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Luxembourg at the helm: experience, determination and self-denial

THE LUXEMBOURG PRESIDENCY OF THE EUROPEAN UNION, FIRST SIX MONTHS OF 2005

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Foreword

The Presidency of the Union has been one of the most frequently debated questions throughout the two years taken to prepare the European Constitution, alongside the composition of the Commission and the weighting of votes within the Council of Ministers. Part of the received thinking current at the time was that the rotating presidency was becoming impracticable, since the small countries do not have the resources needed to cope with the obligations incumbent upon a President in office.

As a demonstration that there might be something wrong with this analysis, no better example could possibly be imagined than Luxembourg's Presidency at the beginning of 2005.

The list of topics to be addressed is indeed impressive: the start of negotiations on future finances, a debate on reform of the stability pact and examination of the Lisbon strategy at the Spring European Council , not to mention a most uncertain international situation, especially in the Middle East. There is even less chance of avoiding these questions since the Finance Ministers have just given Prime Minister Jean-Claude Juncker the formidable responsibility of chairing the Eurogroup. In other words, the task in hand is a considerable one, and yet the arrival of the Luxembourg team at the helm is being viewed hopefully in European circles. It is even being considered that this Presidency represents a “window of opportunity” as regards the budget in so far as it might put forward a dossier in which both its predecessors and its successors, for differing reasons, are too heavily involved to be able to play a mediating role.

The study by Mario Hirsch provides keys to the understanding of this apparent paradox.

Napoleon said that “A country's foreign policy is dictated by its geography”. A small country with powerful neighbours, Luxembourg has learnt to its cost that the balance of power can have devastating effects. Its economic success is inseparable from its openness to the world. Having joined in the European adventure from the very outset, it benefits from an intimate knowledge of the Community machinery's internal workings. This has enabled earlier incumbencies to leave their mark on the recent history of Europe: it was a Luxembourg Presidency that saw the adoption of the Single European Act, the linchpin in the resurgence of the 1980s, and start of the intergovernmental conference that was later to be concluded in Maastricht.

This vast experience calls to mind advice that the big countries sometimes tend to forget: an effective Presidency is one that is capable of setting aside its own immediate interests in favour of the common interest. If this criterion is to be used to define great European countries, there is nothing small about Luxembourg. This explains the trust placed in it in European circles and the hope riding on it.

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I - LUXEMBOURG AND ITS PRESIDENCIES

Having been involved since the beginnings of European integration as a founding member of the first Communities, Luxembourg is preparing, for the eleventh time, to take on its presidency for the first six months of 2005. Since the reform of the European Council and the Council of Ministers adopted in Seville in 2002, the task of the country in charge has changed. Thanks to the multiannual work programme, which now covers six successive six-month presidencies, and the annual work programme, which encourages the two presidencies for the year to work together, the emphasis is on the coherence of the Council's work and continuity between one presidency and another.

These constraints, which are fairly rigid, if not predetermined, do not, however, prevent the country at the helm from influencing the progress of the Union, by implementing its political priorities, using its innovation and arbitration skills and the personal style of its leaders. We can count on the Government of the Grand Duchy, led by the Christian Democrat Jean-Claude Juncker (CSV) since 1995, to successfully meet this challenge by gaining acceptance for its personal leitmotiv – that the Member States need to be made to take responsibility in all circumstances[1].

1.1 LENGTHY EXPERIENCE IN EUROPE

During its previous presidencies, the Government of the Grand Duchy has always made it a point of honour not to put a foot wrong and to keep everyone happy. The Prime Minister Jean-Claude Juncker, for whom this will be his second presidency as head of Government after the conclusive experience of the second half of 1997, also has the considerable advantage of having been in office for nearly 25 years. At the end of 1982 he joined the Government under Pierre Werner (CSV) as Secretary of State for Employment and Social Security, and in 1984 was promoted to Minister and Minister Delegate for Finance in Jacques Santer's (CSV) Government, being responsible for the Budget. He has been Minister for Finance since 1989. This exceptionally long career means that he has become the Council's living memory, and that it will be difficult to pull the wool over his eyes, especially as his fellow Heads of State and Government were recently again encouraging him to stand as Romano Prodi's successor at the head of the Commission[2].

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1 Since the legislative elections of 13 June 2004, Mr Juncker has led a coalition of his Christian democrat party (CSV) with the Luxembourg socialist worker party (LSAP). This coalition replaced the coalition between CSV and the liberal party (DP), which governed from 1999 to 2004. The DP was severely rejected in June 2004, losing a third of its seats and nearly 8 percent of the vote. The LSAP made a small amount of progress winning one seat, but the major winner was the CSV with a gain of five seats and more than six percent of the vote.

2 As an example of the many 'veiled appeal' articles, see the article on the front page of Frankfurter Allgemeine Zeitung on 17.12.2003 : « Juncker soll es richten ».

The revolving presidencies illustrate the skill of Luxembourg diplomacy, despite the obviously limited resources of the country, for which the presidency has always been considered to be a particularly demanding task. The general opinion is that Luxembourg, like other small countries, has generally discharged its responsibilities more than honourably. This was particularly true in 1985, 1991 and 1997, with the preparation of the Single European Act, the Maastricht Treaty, and the implementation of an employment policy and of enlargement. The first Luxembourg presidency of the Council of Ministers of the Community (EEC) was in 1960. The other 'old style' presidencies were in 1963, 1966, 1969 and 1972.

The 1966 presidency was certainly the most remarkable, for it was the Luxembourg presidency's efforts and perseverance that brought forth the famous 'Luxembourg Compromise'. On 17 January 1966, the French Foreign Affairs Minister, Maurice Couve de Murville, finally came back to the Council table, having operated an 'empty chair' policy for more than six months. On 30 January 1966, Pierre Werner, acting as both President of the Government and Minister for Foreign Affairs, persuaded the partners to come to what he himself described as 'an agreement to disagree'[3]. The arrangement, which was meant to protect the vital national interests of a Member State, brought an end to a major crisis. Describing his approach, Pierre Werner said in his Mémoires: "I believed that my presidency should above all create an atmosphere and environment of negotiation taking into account the sensitivity of the partners wishing to reach an understanding. The understanding should not be the loser in a row over subtleties of language disguising a persistent fundamental disagreement"[4].

