

EDITORIAL

Towards the European Constitution

Now that the Convention on the Future of Europe has successfully concluded its work, for the first time in the history of European integration, a draft Constitution is on hand that has every prospect of soon becoming reality in the life of the European Union. ZEI has intensively accompanied the constitution-forming process and has submitted the first systematic commentary on the structural decisions contained in the draft Constitution (ZEI Discussion Paper C 124/2003). We hope that this will simultaneously enrich the discussion, which is going to reach beyond the formal process of creating a constitution.

Europe's identity is growing slowly and pursuing complicated paths. Interpreting the Constitution is nevertheless going to contribute to developing the way that Europe sees itself. This is also the basis of the historic value as well as the extended mission resulting from the creation of a constitution in the EU. The interpretation of the text and life as it thrives as supported by the Constitution in the EU are going to add up to a further important element of the European unification process.

Five decades after the Treaties of Rome, the European Constitution is a stage in developments – not more and not less. Whether and to what degree the EU can gain legitimacy internally and prevent it externally and that Europe is regarded as a project opposing other states, regions or cultures are two aspects that are going to be crucial to the workability and value of the European Constitution in the long run. Here, academic commentaries can only act as supporting tools of the trade. Europe's integration is going to seek its further course in the continent's life on its own. The forthcoming European Constitution is providing the appropriate political and legal railing to this end, which in itself is more than what could be expected just a few years ago.



Prof. Dr. Ludger Kühnhardt

ZEI's contribution to creating a European 'Verfassungspatriotismus'

by Tim Maschuw

With its ZEI Discussion Paper concerning the EU Convention's draft of the European Constitution, an interdisciplinary research group consisting of jurisprudence, political and economic scientists and historians conducted by Dr. Marcus Höreth presented a critical analysis that works out important facts and theses for the public debate on structural decisions.

With the submission of the draft of the "Treaty establishing a Constitution for Europe" to the Italian presidency, the EU Convention finished its work and passed the baton on to the European governments, who have to make the final decision on adoption. The Convention method has enabled not only governments but also members of the European Commission, the European Parliament and the national par-

liaments to take part in this significant treaty reform. Despite the difficult process of finding a consensus, it was possible to present an important European document. It will be of significance for the success of the governmental conference if steps backward compared to the presented draft can be avoided. Besides the adoption of the draft by the governmental conference, the real aim of a European Constitution must be acceptance by the EU citizens. Therefore, a public discussion about the gradual emergence of a constitutional patriotism is necessary at European level.

With its Discussion Paper "Der Verfassungsentwurf des EU-Konvents. Bewertung und Strukturerscheidungen" (Discussion Paper C124), ZEI is making a fundamental contribution to this discussion. In the comment, developed from an interdisciplinary angle, attention focuses chiefly on the structural decisions contained in the first part of the draft. Valuating these structural decisions is seen as a contribution to the interpretation and progress of the con-



A historic moment. EU Convention President Valéry Giscard d'Estaing hands over the draft of the European Union's first Constitution to EU Council President and Italian Prime Minister Silvio Berlusconi.

AT A GLANCE

At the **Mediterranean Dialogue**, which ZEI and the Konrad Adenauer Foundation held in Brussels on the 10 July 2003 as part of their co-operation scheme designed to run for several years, it was only appropriate for issues of continuing instability and imponderability of Iraq's internal situation to be at the centre of interest, given that the hot phase of the war on the country had been concluded just three months previously. There was agreement at the well-attended conference that the implications of the war on Iraq required that the European Union focus its attention on the entire region of the "Greater Middle East", beyond the present partner states of the "Barcelona Process". Here, it was important to develop a multidimensional view of issues comprising strategic aspects in addition to the traditional elements of European co-operation. The European Union would only assume a role that could be taken seriously in the stabilisation process in Iraq if it simultaneously kept track of these larger contexts, enabling it to engage in a partnership with the USA.

Iraqi lecturers, among them the President of the Iraq Institute for Democracy, **Hussain Sinjari**, and observers with a most up-to-date knowledge of the local situation, such as Egyptian journalist **Ibrahim Nawar** (Arab Press Freedom Watch, London), reported on the quest for the cornerstones of a post-war order in Iraq. In this context, the problem of "de-Ba'athising" the country was discussed relating to all its multi-layered aspects. Various Members of the European Parliament and the German Federal Parliament as well as some of the Ambassadors accredited at the EU (Israel, Turkey, USA) and high-ranking representatives of the European Council and the European Commission participated in a debate in which the difficulties were discussed that arise from a democratisation of Iraq developing as soon as possible. However, the aspect of the security consequences for the Greater Middle East in the wake of the war on Iraq was also given wide scope. There was agreement that the USA played the key role in establishing a new order in Iraq but that a greater involvement of the EU on the basis of strong support of any stabilisation initiative by a UN mandate was necessary. The conference lecturers unanimously attached significance to Iraq's swift economic recovery on the basis of securing its laicist character.

ZEI Director **Prof. Dr. Ludger Kühnhardt** has recommended that an **enquête commission** be set up in the German Parliament to deal with the constitutional and political consequences of the European constitutional-building process for Germany's political system. In a presentation to the German Parliamentary Committee for the Affairs of the European Union at which all German members of the Convention, including Germany's Foreign Minister, Joschka Fischer, were present, Kühnhardt recommended the development of an early warning mechanism for the future work of a Common Foreign and Security Policy in order to prevent crises such as the recent one over Iraq. The ZEI director also expressed his preference for a double legitimisation of the future foreign minister based on election not only by the European Council, but also by the European Parliament. Kühnhardt pleaded for flexibility in future matters of constitutional amendments based on the notion of qualified majority voting. See the ZEI homepage (www.zei.de) for the full text of his presentation.

stitution process. The ZEI experts have established that a series of clarifications conducive to integration would be recommendable. While this demand really addresses the governmental conference, the Convention has nevertheless presented some forward-looking proposals.

