect January 1, Chancellor Schröder has succeeded in enacting serious reforms to pensions, the health care system, and the labor market. However, rolling back the well-entrenched social welfare system has cost Schröder a great deal of public

support. As large street protests took place throughout the summer of 2004, support for the chancellor and his Social Democratic Party (SPD) party dipped to record lows of around 25 percent.

As he approaches the general election in 2006, the chancellor will be judged by perceptions of the effect his reforms have on improving the domestic economic picture. Europe's largest economy is expected to grow by 1.5 to 1.9 percent in 2005 — the lowest rate of any member state. Nevertheless, these numbers represent a modest recovery, achieved largely on the back of strong export growth, begun in 2004 after a dismal three-year period of stagnation. Unemployment numbers are a more important and sensitive issue domestically than growth, and it would be especially beneficial for Schröder's political future if companies would resume

hiring, and decrease the unemployment figures to less than 10 percent in 2005. The omens are not good, as unemployment hit a new historical high of nearly 4.5 million jobseekers in December (10.8 percent), raising speculation that this year could see the number hit the 5 million mark.

Nevertheless, the earlier dip in support for Schröder in the polls did not bring an equivalent boost for the opposition Christian Democratic Union/Christian Social Union (CDU-CSU). After resigning as party leader in the autumn in order to focus on his reform agenda, Chancellor Schröder appears to be regaining support, with recent polls showing a rise to 33 percent in his favor.

Even as the chancellor and his popular foreign minister, Joschka Fischer, seek to mend fences with Washington early this year, a central preoccupation for the government is to gain (in conjunction with India, Japan, and Brazil) a permanent seat on an expanded United Nations Security Council, a campaign begun last autumn. While the logic for the chancellor of steering a course closer to the United States is undeniable, the reefs and shoals that the government faces domestically in this important political year may further limit its ability to steer back from the popular anti-American stance that his government took at the last election.

European leaders face complex domestic political challenges that may influence their ability to open or close possibilities for transatlantic partnership.

JACQUES CHIRAC

President Chirac's priority for the first half of this year is securing a positive vote for the referendum on the EU constitutional treaty. The latest projections are that the referendum will take place either in May or June and, as discussed above, approval is looking likely. In a worrisome trend, however, polls in December show support for the treaty in France at 57 percent, down from 64 percent in September.

This dip will force Chirac to remember President Mitterrand's razor-thin majority for the Maastricht Treaty in 1992, after earlier polls had indicated a majority of 65 percent. He does not want to take any chances this year with issues that could undermine his popularity and find the voters' anger targeted at the referendum as a vote on his stewardship of the country. Despite his long-time support of Turkish entry to the EU, President Chirac has already offered to hold a referendum on the issue when, in some ten years or more, Turkey's entry into the Union becomes a real possibility. With 67 percent of French against admitting Turkey to the EU, he has also suggested that Turkey could end up with a partnership that falls somewhere short of full membership.

The question of Turkey has intensified because of the open political rivalry between Chirac and Nicholas Sarkozy, the former finance minister, who resigned from the cabinet to assume the chairmanship of Chirac's UMP as a prelude to a presidential campaign in 2007 and who has made public his opposition to Turkish entry into the EU. Inevitably, Chirac will find himself embroiled this year with the palace intrigue of promoting the political prospects of a protégé of his own choosing, likely current Interior Minister Dominique de Villepin.

Moreover, having installed Hervé Gaymard as France's third finance minister in a nine-month period, Chirac will need to make sure personally that his government's decision last fall to take on entrenched labor interests and reform France's notoriously generous, but increasingly unaffordable healthcare system will not make 2005 a repeat of 1995 when precisely such an effort to tackle entrenched French

social interests led to the defeat of his rightwing government and a difficult period of "co-habitation" with a socialist government.

Conclusion

European leaders do not want to miss the opportunity to set off on a more constructive agenda with the second Bush administration. They are well aware that, the fate of Iraq aside, other dangerous reefs lie ahead for the transatlantic relationship — most especially over the EU's efforts to convince the Iranian leadership to abandon its domestic nuclear enrichment program and the EU's own upcoming decision, most probably in the spring, to lift the 1989 EU arms embargo on China. They do not want to miss the opportunities to put the shadow of Iraq behind them and to work, most importantly, with the United States on a positive agenda to bring peace to the Arab-Israeli conflict, and to secure Viktor Yushenko's historic victory in Ukraine.

On balance, however, this is going to be a difficult and distracting year for Europe, one in which it needs to adjust to the reality of having twenty-five countries around the decision-making table, both on domestic and foreign policy; in which popular reaction to the EU's ground-breaking constitutional treaty cannot be taken for granted; and one in which public frustration with lack-luster economic growth and the continuing scourge of unemployment mixes with fear of the alternative. The United States will have to work hard to engage constructively with Europe during 2005. The risk is that each side will sit back and not make the effort to reach out, to explain its perspectives and preferences and that, while not reaching the levels of transatlantic crisis of 2003, each side will miss the opportunity to advance policy priorities that can only be achieved in cooperation and not in competition.

ROBIN NIBLETT IS THE EXECUTIVE VICE PRESIDENT OF CSIS AND DIRECTOR OF THE CSIS EUROPE PROGRAM. DEREK MIX IS A RESEARCH ASSISTANT IN THE CSIS EUROPE PROGRAM.