The creation of the European Council from 1974 changed the rules of the game. Luxembourg chaired the European Council six times: in April 1976, December 1980, December 1985, June 1991 and November and December 1997.

In 1976, Gaston Thorn (DP), who combined the functions of Prime Minister and Minister for Foreign Affairs while heading a centre-left coalition (DP/LSAP), chaired both the Foreign Affairs Council and the European Council. Europe was suffering the impact of the oil crisis and had to deal with recurring monetary crises. The implementation of the Werner report on the establishment of monetary union was postponed sine die and was to be resumed only much later, by the European Commission under Jacques Delors. As the governments were not ready to discuss the institutions and the future of the Community, monetary issues were set aside.

Luxembourg used its Presidency to reaffirm its position on the European Parliament. However, its partners expected it to make proposals on the number and distribution of the seats in the Parliament to be elected by universal suffrage in June 1979. The issue of the over-representation of Luxembourg was already being raised. In the second half of 1980, it was Pierre Werner's turn to chair the European Council, which was held in Luxembourg, on 1 and 2 December 1980. Monetary issues dominated the agenda. Pierre Werner was in a good position

3 Werner, P..1992, Itinéraires luxembourgeois et européens, t. II, Editions St. Paul, Luxembourg, p.78
4 ibid., p. 79

to ease the tensions between the partners. The British Government, led by Margaret Thatcher, had demanded a reduction in the British contribution to the Community budget. In addition, the Luxembourg Government was preoccupied with preparing for the accession of Spain and Portugal. In a gloomy and pessimistic atmosphere, the partners were unwilling to make major concessions.

In the second half of 1985, it was the turn of Pierre Werner's successor, Jacques Santer (CSV), to chair the European Council, with a particularly packed agenda, starting with the completion of the work of the Intergovernmental Conference (IGC) on the internal market and putting in place the beginnings of cooperation on foreign and security policy. The Luxembourg Presidency also had to deal with controversial subjects such as economic and social cohesion, social policy, and the possibility of sustaining more advanced legislation in the event of legislation on the internal market being harmonised.

After interminable negotiations, the partners reached an agreement on extending qualified majority voting, which was essential if the single market were to be established within the planned timescale. This significant innovation would also substantially increase the powers of the European Parliament [5].

I.2 PRAGMATISM, LUXEMBOURG STYLE

Luxembourg's pragmatic approach works wonders. According to Jacques Santer, it was necessary to "quickly achieve what we could agree on rather than letting the negotiations drag on"[6].

In his Mémoires, Jacques Delors made the following assessment: "The Luxembourg Presidency took the matter in hand with a great deal of authority… For me that Presidency was a happy time. Everything helped: the lack of ulterior motives and concerns about precedence set aside. It was a great success for the people of Luxembourg"[7]. The Single European Act, which was put together under the Luxembourg Presidency, was signed in Luxembourg, on 17 February 1986.

The first half of 1991 brought Luxembourg back into office, against a background of international crisis: the first Gulf War, crisis beginning in Yugoslavia, the collapse of the Soviet Union… The main feature of the presidency was the Intergovernmental Conference on Economic and Monetary Union. At the European Council in Luxembourg, the 'consolidated' text of a draft treaty on EMU, put forward by the Luxembourg Presidency, was finally accepted as a basis for discussion on which the negotiations could continue. The treaty signed in Maastricht on 7 February 1992 was scarcely different from the agreed draft.

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5 Heintz, M./ Hirsch, M.,.1998, L'Union européenne et la présidence luxembourgeoise, CRISP/CH1588-1589 Brussels, p.11 onwards.

6 Santer, Jacques: Statement to the European Parliament in Strasbourg (11.12.1985)

7 Delors, J, 2004, Mémoires, Plon, p. 219.

Preparation for 31 December 1992, the deadline for the entry into force of the Single European Act and the creation of the internal market, was the second major area of work for the presidency, which led to a political agreement on harmonising VAT and excise rates, moving to the final VAT system and on veterinary and plant health harmonisation.

I.3 THE PRIME MINISTER AS A 'ONE MAN BAND'

During the second half of 1997, the European Council was chaired by Jean-Claude Juncker, who had succeeded Jacques Santer in 1995, on the latter's was appointment as President of the European Commission. Combining the roles of Prime Minister, Minister for Finance and Minister for Work and Employment, Jean-Claude Juncker chaired three Councils of Ministers, which were to play a key role in the preparation of the future European Council on employment, and this made him a real 'one man band'.

During the employment summit on 20 and 21 November 1997 in Luxembourg, the heads of State and Government adopted a coordinated strategy for employment. It contained common guidelines, set annually, for the national action plans to combat unemployment, while combining the efforts of all those involved. It was the start of a coordinated macroeconomic policy. Unfortunately, the tangible results vanished quite quickly afterwards and the exercise degenerated into a routine. Nevertheless, Luxembourg was able to draw inspiration from this to re-launch the Lisbon strategy.

The Luxembourg presidency also succeeded in making progress towards a single currency with the plan for converting the national currencies into euros and setting bilateral exchange rates in advance. The Luxembourg European Council in December 1997 was dominated by enlargement to twelve new countries. The Fifteen agreed on a method and a procedure. The candidates were included in a progressive approach, according to their degree of preparation. It was decided to immediately open negotiations with Cyprus, Estonia, Hungary, Poland, Slovenia and the Czech Republic; the second group of six countries followed in 1999. Turkey, which received no serious accession proposal, reacted very badly at the time, not accepting being relegated to a third category.