As far as Title I, "Definition and Objectives of the Union", is concerned, the independent legal personality is approved in particular. This will improve the ability to act at international level. In Title II, "Fundamental Rights and Citizenship of the Union", the adoption of the Charter of Fundamental Rights to EU primary law is of particular significance, even though it has been attributed a symbolic status and no revolutionary changes to the material fundamental rights situation are to be expected. In Title III, "Union competences", increased transparency in the field of the limits to Union competences and Member State competences is appreciated. The "Protocol on the application of the principles of subsidiarity and proportionality" will strengthen these principles, and the integration of the national parliaments into the European policies will be improved. Regarding Title IV, "The Union's Institutions", some progress has been made but cannot be referred to as a major breakthrough. Here, emphasis is

above all placed on the introduction of "double majority voting" in the Council, the expansion of majority decisions, parliaments being attributed a greater role and the reduction of the commission a secretary of state will belong to in future.

With Title V, "Exercise of Union competence", it will generally be possible to achieve a simplification of EU legislation, although a higher degree of transparency in the legislation processes will only be reached partially. While some progress must be emphasised, the chief deficit in the common foreign and security policy is still that of

unanimity in the Council. Regarding Title VI, "The Democratic Life of the Union", the ZEI experts ascertain that the Convention has not answered the question concerning the democratisation of the Union, choosing instead to concentrate on the aspect of citizen's representation. As far as Title VII, "The Union's Finances", is concerned, the Convention has taken steps towards a more transparent and efficient budget procedure, although this "institutional tightening" is taking place on the basis of the status quo since no key competences remain to be decided by the Member States. With Title VI-II, "The Union and its immediate environment", the Convention has limited itself to "general directives for the arrangement of a common foreign policy". Because of that, many directives seem to be quite non-committal, also given that foreign policy remains the "prerogative of the Member States". The last title of the structural decisions deals with Union membership. Although the procedure for accession to the Union is regulated, the question concerning geographical finality has been ignored completely. A possible resignation from the Union is now possible via Art. 59 of the Constitution draft.

For the governmental conference, the guideline for action should now be that the consensus-based draft achieved with the Convention method is not reduced in value. The responsible heads of state must be sure that an "untied package" can only be justified if more improvements are made. Otherwise the governmental conference could damage the acceptance of the Constitution, and the real aim of "inner acceptance" would drift away.

Tim Maschuw studies Political Science, Public Law and Modern History at the University of Bonn. Presently, he is a trainee at the ZEI Department "European Value Systems, Cultures and Languages".



DECEMBER 2003

- 8 December **ZEI Workshop** about the European Convention project held at the Representation of North Rhine-Westphalia to the European Union, Brussels
- 18 December **ZEI Workshop** about the Convention project in co-operation with the ZEI Alumni

ZEI CALENDAR

Money Rules for the Eurozone Candidates

by Lucjan T. Orlowski

Money-based monetary policies are suitable for advanced transition countries as the previously derailed link between money, inflation and income growth now appears to be on its way to a gradual restoration. The selection of appropriate indicator variables that are believed to be viable and useful is a more complex issue.

So far, EU candidates have refrained from monetary policy strategies based on money growth rules. The key reasons for this stem from transition-related processes that entail the need for increased monetisation. While at the early stage of transition the medium-range M2 money supply barely exceeded ten percent of GDP in these economies, more recently, it has caught up with the levels compatible with the degree of monetisation or, in other words, the financial deepening, prevailing in the developed industrial countries. Specifically, in 2002, the M2-to-GDP ratio reached 60.6 percent in the Czech Republic, 44.4 percent in Hungary, and 40.7 percent in Poland. Moreover, in recent years the degree of monetisation and, correspondingly, the velocity of M2 money have become somewhat more stable and predictable in the Candidate Countries.

For this reason, policy-makers in these countries may consider incorporating money growth rules into the operational framework of monetary regimes, even though such rules have recently been rather unpopular and seemingly absent from policy strategies in the leading industrial countries. Reasonable money growth rules might serve two purposes in these countries – they could help with injecting sufficient liquidity for a sustained economic growth and serve as a policy anchor defending these economies from renewed inflation expectations.

Money growth rules as indicator variables

Money rules might as well be embedded in the overall monetary framework of the Candidate Countries pursuing convergence to the eurozone. In general terms, the design of such a framework ought to encompass appropriate target variables, as well as indicator and instrument variables of monetary policies, the articulation of which has been a perennial topic of recent debates in both academic and political circles. Discussions pertaining to optimal target variables for these economies seem to have reached a consensus that the larger Candidate Countries whose financial markets are sufficiently developed shall adopt monetary policies based on

flexible inflation targeting with the predominant, forward-looking low inflation target being accompanied by a subordinate target of either income growth or exchange rate stability. Conversely, smaller economies (e.g. the Baltic States) with less capitalised and more volatile financial markets can achieve financial stability by adopting a hard peg (currency board) against the euro. In essence, policy-makers in the Accession Countries have prescribed to these arguments. The larger Candidate Countries – the Czech Republic, Poland, and Hungary – have all adopted monetary regimes based on direct inflation targeting since 1998, 1999 and 2001 respectively, while the Baltic countries have enacted currency boards. In either case, disinflation and exchange rate stability goals can be achieved mainly through adjustments in short-term interest rates serving as key instrument variables for monetary policies. In order to achieve a smooth convergence, policy-makers will focus on short-term interest rate differentials vis-à-vis those in the eurozone, rather than on adjustments in their levels alone.

The selection of appropriate indicator variables that are believed to be viable and useful for the eurozone Accession Countries is more complex than the choice of policy targets and instruments. A list of feasible indicator variables may include inflation and exchange rate risk premiums, money growth rules, and differentials between inflation forecasts and official targets. High inflation risk premiums or positive real interest rate differentials against those in the eurozone are indispensable to preventing these economies from falling into a dynamic inconsistency trap. This is why central banks of the Candidates cannot abruptly bring down real interest rates to the levels prevailing in the eurozone, for such a move would induce strong money growth and trigger inflation expectations. These economies need to promote institutional reforms and an observable path of price stability before the full alignment of nominal interest rates can take place. As long as the institutional prerequisites are not fulfilled, domestic real interest rates will contain a high risk premium that in turn will prevent the Candidates from rushing into the euro system. The model outlining the need for lowering inflation risk premiums and subsequently reducing exchange rate risk premiums prior to formal eurozone entry has been proposed and tested for the leading Candidate Countries in my recent paper (Open Economies Review vol. 14, no. 3, 2003).

The assertion that the policy-makers in the Candidate Countries may consider adopting money growth rules can be supported by a number of recently occurring trends that are outlined in the table below.

