Brussels: Divisions dominate EU summit in face of deepening crisis

By Stefan Steinberg
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The leaders of EU member countries met in Brussels on Sunday for a day of discussions about the burgeoning economic crisis. While the crisis is having devastating consequences for Europe as a whole, it has hit central and eastern European countries especially hard.

The meeting was called in early February to discuss French President Nicolas Sarkozy's protectionist plans to finance the French auto industry at the expense of east European nations. In the meantime, a host of additional problems, in particular the possible collapse of the economies of a number of east European states, had forced their way onto the agenda.

At the end of the day of deliberation, EU leaders collectively declared their rejection of protectionism and nationalism as a response to the crisis. British Prime Minister Gordon Brown went so far as to say that moves by European member states to revert to protectionist policies would be "the road to ruin."

In practice, the summit participants were unable to agree on any concrete measures to deal with the European credit crunch, the much-feared collapse of east European banks, or a pan-European stimulus programme. Leading EU nations were even incapable of drawing up a common programme for the rescue of their respective auto industries. One of the main proposals raised at the summit—a multibillion-euro bailout for eastern Europe—was flatly rejected by Germany and other prominent EU members, with the argument that ailing nations could only be dealt with on a "case-by-case" basis.

The Brussels summit has been praised by a number of newspapers, including the *Süddeutsche Zeitung,* which described the event as "European nations achieving unity just at the right time." In fact, nothing could be further from the truth. No substantive agreements were reached, and behind the scenes it was evident that the nationalist divisions in the EU, increasingly visible in the recent months, are being stretched to the breaking point.

Sunday's meeting had been preceded by a warning by Hungarian Prime Minister Ferenc Gyurcsany that the global financial crisis was creating a dangerous new divide within the 27-nation-strong European Union. Nearly two decades after the collapse of the Soviet Union and its satellite states in Eastern and Central Europe, Gyurcsany declared: "We should not allow a new iron curtain to be set up and divide Europe in two parts."

Gyurcsany went on to propose that the wealthier countries of the EU contribute to a special EU fund of up to €190 billion (US$241 billion) to bail out the economies of a number of eastern European countries that threaten to default on their debts. Indicating the growing mistrust between eastern and western European countries, Hungary together with eight other neighbours in the region—Poland, Slovakia, the Czech Republic, Bulgaria, Romania and the three Baltic states—met separately before the summit to discuss their own strategy.

Indicating the extent of divisions within the east European bloc, Gyurcsany's proposal was rejected by a number of leading countries, including Poland and the Czech Republic. In a speech to the Polish parliament last week, Polish Finance Minister Jacek Rostowski had already told deputies that in the search for a solution to the country's mounting economic crisis, the government was "looking for a Polish answer for a Polish problem."

In the event, Gyurcsany's proposal for a multibillion-euro bailout fund was peremptorily rebuffed by west European governments, led by Germany.

Germany and the Netherlands also rejected a suggestion put forward at the one-day summit that eastern European countries, which have seen the value of their currencies plummet in recent weeks, be assured speedy access to the Eurozone. While the European Union comprises 27 nations and constitutes the largest internal market in the world, just 16 countries are members of the Eurozone and share the same currency.

A number of eastern European countries are currently being forced to pay back huge debts to western banks (including many German and Austrian banks), taken out in euros, with their own rapidly devaluing currencies. Speedy

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membership of the Eurozone would ensure a substantial decrease in the repayments to the western banks made by eastern European countries.

German Chancellor Angela Merkel refused to budge on the bailout request and the call for entry into the Eurozone. She declared at the summit: "Saying that the situation is the same for all central and eastern European states, I don't see that," adding that "you cannot compare" the dire situation in Hungary with that of other countries. She was backed by Dutch Premier Jan Peter Balkenende, who also rejected any "softening" of criteria for euro membership.

While rejecting calls for aid from eastern European countries, French and German leaders made clear at the summit that they had their own list of demands—first and foremost, increased EU funding to subsidise French and German carmakers.

Nicolas Sarkozy had recently antagonised his European neighbours by linking his agreement to state aid for the French auto industry to the condition that Peugeot and Renault no longer transfer production abroad to countries, such as the Czech Republic and Slovakia. He later tossed more fuel on the protectionist fire with an agreement to give Peugeot Citroën and Renault €3 billion each in loans on the condition they do not close French car plants.

When questioned in Brussels whether his measures to support the French car industry were protectionist, Sarkozy defended his stance by citing his British colleague Gordon Brown. Nobody has declared Brown a protectionist for assuming majority control of a number of British banks, Sarkozy told the press.

For her part, Chancellor Merkel and her government are seeking EU funds as part of a potential bailout plan for the ailing German automaker Opel. Both Merkel and Sarkozy called current EU subsidy guidelines too restrictive and in need of review.

The crisis in eastern Europe

Following the dismissal of his proposal, Ferenc Gyurcsany once again warned at the end of Sunday's summit that failure to offer bigger bailouts "could lead to massive contractions" in eastern economies and "large-scale defaults" that would affect Europe as a whole. The result, he continued, would be increased political unrest and immigration pressures.

While leading European nations refused a substantial bailout package to assist ailing eastern European countries, Germany, France and other EU nations are well aware of the extent of the crisis in these countries. They are the leading investors in these countries and in addition have extensive trading links.

European banks have an estimated sum of €1.6 trillion invested in eastern Europe. Austria alone has total investments of €230 billion (70 percent of the country's GNP), and at the end of last September the sum of investments by German banks in the region was estimated at €170 billion.

The danger of a meltdown of eastern European economies, leading to a chain reaction of collapses in the entire European banking system, is very real. Since the start of the year, the German DAX index has lost almost 20 percent of its value. Losses on east European stock markets are double this figure. The Romanian BET has plunged by 38.5 percent this year, and Poland's WIG20 by 31.2 percent. This is despite the fact that individual nations, the International Monetary Fund, and the World Bank and as well as European agencies have already pumped billions into east European economies.

According to one analyst, the funds already invested have had little effect. He concludes, "At this rate it's hard to imagine where share prices will end up by the end of 2009. Because until now the measures introduced in the various countries seem not to have had any effect to speak of."

Under these conditions, leading west European countries, faced with their own ailing banks and major concerns, and highly indebted states such as Ireland, Greece and Italy, are very wary of investing new money in the stricken economies of eastern and central Europe. Merkel and Sarkozy are prepared to intervene and bail out individual economies—but only on the basis of guaranteeing their own financial and commercial interests, while at the same time laying down the conditions for the repayment of loans. This is the significance of Merkel's remark that aid would have to be determined on a "case-by-case" basis.

The price for such loans from western European nations will inevitably be the type of drastic acceleration of the destruction of jobs, wages, welfare services and basic rights that has afflicted the working population in eastern Europe. This is the devastating legacy of the free-market economy two decades after the capitalist restoration in the east.

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