I.4 A CONSIDERABLE CHALLENGE

For a country as small as Luxembourg, a presidency is a considerable challenge, especially with regards to human resources. After all, normally the Minister for Foreign Affairs of the Grand Duchy has a smaller staff than the permanent representation in Brussels of an average-sized country, and the Luxembourg diplomatic network covers only around twenty countries. Everywhere else, i.e. in more than nine-tenths of the countries of the world, Luxembourg's interests are represented by the diplomatic missions of the Netherlands, an arrangement that goes back to the 19th century, when the King of the Netherlands was also the Grand Duke of Luxembourg. This most modest foreign representation, along with the lack of an analysis and planning unit, obviously suggests a certain amount of reserve, and quite a low profile in foreign relations, which automatically rules out 'go it alone' or 'flash in the pan' type initiatives.

Lacking its own resources, Luxembourg has taken to working in close cooperation with the Council or Commission services, which in return can bring it critical acclaim, such as in 1997 when the presidency finished with a flourish when President Arafat and the Israeli Prime Minister Benjamin Netanyahu came to Luxembourg during the European Council. The relationship of trust between Jacques F. Poos (LSAP) and ambassador Miguel Angel Moratinos, Minister for Foreign Affairs and EU special envoy to the Middle East peace process respectively, had something to do with this[8].

In order to take on the considerable increase in workload associated with the 2005 presidency, around 200 temporary officials have been added to the government administration, particularly in foreign affairs and the diplomatic missions. Nor has Luxembourg been parsimonious in terms of resources, with a budget of around EUR 60 million for carrying out its responsibilities throughout its presidency.

The challenge is still a significant one. In this respect it is regrettable that the government formed following the elections on 13 June 2004 did not take on board the suggestions made by the Luxembourg Economic and Social Council (CES), in a recent opinion[9], for a “genuine strategy of influence with and within the European institutions”. It notes that it is inevitable that the way in which the Government is organised and the way the European institutions operate will be ‘out of step’ in some cases: “The remits of the EU Council in a given form are often shared between different ministries in Luxembourg and it also occurs that these ministries fall under different ministers. Therefore, the CES questions whether the current configuration of ministers best combines the necessary capacities for analysis, discussion and action to meet the requirements of the EU…”.

In this opinion, the CES suggests that the structure of the Government should take into account the spectrum of responsibilities that the EU Council operates in its different compositions and nine forms.

This will have to be done using the means available, and the government leaders are going to do everything they can to show that they are equal to the challenge.

It is true that one can be cynical and relativise the merits of the small countries and their successful presidencies, as did the journalist Luc Rosenzweig when he wrote: “The praise for small nations for a ‘successful’ presidency is based on how zealously the ‘little countries’ implement the ideas of the ‘big countries’, not for having brought their specific concerns to European level”[10].

8 Jacques F.Poos also gave an assessment of his experience with the CFSP in an article that attracted a lot of attention, ‘Une ingénierie bien particulière: la PESC’, in the Luxembourg weekly d’Lëtzebuerger Land on 6 February 1998.

9 Conseil économique et social, 2004, Avis sur l’évolution économique, sociale et financière du pays, Luxembourg, pp. 6-16.

10 Le Monde, 25 March 1997.

Be that as it may, a presidency is always seen as a national cause in Luxembourg. So on the eve of the 1997 presidency, the main opposition party, the liberal DP party, agreed to a political truce for six months, allowing the government not to have to watch its back too much. Although no such proposal has as yet been made, the result is the same: Luxembourg domestic policy will be in step with the presidency.

II - LUXEMBOURG AND EUROPE: ALMOST PERFECT HARMONY

The Grand Duchy has been and still is to a large extent a model pupil of European integration, as Eurobarometer polls still regularly show. It has devoted itself body and soul to this great cause, armed with its international openness and integration into broader groups, which is normal for such a small country, which very early on had an inordinately large economy, first of all iron and steel, then the financial sector and services. There was always a relatively strong sense of national sovereignty, although the country has always shown real talent as a 'sovereignty merchant', sometimes to the great displeasure of its neighbours, for example in banking, the audiovisual sector (CLT/RTL) and telecommunications (SES/ASTRA)[11].

From the 19th century it was part of the German Zollverein (1842 to 1918). Its economic and monetary ties with Belgium in Belgo-Luxembourg economic union (BLEU) began after the First World War (from 1921 until the advent of the single currency). The non-monetary aspects of BLEU are still in force and have just been renewed. Luxembourg played a very active role in the economic and political links between the three BENELUX countries. The first foundations were laid by the governments in exile in London during the Second World War, but the BENELUX economic union did not come into force until 1958. It was gradually put on the back burner as European integration progressed; now all that remains is close political cooperation between the governments of the three countries, which was damaged by the Iraq crisis .[12]

2.1 EVERYTHING STARTED IN LUXEMBOURG

The European adventure really started in Luxembourg in July 1952. Following interminable negotiations, the Luxembourg Minister for Foreign Affairs, Joseph Bech, proposed that the High Authority of the ECSC should "immediately" begin its work in Luxembourg, a compromise suggestion accepted when there were several cities on the list. The High Authority of the ECSC, which began on 10 August 1952, stayed in Luxembourg until the mid 1960s, when the

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11 On Luxembourg's pioneering role in the audiovisual and communications sectors, see the following contributions by the author: 'European Broadcasting Policy in the Doldrums', in Demac, D., ed. :Tracing New Orbits, Columbia University Press, New York, 1986 and 'La pugnas politicas, económicas y diplomáticas en torno a los satélites de teledifusión en Europa' in Richieri, G., ed., Los satélites de televisión en Europa, Fundesco, Madrid,1988.

12 On these various aspects, see Entringer, H., 1997, La présence européenne à Luxembourg, Éditions d'Lëtzebuerger Land, Luxembourg; Fally, V., 1992, Le Grand-Duché de Luxembourg et la construction européenne, Éditions Saint-Paul, Luxembourg; Hirsch, M., 2003, 'Benelux: ein Motor der europäischen Integration', in Kneipp, D./Stratenschulte. E., ed.: Staatenkooperation in der EU, Leske+Budrich, Opladen; Trausch, G. ed., 1994, Le Luxembourg et l'Europe, Centre d'études et de recherches européennes Robert Schuman, Luxembourg; Von Kunitzki, N. 1982, L'UEBL : Un mariage sexagénaire en crise, Éditions d'Lëtzebuerger Land, Luxembourg.

executive bodies of the ECSC, the EEC and Euratom merged, creating the European Commission.