The presented data suggest that the Czech Republic has already reached a satisfactory degree of monetary stability for a viable introduction of a money growth rule. After a one-time jump in 2001, the nominal M2 grew at a modest rate of less than six percent, without exacerbating inflation that is now well below the corresponding headline inflation in the eurozone. This has been accomplished at a near-zero inflation risk premium, meaning that the country's real interest rates fully correspond to those in the EMU. At the same time, income elasticity of money demand has declined to a level slightly exceeding unity. Therefore, it is realistic to assume a relatively narrow target range for a modest annual growth of M2, presumably at 4-6 percent for the period preceding entry to the eurozone (intended for 2007). On the other hand, Hungary and Poland need to demonstrate a higher degree of monetary stability before applying money growth rules. Poland has achieved a very low inflation environment, but it has done so at the expense of excessive real interest rates that prevailed in 2000 and 2001. This in turn caused a retraction in M2 in 2002 and a plunge in income elasticity of money demand. Without doubt, it would be prudent to accelerate money growth in Poland for at least two reasons. First, a moderate M2 expansion would be in line with the official inflation target (set at a continuous 2.5 plus-minus 1.0 percent). Second, it would enable monetary authorities to reduce excessive real interest rates and thus to restore the dynamic path of monetisation and economic growth. A broad 2 to 6 percent M2 growth rule would probably be reasonable for the coming years. In a different vein, Hungary has struggled to bring inflation below 4.5 percent and, consistently, its money expansion has been too excessive. A money growth target not exceeding eight percent would in fact be ambitious, yet it could help the country's policy-makers to bring inflation down more decisively.

In order to introduce explicit money growth rules, the Candidate Countries need to overcome yet another obstacle, namely the recent deterioration in fiscal discipline. This problem has become quite severe. In 2002, the consolidated government budget deficit to GDP ratios reached an alarming 9.5 percent in Hungary, 7.1 percent in the Czech Republic, and 6.7 percent in Poland. Thus the monetary authorities in these countries will be forced to subsequently raise interest rates quite sharply to inhibit money growth if this problem persists.

Lucjan T. Orlowski is Professor of Economics and International Finance at Sacred Heart University, Fairfield, Connecticut and Senior Fellow at the ZEI Department "Economic and Social Issues".

Selected Monetary Indicators for Poland, Czech Republic and Hungary, 2000-2002.

	M2 nominal money growth %			CPI inflation (year-end)			Income elasticity of money demand			Inflation risk premiums*			Velocity of M2		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Poland	11.9	9.2	-2.1	8.5	3.6	.8	1.03	1.77	-.78	7.6	7.3	5.2	2.41	2.28	2.41
Czech Republic	6.8	13.0	5.8	4.0	4.1	.6	1.58	1.35	1.26	1.5	.0	.8	1.67	1.59	1.61
Hungary	11.9	16.8	13.7	10.1	6.8	4.8	.7	1.29	1.23	1.0	1.5	3.5	2.22	2.15	2.10

*Inflation risk premiums are computed as a difference between the monthly average 3-month T-bill rates and annualised CPI inflation rates in each year.
Data source: IMF Country Reports, National Bank of Poland, Czech National Bank, and National Bank of Hungary; own estimates.

“Europe at Schools in South Eastern Europe” – a project report

by Rafael Biermann

The participants of the 3rd annual conference of the “Network of European Studies in South Eastern Europe”, held in Thessalonica in May 2001, expressed the desire to form a special working group on “Europe at Schools in South Eastern Europe”. In the meantime, a considerable network has grown including school principals, researchers and administration officials in almost all the countries of the region. Some publications have already appeared.

The participants of the Thessalonica conference agreed that the dissemination of knowledge about Europe, raising the awareness of a European identity as early as the school level as well as promoting teacher education in this respect, is an urgent priority. Rather than only concentrating on the university level, also focusing on the school level would allow to reach, in principle, the future generations of countries, which will more and more have to internalise the rationale, the working mechanisms and the common bonds of integrating Europe.

In 2002, four main goals were defined during a meeting of the new Working Group at the Institute for Globalisation and Intercultural Learning (IGI) in Zagreb:

1. To assess as profoundly as possible the current state of affairs concerning the European dimension of the school education process in the participant countries. This would permit the cultivation of a sound database for deciding on all future activities. We wanted to include all the countries of the region in this stock-taking endeavour and look at all the countries individually. The authors would be nationals from the respective countries with an appropriate background. Their research would be based on a catalogue of criteria which were developed jointly to allow for comparability of the re-

ports. Each report would contain an assessment about strengths and deficits.

2. To examine closely the German state of affairs concerning the European dimension at schools. Thus it would be possible to present one example of how a core EU country has established over decades a versatile European education system at schools. We determined that this should take place not in a theoretical, abstract or even instructing manner but with very practical, creative examples, allowing for a transfer of know-how.
3. To produce an interdisciplinary curriculum which might serve as a basis both for individual Train the Trainer courses on Europe at Schools and as a full-fledged programme to be adopted by interested institutions. The curriculum for “Europe at Schools” would be adopted by the International Center for European Teacher Education, which is in the process of being established at the University of Zagreb.
4. To assist in establishing this International Center, including a European Documentation Center, which will start operating in the winter term 2004/05. The programme Master of European Education will train advisers and multipliers for a Europe-oriented reform in schools and teacher education throughout the region.

The Working Group, which was financed by the German Ministry of Foreign Affairs, had further meetings in Zagreb (IGI) and at Ankara University's Center for European Studies (ATAUM). A considerable network has grown including school principals, researchers and administration officials in almost all the countries of the region. A sub-group was formed between the Universities of Münster (Department of Educational Sciences, supervised by Prof. Dr. Marianne Krüger-Potratz) and Zagreb (working

group of the Teacher Education Academy of Zagreb University and the Faculty of Philosophy, led by Dr. Siegfried Gehrman) in order to draft the curriculum.

All three publications of the Working Group are now published. The first, the “country profiles”, contains very profound articles on the dissemination of European knowledge at schools in Albania, Bulgaria, Croatia, Macedonia, Romania and Serbia, based on substantial first-hand research of native scientists. The second, called “Europe at Schools in Germany”, contains a general introduction and articles written by a German school principal and a teacher about the substantive efforts of their respective schools in Brühl and Oberhausen to insert a European dimension into the teaching process. The third, called “Europe at Schools in South Eastern Europe – Core Curriculum for a Master of European Integration”, contains comprehensive course descriptions and basic literature for five modules with further sub-units ranging from European identity to new media and school management. The texts are available for downloading (www.zei.de) and can also be obtained free-of-charge from ZEI. A second phase of the project is envisioned.

Dr. Rafael Biermann, Scientific Assistant at the ZEI Department “European Value Systems, Cultures and Languages”, is co-ordinator of the Task Force South-Eastern Europe.

ZEI PUBLICATIONS

Publications of the series “ZEI European Studies and South Eastern Europe Papers (SEE)”:

Rafael Biermann (ed.): Europe at Schools in South Eastern Europe – Country Profiles. SEE 4/2003

Rafael Biermann (ed.): Europe Schools in Germany. SEE 5/2003

Siegfried Gehrman, Marianne Krüger-Potratz (eds.): Europe at Schools in South Eastern Europe - Core Curriculum for a Master of European Education. SEE 6/2003

The tendering procedure in infrastructure projects – a straightjacket or a life jacket?

by René Pfromm, Michael Scholz and Christopher Hasenkamp

Can the compatibility of public-funded infrastructure projects with EC State aid law be achieved by carrying out tendering procedures? This issue was discussed by the participants of a conference organised by ZEI titled “The tendering procedure in infrastructure projects – a straightjacket or a life jacket?” and held in Bonn on the 15th May 2003.

In his introductory note, Guido Kahlen, Deputy Department Head, City of Bonn, gave an account of practical experience with tendering procedures in the context of establishing the UN Congress Centre in Bonn. Subsequently, the first part of the meeting, chaired by Dr. Tobias Traupel (Ministry of Industry and Labour, North Rhine-Westphalia), addressed the issue of “constructional infrastructure”.

Jan Gerrit Westerhof (European Commission) then gave a brief introductory lecture on the significance of the tendering procedures in ensuring fair competition and as an objective appraisal procedure in assessing the proportionality of performance and counter-performance relations. Prof. Dr. Christian Koenig LL.M. (ZEI Director) referred to the technical details of a tendering procedure excluding EC State aid provisions. Finally, Lawyer Arnold Boesen (Law Office Boesen, Bonn) warned of risks in carrying out a negotiated procedure in the award of public contracts and the problem of incumbent bidders being better informed than others.

The second part of the meeting, which was chaired by Dr. Christian Theobald (Lawyers Becker, Büttner, Held, Berlin), dealt with the issue of “Transport infrastructure – the example of Public Suburban Passenger Transport”. First of all, PD Dr. Jürgen Kühling LL.M. (ZEI) referred to tendering as the best approach to ensure that compensation for

services in the general public interest was compatible with EC state aid law, but he then also prompted a controversial debate on the problem of intermodal competition. Lawyer Dr. Hubertus Baumeister (Lawyers Barth, Baumeister, Griem, Bremen) linked up an account of the impact the debate concerning EC state aid law has on competition in the Public Suburban Passenger Transport sector with a stocktaking of the new Community law provisions and a call for the introduction of the orderer-provider principle. In his brief concluding presentation, Martin Schäfer (Verband Deutscher Verkehrsunternehmen – association of German transport enterprises) called for functional descriptions of services in aid of standardisation and efficiency. The meeting demonstrated that the tendering procedure is neither a straightjacket nor a life jacket, but that it does represent the safest option to design infrastructure projects conforming to EC State aid law.

René Pfromm and Michael Scholz are academic assistants at the ZEI Department “Political, Legal and Institutional Issues”, and Christopher Hasenkamp works there as a student assistant.

ZEI enables productive collaboration between Israeli and Palestinian experts

by Albert R. Njoume Ekango

From the 9-23 August 2003, Israeli and Palestinian experts participated successfully in the first European Summer University (ESU) on telecommunications regulation and e-commerce legislation, which ran smoothly. The project, which required elaborate preparations, is to be continued in Israel in 2004.

The Summer University was attended by a total of 38 young Israeli and Palestinian junior scientists and scholars as well as specialists. The delegation comprised a healthy mix of both public and private sector representatives (communications ministry, regulatory authority, higher education institutions and telecommunications companies). The team of lecturers consisted of experts from various European countries, Israel and the Palestinian Territories. Thus the two-week event marked the climax of the ESU project's first phase, crowning a long and highly committed run-up period at ZEI (cf. ZEI Report No. 14 of June 2003).

ESU 2003 is a joint project of ZEI and the German Gesellschaft für Technische Zusammenarbeit (GTZ) on the regulation of infrastructures in Israel and the Palestinian Territories, and for the time being, it has been conceived for a period of three years. The chief aim of the ESU concept is to create a permanent forum for the practical exchange of specialist knowledge regarding issues pertaining to the regulation of infrastructures between Europe, Israel and the Palestinian Territories. A further aspect is to bring together Israeli and Palestinian decision-makers of tomorrow and, partly, of today by organising rounds of talks with prominent personalities. One reflex effect that is hoped to be achieved through the latter aspect is that via an exchange on topical issues that are of general interest, the participants will develop new impetus for a common dialogue that could also reach beyond the ESU.

The running of the first phase was enabled by the involvement of GTZ, which has seen to the bulk of funding for the scheme as well. ZEI also succeeded in winning over the support of the Gustav Stresemann Institute (GSI) in Bonn, which has participated both financially and logistically in running the Bonn phase. ZEI's co-operation partners are three universities from Israel and the Palestinian Territories: the Hebrew University of Jerusalem and the University of Haifa (both Israeli) and the Al Quds University of Jerusalem (Palestinian). They chose the participants of the ESU in Bonn and appointed lecturers.

There was a balanced ratio between Israeli and Palestinian participation: out of the 38 participants, ten each came from the Hebrew University and the University of Haifa, while Al Quds University sent eighteen participants.



A group portrait of the ESU European Summer University 2003 in Bonn with ESU Manager Albert R. Njoume Ekango (standing, 8th from left) and his colleagues Bishr Shibliq (front row, 5th from right) and Ralf Capito (back row, 3rd from right).

It is encouraging to note that the Bonn ESU was given very good coverage by the media. For example, several media representatives were present already at the opening event, which was held at Bonn's historic Town Hall on 10 August, by invitation of the city's Lady Mayor. Some radio broadcasters also dealt with the ESU in the course of the two-week event.