On several occasions, the ‘seat issue’ resulted in heated political discussions. The Commission and the Council are now in Brussels. Strasbourg has been confirmed as the seat of the European Parliament, while the following remain in Luxembourg:

- The General Secretariat of the European Parliament, although it is more than twenty years since the last plenary session took place there;
- Some of the Commission services, including the statistical office Eurostat and units of the translation service, administration and various general offices;
- the Court of Justice of the European Communities and the Court of First Instance;
- the Court of Auditors of the European Communities;
- the European Investment Bank and the European Investment Fund;
- the Office for Official Publications, the Union’s official publisher.

In April, June and October, the Council of Ministers, as variously composed, holds its sessions in Luxembourg.

The city of Luxembourg, with fewer than 80 000 inhabitants, has more than 9 000 European officials. Following enlargement, this figure, which does not include the many service providers established around the institutions and departments in Luxembourg, is going to increase considerably, particularly in the language services.

2.2 An astounding ‘resilience’

Aside from these aspects, which have a major impact on the micro-economy of the capital and of the country, Luxembourg has rarely had any trouble with going along with the general direction of European politics, which is usually in line with its own choices, which are reasonably liberal and outward-looking. There is only one area in which, since 1989, it has had to fight hard to preserve the foundations of its resounding economic success: taxation on savings. The matter began when, in 1989 and for the first and last time, the Grand Duchy used its right of veto in order to prevent the introduction, at European level, of taxation at source. Fifteen years later, very little has changed, which proves the ‘resilience’ of Luxembourg, even though in the mean time (that is, since the European Council in Feira), it has had swallow the bitter pill of deduction at source, a lesser evil compared to the automatic exchange of information between tax authorities which the majority of its partners wanted to impose on it, which would definitely have meant the end of banking secrecy. The Luxembourg financial market employs around 30 000 people and provides more than one-third of the Government’s tax revenue, even though the taxation of its activities is modest.

However, Luxembourg secured a period of grace until 2013, insofar as it is hiding behind Switzerland and vice versa. It accepts the European solutions only on the condition that the Swiss Confederation and other off-shore markets are strictly subject to the same treatment. Above all, it has managed to preserve the principle of unanimity in fiscal matters so far, which means that it will still have the last word until further notice[13].

2.3 From 'subservience' to 'activism'

Otherwise, Luxembourg European policy is generally to be cautious and 'follow the leader', apart from the periods when strong personalities such as Joseph Bech, Pierre Werner, Gaston Thorn, Jacques Santer or Jean-Claude Juncker were in office[14].

Since Jean-Claude Juncker has been leading the Government (January 1995), foreign and European policy has become more pro-active. The Prime Minister is a past master in public diplomacy, using his easy access to the media, particularly the audiovisual and German-speaking media, with whom he has a privileged relationship. He has, however, re-oriented foreign policy, which is now more clearly than before directed according to the options taken by Paris, Berlin, and to a lesser extent Brussels, while accepting a breach with the Netherlands. This became clear during the Iraq crisis, when Luxembourg joined the camp of the opponents to military intervention.

Not content with this spectacular reversal of Luxembourg's position, which was traditionally in line with America, Luxembourg agreed to take part in the famous meeting of the Heads of State and Government of Germany, Belgium and France, called by the Belgian Prime Minister Guy Verhofstadt in Brussels, and ridiculed by some as a 'Pralinengipfel' or 'Chocolate Summit'. For Jean-Claude Juncker this initiative was essential in order to give Europe a credible security and defence policy, as diplomatic action would be convincing, and therefore effective, only if it could also rely on real civil and military capacity.

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13 Cf. The Belgian daily L'Écho, 18.5.04: "Le Luxembourg et la Suisse ont gagné leur pari" and Frankfurter Allgemeine Zeitung on 7.9.04: "Die Mitgliedstaaten bleiben die Herren der Steuerpolitik".

14 For a general assessment of Luxembourg's foreign and European policy, see the following contributions by the author: 'La situation internationale des petits États : des systèmes politiques pénétrés', in: Revue française de science politique, vol. XXIV, no. 5, 1974; 'Die Logik der Integration', in: Europa-Archiv, Folge 13/1974; 'Influence without Power: Small States in European Politics', in: The World Today, March 1976; 'Who is in charge of the destinies of Small States ?' in: Hoehl, O., ed., 1983, Small States in Europe and Dependence, Unversitätsverlag Braumüller, Wien; 'Estrategia y capacidad negociadora de un pequeno pais en el proceso de integración europeo. El ejemplo de Luxemburgo », in: Moreira, C., ed., 1992, Pequenos Paises en la Integracion. Opportunidades y Riesgos, CIESU/FESUR, Montevideo.

For a regular assessment of Luxembourg's European policy, see our contributions to Weidenfeld, W., ed., 2002 and 2004, EuropaHandbuch, Bundeszentrale für politische Bildung/ Bertelsmann Stiftung, Berlin/Gütersloh.

He justified his presence by saying: "I did not come to Brussels to strengthen Europe's defence with the military might of Luxembourg, but I do not want a major European initiative to be taken without Luxembourg, a founding member of the Union…Europe is moving forward in line with its ambitions. Our initiative is one of those great ambitions. Europe has always progressed in the same way: at the start on three of us conceived the single currency. Every time that Europe is sure of itself, and is capable of fostering major ambitions, it surprises the world"[15].