In the subject section of the event, the participants dealt in particular with the new EC regulatory framework for electronic communications networks and services. Aspects in common with and differing from the regulatory framework for communications in Israel and the Palestinian Territories were addressed in workshops.

The fringe programme gave the participants an opportunity to talk to the Chairman of Transparency International (Berlin), Dr. Peter Eigen, about the role of civil society in combating corruption in the framework of a soirée discussion. A further soirée discussion was held with Dr. Margret Johannsen of the Institute for Peace Research and Security Policy at Hamburg University (IFSH), focusing on how relations between Israel and Palestine are perceived in Germany.

What was special about the ESU in Bonn was the combination of the target group, the topics of the event and the composition of the team of lecturers: Israeli and Palestinian participants dealing in particular with issues relating to telecommunications regulation in Europe and headed by high-ranking lecturers from Europe, Israel and the Palestinian Territories. It is precisely this unique combination that gives the event its singular character. With this pioneering achievement, ZEI has marked the beginning of several years of co-operation with Israeli and Palestinian institutions.

With its successful and, above all, smooth completion of the first ESU in Bonn, ZEI has succeeded in giving a further impressive example that the deadly conflicts in the Middle East, which are shaped by politics and ideology, do not represent an obstacle to constructive and productive co-operation among specialists on a

scientific and technical basis. With its participation in the first ESU at ZEI, the 41-member delegation, representing many academics and experts from the Middle East, demonstrated its determination to already initiate something that will help the region make progress and above all promote not only peaceful co-existence but also the constructive collaboration of the two population sections. At the end of the event, everyone agreed that the ESU project offers participants a good opportunity to identify routes towards future peaceful collaboration between Israel and the Palestinian Territories via the exchange of specialist know-how. It is therefore vital to continue this project.

Dr. iur. Albert R. Njoume Ekango is academic assistant at the ZEI Department "Political, Legal and Institutional Issues" and Manager of the ESU Project.

ZEI PUBLICATIONS

Articles and papers

Koenig: Die Beurteilung der Marktmacht vertikal integrierter Unternehmen auf dem Telekommunikationssektor (Art. 14 Abs. 3 Rahmenrichtlinie), Kommunikation und Recht, Beilage 1/2003, p. 19

Koenig: Insolvenzfähigkeit juristischer Personen des öffentlichen Rechts – ein Beihilfenbestand nach Art. 87 Abs. 1 EG?, Betriebs Berater, p. 1

Koenig/Beer/Hentschel: Rechtliche Koordinaten zur Beurteilung von DMP Verträgen – am Beispiel eines strukturierten Behandlungsprogramms zur Verbesserung der Versorgung von Brustkrebspatienten, Q-med 2003, 4, pp. 90-100

Koenig/Busch: Vergabe und Haushaltsrechtliche Koordinaten der Hilfsmittelbeschaffung durch Krankenkassen, Neue Zeitschrift für Sozialrecht (NZS) 2003, 4, pp. 461-467

Koenig/Engelmann/Hentschel: Die wettbewerbsrechtliche Beurteilung von Werbemaßnahmen gesetzlicher Krankenkassen, am Beispiel der verbenden Anündigung von Modellvorhaben, Wettbewerb in Recht und Praxis 2003, pp. 831-849

Koenig/Engelmann/Meurer/Verhasselt: Lösungsansätze für die Problematik der Off-Label-Therapie mit Arzneimitteln, Neue Zeitschrift für Sozialrecht (NZS), 2/2003, pp. 70-76

Koenig/Engelmann/Meurer: Die Schlussanträge im EuGH-Verfahren in Sachen DocMorris: Ein wichtiger Schritt auf dem Weg zu einer liberalisierten und sicheren Arzneimittelversorgung in Europa, Pharma Recht, 2003, pp. 113-116

Emission allowance trading within the EC in a cul-de-sac concerning EC state aid law?

by René Pfromm and
Christopher Hasenkamp

The introduction of EC-wide Emission allowance trading as an instrument to combat global warming has been decided as of the 1st January 2005. So now it is up to the Member States to draw up national allocation plans for the reduction of emissions of the greenhouse gas CO₂ in order to allocate to the plants affected their share of the certificates. But owing to a number of snares in the Directive, emission allowance trading could soon get stuck in an EC State aid law cul-de-sac.

The most important rule contained in the Kyoto Protocol, which the European Community has also ratified as a contracting party, is the obligation to reduce greenhouse gas emissions by five percent related to the base year of 1990. One mechanism to facilitate efficient reduction is trading transferable emission allowances. The Directive stipulates a maximum five percent emission allowance auctioning in the first three-year trade period of 2005 to 2007 as well as a maximum ten percent emission allowance auctioning in the second trade period. Emission allowances that have not been auctioned are issued for free. However, issuance for free or issuance mainly for free raises considerable concern regarding compliance with Community requirements concerning State aid according to Articles 87, 88 EG.

EC State aid provision prerequisite fulfilled in many cases

According to Article 87 (1) EC, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is incompatible with the common market, insofar as it affects trade between Member States. The emission allowances to be granted by the Member States can be traded on the yet to be created EC-wide emission allowance

market, which is why the companies enjoy gratuitous monetary advantages owing to the free-of-charge allocation of emission allowances. At the same time, the state renounces revenue it would receive in the shape of levies on the use of scarce goods. Thus the criterion of preferential treatment in the sense of Article 87 (1) EC is already fulfilled since a benefit rendered to a company in the sense of granting a monetary advantage in any form whatsoever to which no appropriate counter-performance corresponds is on hand.

Indirectly, preferential treatment is also given with regard to the requirement for permits in Directive 96/61/EC on the integrated avoidance and reduction of environmental pollution, since in future, a permit to operate installations that are eligible for emission allowance trading within the EC may no longer contain any limit values, which in turn is going to enhance the value of the emission allowances for the companies that are favoured. Also, a counter-performance that could be considered concerning EC State aid law is lacking, for not every emission reduction a company carries out has to entail costs and the ecological targets cannot be attained solely on condition of free-of-charge allocation.

Restricting emission allowance trading to particularly energy-intensive production processes and large-scale companies leaves other CO₂-emitting branches and sectors unconsidered. Thus the preferential treatment the allowance entails only relates to certain companies. The Member States could rule out the fulfilment of the EC State aid provision prerequisite by including without any exceptions all greenhouse gas-emitting branches in the national emission allowance trading within the EC system. However, the Directive does not allow for this option before 2008. The criterion of a distortion of competition on the relevant product and geographic market can be fulfilled by a free-of-charge allocation of emission rights in two respects, namely by discriminating against previous emission reduction and by discriminating against new participants in the market. Thus it is up to the Member States to prevent distortion of competition owing to discriminating against companies that initiated reduction measures at an early stage and new market participants by adopting appro-

appropriate regulations in the respective national allocation plans.

Regarding restrictions on trade between the Member States, a possible impact of the advantage on inter-state trade (inter-state clause) is sufficient to fulfil the EC State aid provision prerequisite. Regarding emission allowance trading within the EC, which is not a purely local economic activity, and given the considerable value of emission allowances, this is the case.

Exemptions not permissible

At first glance, an exemption for State aid to promote important projects of common European interest in accordance with Article 87 (3) lit. b) EC seems to suggest itself. However, according to Article 87 (3) EC, it requires an analysis in two steps, with the Commission only being entitled to observe its discretion (2nd step) if the prerequisites of one of the exemption rules are fulfilled (1st step). However, with regard to the prerequisites, granting State aid also has to be necessary in the sense of a causal relation in order to promote one of the targets in Article 87 (3) EC. Here, the issue has to be given special consideration whether the ecological targets of emission allowance trading within the EC systems can only be attained if the emission certificates are issued either wholly or partly free-of-charge. In a compulsory system, acceptance on the part of the companies cannot be a decisive factor. And the system of emission trading also has comparable prospects of success via allowances awarded against payment, for example via auctioning or along the lines of a beauty contest. This rules out any justification of State aid.

Summing up, ensuring compatibility with EC State aid law is now up to the Member States. If they are unable to dispel reservations concerning EC State aid law in their national allocation plans, there is a danger that a large number of State aid proceedings will be initiated. Emission allowance trading within the EC could then become stuck in a cul-de-sac in terms of State aid law.

René Pfromm is an academic assistant at ZEI, Department "Political, Legal and Institutional Issues", and Christopher Hasenkamp works there as a student assistant.

Policy / Working Paper-Reihe:

B03-08

The Determination of Capital Controls: Which Role Do Exchange Rate Regimes Play? (Jürgen von Hagen, Jizhong Zhou)

B03-09

The European Central Bank and the Euro-system: An Analysis of the Missing Central Monetary Institution in European Monetary Union (Gunnar Heinsohn, Otto Steiger)

B03-10

Foreign Direct Investment and Perceptions of Vulnerability to Foreign Exchange Crises: Evidence from Transition Economies (Josef C. Brada, Vladimír Tomsík)

B03-11

Die Weisungs- und Herrschaftsmacht der Europäischen Zentralbank im europäischen System der Zentralbanken - eine rechtliche Analyse (Martin Seidel)

B03-12

What Makes Regions in Eastern Europe Catching Up? The Role of Foreign Investment, Human Resources, and Geography (Gabriele Tondl, Goran Vuksic)

B03-13

The IS Curve and the Transmission of Monetary Policy: Is there a Puzzle? (Charles Goodhart, Boris Hofmann)

B03-14

FCIs and Economic Activity: Some International Evidence (Charles Goodhart, Boris Hofmann)

B03-15

Employed and Unemployed Search: The Marginal Willingness to Pay for Attributes in Lithuania, the US and the Netherlands (Jos van Ommeren, Mihails Hazans)

B03-16

South-East Europe: Economic Performance, Perspectives, and Policy Challenges (Iulia Traistaru, Jürgen von Hagen)

B03-17

Determinants of Inter-Regional Migration in the Baltic States (Mihails Hazans)

Articles and papers

Koenig/Haratsch: Grundzüge des Deutschen und des Europäischen Vergaberechts, in: Neue Juristische Wochenschrift 2003, pp. 2637-2642

Koenig/Kühling: Infrastruktur im Ausschreibungsverfahren - EG-beihilfenrechtlicher Königsweg der Kompensation von gemeinwirtschaftlichen Pflichten, Deutsches Verwaltungsblatt 2003, p. 289

Koenig/Kühling: Verfahrensvielfalt und Wahl des richtigen Vergabeverfahrens - Fallstricke bei der Ausschreibung von Infrastrukturaufträgen, Neue Zeitschrift für Baurecht und Vergaberecht, pp. 126-133

Koenig/Kühling/Rasbach: Das energierechtliche Unbundling-Regime, Recht der Energiewirtschaft 2003, p. 221-229

Koenig/Kühling/Rasbach: Versorgungssicherheit im Wettbewerb - Ein Vergleich der gemeinschaftsrechtlichen, französischen und deutschen Energierechtsordnung, Zeitschrift für Neues Energierecht (ZNER) 2003, pp. 3-12

Koenig/Kühling/Winkler: Pflichten zur Veränderung von Netzinfrastrukturen, Wirtschaft und Wettbewerb, 2003, pp. 228-241

Koenig/Loetz/Neumann: Sektorspezifische Regulierung im neuen Telekommunikationsrecht, Kommunikation & Recht, Beilage 4/2003, pp. 1-38

Koenig/Neumann: Der Arbeitsentwurf zur Novellierung des TKG und die regulatorischen Herausforderungen des Internet-Zeitalters, Kommunikation & Recht 2003, p. 217

Koenig/Neumann: Telekommunikationsrechtliche Regulierung von Domainnamen, Computer und Recht 2003, p. 182

Koenig/O'Sullivan: Is "Trusted Computing" an Antitrust Problem? Microsoft et al. Under Scrutiny, European Competition Law Review 2003, pp. 449-457

Koenig/Scholz: Öffentliche Infrastrukturförderung durch Bau- und Betriebsgesellschaften im EG-beihilfenrechtlichen Kontrollraster der EG-Kommission, Europäische Zeitschrift für Wirtschaftsrecht 2003, pp. 133-138

Fiscal discipline in the Baltic States

by Dalia Grigonyte

Since their independence, the Baltic States have tried to combat high levels of inflation through the adoption of hard pegs; indeed, inflation came down rapidly, converging to the levels of the EU countries. How sustainable is this macroeconomic stabilisation? Was it accompanied by increased fiscal discipline?