15 Bulletin d'information et de documentation du gouvernement luxembourgeois, no 2/2003, pp.43-44.

III–THE MAJOR MATTERS ON THE AGENDA: LUXEMBOURG'S ATTITUDES

3.1 FINANCIAL PERSPECTIVES 2007-2013

The Council's triennial programme, adopted in December 2003, includes a political agreement on the financial perspectives for 2007-2013 in June 2005, therefore at the end of the Luxembourg presidency. Luxembourg considers it to be vital that the agreement is reached because the political circumstances will not be as favourable afterwards (British presidency, elections in several important Member States, ratification of the Constitutional Treaty, etc.). Indeed, in terms of dates and budgetary resources, an agreement in June 2005 would be more favourable for Community policies in general and for cohesion policy in particular. This aspect is very important to the Luxembourg Government, particularly with regard to the new Member States and those that are going to join the EU in 2007. It is fully aware of how difficult the task is, as the various positions adopted in terms of generosity and acquired rights are dependent on national budgetary constraints, and that the issue of net balances (British compensation) will surely poison the discussions.

In budgetary matters, Luxembourg also has a credibility problem. The Grand Duchy, the richest country in the world in terms of income per inhabitant according to the World Bank, also appears to be the biggest net beneficiary of the Community budget, especially in the calculations done by the Commission, which tends to include administrative expenditure, which is particular large in the case of Belgium and Luxembourg due to the fact that most of the EU institutions and bodies are on their territory.

Luxembourg regularly argues that the administrative expenditure serves the Union as a whole. In July 2004, when the Commission put forward its proposals reforming the system of own resources, planning a general correction mechanism to replace the mechanism in favour of the United Kingdom, it had included administrative expenditure in its estimates of the net budgetary balances, which resulted in an indignant reaction from Luxembourg. However, in order to remain credible on this matter, and to prevent any criticisms of bias, the Government plans to waive in advance any benefits accruing from any general corrective mechanism, thereby implicitly acknowledging that it gains some advantages from the presence of Community institutions. It intends to make common cause with Belgium on this matter.

Having said that, it is in the process of evaluating the fairly clear-cut respective positions in order to identify the parameters for a possible compromise in June 2005. This deadline is important if the aim is to block the whole legislative process that should follow before 2007. Luxembourg is helped in its role as honest broker by the fact that it refused to sign the letter from the six main contributors to the Community budget (Germany, Austria, Netherlands, France, United Kingdom, Sweden) sent on 15 December 2003 to Romano Prodi. The signatories had expressed their determination to ensure that expenditure during the next financial perspectives (2007-2013) were stabilised around the levels of current spending and that they did not exceed 1 per cent of the gross national income of the EU.

In his written answer to a parliamentary question, on 15 October 2004, Jean-Claude Juncker, in his capacity as Minister of Finance, gave the reasons why he kept his distance from this initiative. Firstly, out of concern for the cohesion policy. In an enlarged Europe, territorial, economic and social gaps have considerably increased, which should not be ignored. At the same time, the EU had jointly agreed new ambitions as regards sustainable growth, foreign and defence policy and immigration, which clearly require increased budgets. He therefore considers the threshold required by the Six to be unrealistic.

The future Luxembourg presidency is also aware that if there is persistent disagreement between the Member States, two budgetary rules derived from the current inter-institutional agreement (IIA) between the EP, the Council and the Commission can help the Presidency. One of the rules stipulates that if there is no agreement between the Council and the EP and unless the IIA is cancelled, the ceilings for 2007 and the following years are set by applying the average rate of increase for the various headings in 2000-2006 to the figures.

Therefore, in theory, if there is no new financial framework, the valid ceilings for 2007 would be those for 2006 adjusted by relatively modest variation rates. The consequence would, however, be that the authorised expenditure for the cohesion policy would fall and resources for external relations would not change, which obviously goes against the intentions expressed and could trigger a major conflict with the Commission and Parliament. If there is persistent disagreement between the Council and Parliament, the Presidency can also take advantage of the provisions of the Treaties, which set a limit for changes in non-obligatory expenditure. This is the maximum increase rate, calculated using the average increase in Community gross national product and national budgets. This variable is more or less the growth rate, which the Commission evaluates at an average of 2.3 per cent for 2007-2013. This would also be a disappointing result given the ambitions expressed. If this mechanism is applied, the commitment appropriations would be towards 1 per cent of gross national income, which would easily satisfy the 'Six', but the main categories of expenditure would have to be substantially reduced, particularly the Cohesion Fund, which goes against the priorities of the Luxembourg Presidency.

The financial perspectives for 2007-2013 will require all the resources and astuteness of the Luxembourg Presidency. In order to convince its partners to back up their words with actions, the Presidency will be able to use the fact that this matter is closely linked with the mid-term review of the Lisbon Strategy and of the reform of the Stability and Growth Pact. The overlaps are obvious, and Jean-Claude Juncker, whose multiple roles mean that he is directly involved in all these matters, is in a particularly good position to restore coherence.

But the task will not be easy, especially as an agreement will require drastic cuts in the Commission's proposals. The savings will probably affect rural development, the cohesion policy and some internal and external policies, which represent EUR 700 billion of expenditure over the period. On average, these policies would therefore have to be cut by 18 per cent according to provisional estimates. In order to achieve this amazing feat, it will especially be necessary to convince those among the older Member States who benefit highly from the current cohesion policy, to make sufficient concessions when the time comes, by making them understand that any delayed agreement would cost them even more. At a round table on enlargement on 12 May 2004 at the Bank of Luxembourg, Prime Minister Juncker declared that Luxembourg was prepared to lead the way in a new distribution of the structural funds between old and new Member States: "I cannot see why Luxembourg should continue to benefit from these funds at that level, while the new members, whose economise are still in transition, need them far more"[16].

3.2 TURKEY AND FUTURE ENLARGEMENTS

During its Presidency of the second six months of 1997, the issue of Turkey was already causing the Luxembourg Government a headache. That government was faced with the task of preparing the way for negotiations to begin in spring 1998 on enlargement to the countries of Central and Eastern Europe, Malta and Cyprus, and carried out that task admirably, leaving aside the problem of Turkey's candidature, by achieving agreement on a procedure acceptable to the Member States and the candidate countries.

The current situation shows striking parallels with the atmosphere prevailing at the end of 1997. Like today, the Presidency had the difficult job of separating procedural issues from the financial implications of enlargement. At that time, the stumbling block was 'Agenda 2000', the document on reform of Europe's finances, the Structural Funds and the common agricultural policy, drawn up by the Commission headed by Jacques Santer. The risks of 'pollution or telescoping' with enlargement were considerable, along the lines of what might happen now in terms of the adverse effects of the issue of Turkey and the yet-to-be digested consequences of the enlargement of 1 May 2004 for both the 'Financial Perspectives 2007-2013' and for the ratification of the constitutional treaty[17]. The same can be said of the opposing forces, in particular the net contributing countries, the beneficiaries of 'cohesion' or of the common agricultural policy, who wish to rein in the enthusiasm of those who want to implement a policy of generous redistribution within the enlarged Europe.

The Luxembourg European Council of December 1997 ended with the ratification of the Presidency's approach of sticking strictly to procedural issues and preventing one issue from overshadowing others. The conjuring trick consisted of 'making a clear distinction in the presentation and implementation of the future financial framework between expenditure relating to the Union as currently constituted and that reserved for the future acceding countries'[18].

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16 Bulletin d'information et de documentation du gouvernement luxembourgeois, no 2/2004, p.80.

17 With regard to these parallels, see Heintz,M./ Hirsch,M., 1998, L'Union européenne et la présidence luxembourgeoise de 1997, Brussels : CRISP.

18 Presidency conclusions, 13.12.1997, Luxembourg.

With regard to enlargement, the method adopted satisfied everybody, no doubt because it created a standstill in relation to Turkey, confirming its eligibility for accession, but adding that 'the political and economic conditions allowing accession negotiations to be envisaged are not satisfied'. This refusal caused consternation in Turkey and Juncker was held personally responsible. That experience left its mark on him, although all he did was give in to Greek blackmail and the reticence of his friend, Chancellor Helmut Kohl. Since then, however, in particular following frequent contacts with Turkey since Mr Erdogan came to power, Juncker has changed his mind: 'It is not me who has changed, but rather Turkey! My reservations have suddenly disappeared and I agree with the opinion of the Commission of 6 October 2004. I believe that the conditions are in place to begin accession negotiations'[19].

Juncker also took the risk of turning against his political friends in the CDU/CSU by publicly challenging the alternative of a 'privileged partnership' advocated by Angela Merkel. This idea came too late, because since 1999 all European governments without exception have been keen to encourage hopes of accession and it would be too late to backtrack now[20]. Within his own party, the CSV, the cause appears to have been accepted[21], just as it is within Luxembourg's political class. Just one party, the populist ADR, which represents around ten per cent of the electorate and holds five of the sixty seats in the Chamber of Deputies, has so far spoken out against the accession of Turkey, clearly relying on the contagious effect of the increasingly heated debate taking place within the neighbouring countries and the reticence already demonstrated in all opinion polls by a majority of the Luxembourg population towards the prospect of further enlargements.

The Luxembourg Government is, therefore, in principle, in favour of opening up accession negotiations with Turkey, but at the same time stresses that it should be kept in mind that this is an 'open process'. In the case of Turkey, accession negotiations would be different to previous ones, and it is therefore legitimate to point this out. In an official position, the government has 'welcomed the full and detailed work' provided by the Commission in its report on Turkey of 6 October 2004[22]. It agrees with the conclusion that these negotiations 'are an open process, the result of which cannot be guaranteed in advance'. Any possible accession should be prepared in great detail 'so that neither the EU nor Turkey suffer the consequences of a badly-prepared accession'.

As far as the opening of negotiations is concerned, the Luxembourg Presidency does not see any problem in them starting in the first half of 2005, but is aware that it will be very difficult to obtain the agreement of all the Member States on proceeding in this manner. After the European Council of 4 and 5 November 2004 in Brussels, Prime Minister Juncker appears to

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19 Le Figaro, 29.10.04.

20 « Juncker : Zu spät für privilegierte Partnerschaft », in : Frankfurter Allgemeine Zeitung, 17.9.04.

21 See Engel, F. (2004), «Üsküdar est en Europe », in :d'Lëtzebuerger Land, 5.11.In this noted article the Secretary-General of the CSV parliamentary group rejects all the arguments regularly put forward by the Right against the accession of Turkey.

22 Communiqué of the Government Information and Press Service, Luxembourg, 6.10.04

have created a reason for the probable postponement of the opening of negotiations until the end of 2005, beginning of 2006[23].

In Luxembourg there is complete awareness of and some alarm over the debates in Germany, Austria, France and several other countries. It is a case of having a clear idea of what the Member States are thinking and deciding whether “additional strong language” is essential, whilst being careful not to put out Turkey too much. This is the reason why they were not very keen on the procedural and tolerably dilatory argument put forward by some, including France, that the Commission must finish its work before the start of negotiations in order to justify the postponement of the opening of negotiations until after the European Council of December 2005 and thus ensure that the ratification of the constitutional treaty is not contaminated by the Turkish issue. At a press conference on the fringe of the November 2004 summit, Mr Juncker provided a foretaste of what he deems to be necessary from now on: “If Turkey were to leave the path of reform and return to its old demons, it should be possible to break off negotiations at any point. They do not entail any sort of automaticity or automatism”.

It is clearly visible. On the eve of the December 2004 European Council, it seems that we are a long way from the resolution taken at the time of the European Council in Copenhagen: “If, in December 2004, the European Council decides, on the basis of a report and a recommendation by the Commission, that Turkey satisfies the political criteria of Copenhagen, the European Union will immediately open accession negotiations with this country”. The Luxembourg Government regrets the “deterioration” of this file, of which it will probably have to bear the brunt yet again, as feared by the Deputy Prime Minister and Foreign Minister, Jean Asselborn (LSAP), if it has to be confirmed that the promised “immediately” becomes held back in interminable procedures and endless constraints.

Since the Dutch Presidency intends to conclude negotiations with Bulgaria and Romania, it will fall to the Luxembourg Presidency to find wording that is likely to encourage Romania to redouble its efforts to complete in 2007. If negotiations are finalised by the end of the year, the accession treaty can be signed under the Luxembourg Presidency.