In her working paper "Fiscal versus Monetary Dominance in the Baltic States" (presented at a Conference organised by the Middle-East Technical University, Ankara, September 6-9, 2003), junior fellow Dalia Grigonyte analyses fiscal discipline of the Baltic States and compares it with other EU Accession Countries.

Following independence, all three Baltic States adopted fixed exchange rates: Estonia (since 1992) and Lithuania (since 1994) have operated under a currency board arrangement (CBA), while Latvia has maintained a conventional peg to the Special Drawing Rights since 1994. Fiscal policy is the main adjustment tool that the authorities can use to react to negative external shocks. In contrast, the adoption of hard pegs requires fiscal policy to have a certain discipline, since the peg would otherwise collapse. All three countries also go through a transitional period which requires accomplishment of some structural reforms, but at the same time public

deficits and inflation have to stay at reasonably low levels.

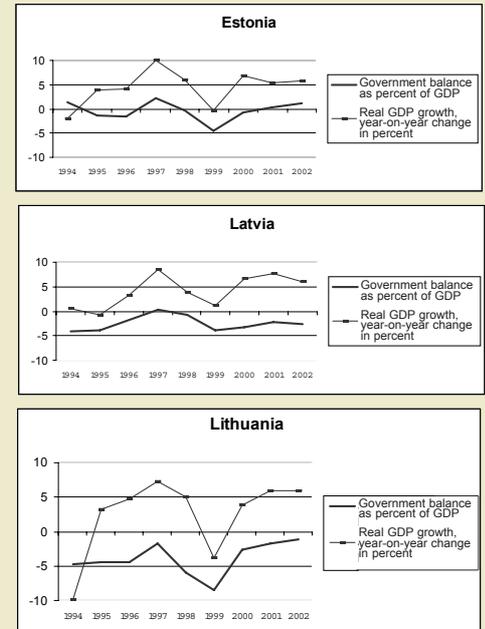
A preliminary impression of fiscal discipline in the Baltic countries after the introduction of pegged exchange rate regimes can be gained from the following graphs. The Figure shows the development of government balance and real GDP growth rates in the Baltic States during the period of 1994 – 2002. The development of public balances after the Russian crisis suggests that the fiscal policy in the Baltic countries was tightened in order to provide credibility to the peg and prevent an explosive government debt.

Next, the Baltic States are compared to the ten Accession Candidate Countries in terms of fiscal discipline. Hungary, Poland, Romania, Slovenia, and the Czech and Slovak Republics have less rigid exchange rate arrangements than the Baltic countries, so that they could have looser fiscal discipline and compensate through price increases and devaluation of the domestic currency. However, the econometric results of ten Accession Candidates show that fiscal authorities accumulate primary surpluses in order to repay their debts or restrict further debt accumulation. Surprisingly, the Baltic States – countries with tight exchange rate regimes – do not exhibit stronger fiscal discipline than other CEE countries and seem to be slower in fiscal adjustment. The slower adjustment in the Baltic countries may be explained by relatively low debt levels and considerable growth rates which were enjoyed in the first decade of transition. With

external stability of the currency a priority, these countries tend to relax their fiscal discipline after a negative shock and tighten it when growth recovers.

Dalia Grigonyte is junior fellow at the Department "Economic and social issues" at ZEI.

Government balances and GDP growth rates in the Baltic States.



Data source: IMF statistics.

ZEI Summer School: Leading researchers give young scientists impulses on Monetary Theory and Policy

by Matthias Paustian

From 14-23 July 2003, ZEI held its 7th Summer School on Monetary Theory and Policy. This event has become one of ZEI's most renowned annual activities, bringing together advanced doctoral students, post-docs, junior assistant professors and central bank economists from Europe, North America and Asia.

Two leading researchers in Monetary Economics, Carl Walsh of the University of California, Santa Cruz, and Dale Henderson of the Federal Reserve Board, Washington D.C., taught during the morning sessions. Walsh's lectures focused on monetary general equilibrium models with nominal rigidities of prices and wages for the closed economy. He discussed various issues of New Keynesian policy analysis, such as the trade-off between inflation and the output gap as well as the topic of commitment versus discretion.

The series of lectures given by Dale Henderson extended the scope to open economy monetary economics and practical issues of special relevance to central banks such as the lower bound on nominal interest rates and targeting rules. Presentations by the participants addressed a wide variety of top-

ics. For example, David Vestin (European Central Bank, in collaboration with Peter Hördahl and Oreste Tristani) presented a joint econometric model of macroeconomic and term structure dynamics. Such an approach allows an interpretation of yield dynamics in terms of macroeconomic fundamentals. In an application to German data, the model is able to capture salient features of the term structure of interest rates, and its forecasting performance matches that of the best available models based on latent factors. The model also has considerable success in accounting for the empirical failure of the expectations hypothesis.

This article's author has evaluated monetary policy rules in a business cycle model with staggered prices, preset nominal wages and asymmetric information in the credit market. Rules are compared in a utility-based welfare metric, while the effects of the model's non-linear dynamics are captured by a quadratic approximation to the policy function. Financial frictions dampen the economy's response to shocks and make them highly persistent. With sticky prices and wages, a trade-off exists between inflation and output. Financial frictions increase the importance of stabilising output, since they make the output variations more persistent.

The ZEI Summer School was viewed by participants as an effective event fostering exchange of

current research ideas and an opportunity for creating informal networks. The main advantage of the summer school over large-scale conferences is that more feedback for the research presented is given and closer ties between researchers are formed – in some cases resulting in future joint activities.

Matthias Paustian is junior fellow at the ZEI Department "Economic and Social Issues" and PhD student at the Bonn Graduate School of Economics.

ZEI PUBLICATIONS

Ralf Elm / Mamoru Takayama (Eds.): *Zukunftstages Menschsein. Ethik zwischen Ost und West*. Baden-Baden: Nomos 2003 (ZEI-Schriftenreihe, Vol. 55)

Jacobus Delwaide / Georg Michels / Bernd Müller (Eds.): *Die Rheingesellschaft. Mentalitäten, Kulturen und Traditionen im Herzen Europas*. Baden-Baden: Nomos 2003 (ZEI-Schriftenreihe, Vol. 56)

Ludger Kühnhardt: *Constituting Europe. Identity, Institution-Building And The Search For A Global Role*. Baden-Baden: Nomos 2003 (ZEI-Schriftenreihe, Vol. 60)

Discussion Paper Series

C122/2003

Glen D. Camp: *The End of the Cold War and US-EU Relations*

C123/2003

Finn Laursen / Berenice L. Laursen: *The Danish Presidency 2002: Completing the Circle from Copenhagen to Copenhagen*

C124/2003

ZEI (Eds.): *Der Verfassungsentwurf des EU-Konvents. Bewertung der Strukturentscheidungen*

C125/2003

Hans-Christian Maner: *Multiple Identitäten – Der Blick des orthodoxen Südosteuropas auf "Europa"*

Accreditation agency FIBAA gives stamp of quality to ZEI study course "Master of European Studies"

by Brigitte Linden

A great success for ZEI: The Foundation for International Business Administration Accreditation (FIBAA) has awarded the postgraduate further education fulltime study course "Master of European Studies" the stamp of quality, and in the elaborate assessment, all quality standards of FIBAA have been met as either good or excellent.

ZEI Director Professor Dr. Ludger Kühnhardt and Programme Director Cordula Janowski were very satisfied with the result: "We regard this as an assignment for us to carry out in future." Thus the ZEI Masters course is the first of the four European postgraduate courses that the Foreign Office is funding because it wishes to recruit graduates as staff for diplomatic service to have been accredited. "All in all, it is an extraordinary programme with excellent focal points in most of the areas important for the criteria", the assessment report states. The targets of the one-year Masters course, the sixth cohort of which has just commenced its studies, to educate a young elite "with EU competencies" for politics, industry and administration are reached by the structure and contents of the teaching modules with their focus on problems in economics, political science and law (especially European and International Law) in the organs of the European Union.

Particular emphasis is given to the practical relevance of education, which is not merely restricted to the subsequent two months of practical training. Instead, the "Europe Dialogue" with

executives and excursions to EU institutions provides opportunities to become familiar with specific European topics. In this context, the evaluators praised the involvement of the Foreign Office and other government and parliament institutions as well as those of the industrial associations, etc., in the "European Studies". And the 6,500 euros charged as a tuition fee does not act as a deterrent, for the fellows reckon with the course to provide them with a springboard to attain a position with European institutions or firms operating at international level. Thus there have once again been around 130 applications for the 32 places in the new cohort of "European Studies".

The FIBAA examiners gave the best mark for the international orientation of the teaching contents and the foreign language share of the programme, which is run almost exclusively in English: excellent. The teaching staff, comprising university professors from at home and abroad, "young, highly talented lecturers" and experts from the practical work of the EU insti-



The common learning activities of students from all over the world result in an international network that continues to be maintained when the Masters course has been completed.

tutions or companies relating to the European Union, have also been graded "excellent". And the postgraduate students say that they regard learning in the international group as stimulating. The curriculum puts special emphasis on "the promotion of the students' intellectual development". This is achieved "thanks to the high level of the teaching subject matter to be imparted and sophisticated didactics". Thus the aims of education are "attained in an exemplary manner", and the programme is "competitive on the international education market".

Very good marks were also given for the teaching and learning methods. Studying takes place "in an open and positive academic climate", the contents reflect state-of-the-art research, and the teaching material is "of the highest academic standards". The report also stressed the sizes of classes, which were easy to handle both for the students and the lecturers, supervision of students, which the students themselves, coming from all over the world, referred to as "very good", and the opportunity for the students to publish their insights on a topical issue or problem of the EU in the centre's own ZEI Discussion Paper.

And it took no time for the FIBAA examiners to focus their view on the future, commenting that the facilities and management of the Masters programme promised successful development.

Information about the study course can be obtained at www.zei.de, while the assessment report of the accreditation agency is at www.fibaa.de.

Dr. Brigitte Linden is a freelance journalist in Bonn.

"See EU in the Future" – a European competition

by Florian Osterloh

Students of the ZEI postgraduate course "Master of European Studies" came third in the European competition "See EU in the Future" 2003 for students enrolled for postgraduate, Masters or PhD courses in France, Greece and Germany. One of the participants has given an account of the event.

The competition was run with the support of the European Commission and the Greek Secretariat for Youth in co-operation with Eurojeune France and Bürger Europas e.V. Germany. The participants were asked to comment on European issues, in particular the Debate on the Future.

Our contribution was the European Studies paper "Beyond Nice – Perspectives on the Reform Convention of the European Union", a result of the special course given by Prof. Dr. Ludger Kühnhardt. The paper deals with the allocation of vertical competencies in the EU, passing of resolutions and representation as well as the Common Foreign and Security Policy (CFSP) and the constitutional integration of European basic rights, values and European identity. We also give statements on topical core issues of the (Convention) debate and make recommendations regarding these issues.

It was with great enthusiasm that we learnt of the jury choosing us as winners of the competition. We were invited to the Final Presentation in Athens marking the conclusion of Greece's term of presidency of the Council on the 30 June 2003. My Greek fellow-student, Maria Barlou, and I were allowed to represent the group at the presentation ceremony held at Athens University. In addition to the press, Prof. Panos Kazakos (Athens University) attended the event representing Greece, Laurent Avignon (President, Eurojeune Paris) France, and Christina Müschen (department head, Press Office of the European Commission, Berlin) Germany.

Following the lectures of selected professors, the presentations of the contributions from the individual countries having entered the competition were given, offering a highly complex and broad panorama of exciting EU topics. After the prize awards, in which we attained third position, the ceremony was concluded with a grand reception. We are happy that our intensive work has also been appreciated in such a special way at European level.

Florian Osterloh is one of the ZEI Master Fellows of the 2002/2003 cohort.

IMPRINT

Zentrum für Europäische
Integrationsforschung
Center for European
Integration Studies
Rheinische Friedrich-Wilhelms-
Universität Bonn
Walter-Flex-Str. 3
D – 53113 Bonn
Germany

ISSN: 1437-1545

Editorial staff:
Rafael Biermann,
Guntram Wolff,
Kay E. Winkler,
Brigitte Linden

Telephone:
+49 (0)228/73-7249
Fax +49 (0)228/73-50 97
E-Mail: zei@uni-bonn.de
Internet: <http://www.zei.de>

ZEIreport is published three times a year in English and German. It can be ordered free of charge from the address above.