As far as Croatia is concerned, Luxembourgers have fewer qualms than the Dutch. They realise, however, that the conditions for opening negotiations, provisionally planned for early 2005, will not be met unless Croatia genuinely improves its cooperation with the International Criminal Tribunal for the Former Yugoslavia in the Hague by stepping up its efforts to arrest people wanted for war crimes. Pressure on Croatia must therefore be maintained.

Regarding enlargement, Luxembourg, which did have a very generous and open attitude, has also succumbed at the last minute to the pervading nervousness. The Chamber of Deputies, on the eve of the accession treaty of the 10 new Member States coming into force on 1 May 2004, adopted an amendment to the law on foreigners entering and remaining that regulates the

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23 Statements reproduced in the Luxembourg daily Tageblatt on 6.11.04.

access of future Community nationals to the Luxembourg labour market[24]. To put it plainly, Luxembourg has exercised, following the example of all the current Member States except Ireland, the provisions of the accession treaty authorising them not to apply the provisions relating to the free movement of workers immediately. The country is demanding a transition period of two years. When Portugal joined in 1986, Luxembourg, almost 15% of whose resident population is made up of Portuguese nationals, obtained a transition period of 10 years before the free movement of workers would apply, but some years later gave up hiding behind this safety clause since the flood never materialised. Fortified by this experience, Prime Minister Juncker took took his crusade to Austria and Germany prior to enlargement to convince the authorities and public opinion that fears of a flood from the East to the West were unfounded. He said, however, that he had been defeated within his own government, for which he publicly voiced his regret[25].

Even in Luxembourg, in fact, the openmindedness of the population has moved towards greater reticence. According to the Eurobarometer survey carried out in the autumn of 2003, 43% of those surveyed want the Union only to integrate certain countries. Almost a third does not want to see any additional countries accede and only 15% are open to all the countries wishing to join. At the time of the previous survey, carried out in April 2003, 23% were still in favour of all-out enlargement. The percentage of those in favour of selective enlargement is constantly growing, as is the percentage of those wishing to cap the number of Member States in the Union.

3.3 INSTITUTIONAL ISSUES AND THE CONSTITUTIONAL TREATY

Throughout the work of the Convention on the future of the Union, the Luxembourg government has fought hard to maintain adequate representation of the less populated countries in the authorities and institutions, which is a classic Grand Duchy approach to diplomacy, namely the safeguarding of the principal of statutory equality between the Member States. At the same time, it was anxious to prevent a drift towards intergovernmentalism and to prevent the Commission from weakening too appreciably. Throughout the institutional discussions, it showed itself to be one of the most fervent enthusiasts of the extension of the "Community method" to other political areas[26].

This position has been the main thread running through all official statements of position for years, indeed decades. In the explanatory statement accompanying the bill approving the Treaty of Nice, the government welcomed the fact that "institutional equilibrium" had been maintained and that "Luxembourg's place in the Community authorities, both through

24 Bill n° 5314, tabled in the Chamber of Deputies on 18th March 2004!

25 D'Lëtzebuerger Land, 21.5.04.

26 An interview granted by Mr Juncker to the Austrian magazine Profil (5.1.04) sums up very well Luxembourg's views. See also the 'mixed record' of the Convention's work, as Mr Juncker described it in an interview published 3.10.03 in the Luxembourg weekly d'Lëtzebuerger Land.

egalitarian representation of all the Member States in the composition of the institutions and through representation in Parliament" had remained intact[27].

The Luxembourg government, feeling less than pleased with the turn taken by the work of the European Convention, had taken the initiative of calling an informal meeting of seven Member States "sharing the main the same conception of Europe, based particularly on the strengthening of the Community method, an equilibrium between the institutions and on equality between all the Member States" in Luxembourg on 1st April 2003. This initiative, which brought together the prime ministers and foreign ministers of the Benelux countries, Austria, Finland, Ireland and Portugal, had been announced in a Benelux memorandum of 4th December 2002. At the conclusion of the meeting, Mr Juncker summed up the agreement reached as follows: "We intend to block the high-risk route of intergovernmental sideslip and to open the way for a strengthened Community method". In the same frame of mind, the informal Luxembourg meeting had voted against the idea of seeing the Council of Ministers presided over by a full-time president, elected outside of the European Council, which would have the effect of reducing the President of the Commission to the role of "just an assistant of the latter"[28].

At the same time, the "revolt of the seven dwarves"[29] reached an agreement to maintain the principal of "one country, one commissioner" until there should be a new order. Afterwards, that is once the number of 27 commissioners has been reached, a rotation based on strict equality between Member States could apply.

This initiative has, however, no real future since, shortly after, Mr Juncker made an about-turn and became distinctly more accommodating, coming closer to the arguments put forward by France and Germany, particularly relating to the future President of the European Council. He reconciled himself to this idea on the condition that the possibility of holding the posts of both President of the Council and head of government concurrently should not be dismissed out of

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27 Parliamentary paper n° 4783, 19.4.2001. Report of the Parliamentary Committee on Foreign and European Affairs on this bill, adopted 5th June 2001, notes in this connection: "Our country, as every Member State, is constantly torn between two demands. One consists of defining, over the course of historical developments, the private domain of national sovereignty to be preserved. The other requires a positive approach to integration, because experience has shown that, since the birth of the Grand Duchy, a small country such as ours owes its existence precisely to opening up to the outside in a peaceful environment. The coherence between these two demands determines the European policy of our country. It does not preclude a resolute defence of the influencing measures acquired over the years and of the adequate representation of a small country in the decision-making bodies, as is the case in all structures of a federal nature. It does not excuse us from being a positive and offensive actor for integration. On the other hand, beyond the beautiful and noble declarations that European integration can arouse, this cannot disguise the power stakes between the principal political actors. These were clearly shown in the last phase of the Intergovernmental Conference. One can only wish that the spirit of partnership and solidarity that has driven European integration since the start persists beyond the will for power of the large States that is demonstrated here and there. Otherwise, a return to a Europe of the old demons of nationalism will be fatally written in our history".

28 Information and Documentation Bulletin of the Luxembourg Government, n°2/2003, p.50.

29 D'Lëtzebuerger Land, 5.4.2003.

hand. His domestic detractors were only too willing to establish a link between this reversal and the fact that Mr Juncker would personally covet the new post when the time came[30].

In compliance with the Multiannual Strategic Programme of the Council 2004-2006 and the operational programmes of the Luxembourg and British Presidencies for 2005, it will be the responsibility of the Luxembourg Presidency to ensure “that ratification procedures are initiated without delay and that they are carried through as quickly as possible, so that the new treaty can come into force at the beginning of 2006 at the latest”.31 Although it is already accepted that this objective will not be met due to the fact that the British referendum has been postponed until 2006, the Luxembourg Government has already attempted to sort out the ratification procedures, at least those that will be the subject of a referendum. In October 2004, foreign minister Jean Asselborn sent a letter to his counterparts in the founding countries, inviting them to consider a common approach and a dialogue regarding the dates of the referendums. This approach was unsuccessful due to national agendas and greatly diverging political cultures.

The date is also a problem in Luxembourg and has already caused controversy. Initially, the Prime Minister had suggested that the referendum be linked with the local elections of October 2005, only to be accused immediately, including by the LSAP, his coalition partner, of wanting to enable the CSV, his party, to benefit from the “Juncker effect”, as he had succeeded so well in doing at the time of the double ballot (national and European) of 13th June 2004. The CSV had achieved one of its best results since the war with 36% of the vote in the general elections and as much as 37% in the European elections (gaining six points compared to its disappointing results in the 1999 elections). Approached by his European peers to stand to succeed Romano Prodi, Jean-Claude Juncker resisted the pressure. His party profited from his decision to remain head of the government, giving the electorate the following advice: “If you want Jean-Claude Juncker to remain your Prime Minister, vote for him and his party, the CSV”. Message received loud and clear!

Finally, the parliamentary parties reached an agreement to make use of the Presidency effect. The Luxembourg referendum on the constitutional treaty will take place on 10th July 2005, that is, 10 days after the end of the Luxembourg Presidency. The “Juncker effect” will certainly apply there too, but to the sole advantage of the commitment of Luxembourgers (and of Community nationals who will be able to participate in this referendum, on the condition that they were on the electoral register for the 2004 European elections; almost 40% of the resident population of Luxembourg is of foreign origin, and three-quarters are Community nationals).

The participation of Community nationals in the referendum, which has yet to be decided upon, is already the subject of a controversy. Voices are being raised to say that it would be

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30 Statements by Mr Juncker on RTL Télé Lëtzebuerg on 1st July 2003 and subsequent reactions by the Luxembourg political class.

31 Council of the European Union 2003, document 15896/03

completely unconstitutional because the vote would involve the sovereignty of the country. European commitment appears to really need a nudge in the right direction in Luxembourg as in other countries. According to a recent survey, 59% of the resident population would indeed approve the constitutional treaty, but 17.4% would reject it, with 23.5% abstaining[32].

The Grand Duchy does not have a particularly well-developed tradition of direct democracy. Up to now, there have been only two referendums that have gone against the voting orders of those in power at the time. In 1919, at the time of the first referendum, the electorate admittedly opted to keep the constitutional and hereditary monarchy, but on the question of economic links, it preferred France to Belgium. Following the objection by France, it had to make do with Belgium after all, which was preferred by the government and by heavy industry. In 1937, the electorate were asked to vote on the banning of the Communist Party, and rejected by a small majority a related law (called a “muzzle law”) that had already been adopted, however, by a large majority by the Chamber of Deputies.

This time, the government intends to shield itself from this type of nasty surprise. Prior to the referendum of 10th July 2005, the Chamber of Deputies will be called upon to vote on the draft constitutional treaty in the form of a resolution, which will say, in substance, that the draft will become law if the voting population wants it to.

3.4 The Stability Pact and the Lisbon Strategy

These portfolios, which are linked, will occupy the Luxembourg Presidency throughout its term of office.

Although it has never had any particular difficulties ensuring the compliance of its public finances with the Maastricht convergence criteria (traditionally the budget of the Grand-Ducal state is overbalanced, apart from the last three financial years when it closed with a small deficit; debt does not even reach 4% of the GDP), the Grand Duchy has shown great understanding of those Member States experiencing serious difficulties with these criteria and which are the object of excessive deficit procedures. Since it never followed the crowd demanding strict implementation of the criteria and sanctions, unlike the Netherlands and Austria for example, it can pride itself on a certain neutrality and objectivity when it comes to arbitrating between the positions of the different Member States.

It would seem, for that matter, that the Member States in a delicate situation regarding the convergence criteria (France and Germany in particular) want to avoid at any cost the reform of the pact being closed under the Dutch Presidency. It is true that the Dutch minister, Gerrit Zalm, has shown himself to be particularly inflexible on these issues, unlike Mr Juncker, who is distinctly more accommodating and understanding towards his powerful neighbours.

32 RTL/ILReS survey: the results were published in the Luxembourg daily Tageblatt on 30.10.04.

Moreover, Mr Juncker, in his capacity as finance minister, is the only negotiator and signatory of the Treaty of Maastricht and of its provisions on Monetary Union still in office. At the time of the Dublin European Council of 1996, he was an effective mediator between the differing positions of France and Germany while the pact was being drawn up. Finally, from 1 January 2005, he will not only be President-in-Office of the Council, but also President of Eurogroup. He will occupy this office for a period of two years and can be re-elected, which will allow him to embark thoroughly on the reform of the pact throughout his term of office. His peers entrusted him with this task on 10 September 2004.

Since his nomination he has undertaken to “do everything to increase the growth capacity of the euro zone”[33]. He has repeatedly called for the pact to be implemented pragmatically and intelligently, especially in the autumn of 2003, when the pressure to make an example of France and Germany by showing them some severity was becoming greater and greater: “The point of Europe is not to go at France, Germany and Italy fiercely and unrelentingly with good theoretical arguments. We must remember that these three countries represent 75% of the GDP of the euro zone. If we want a good economic policy, we must think twice before shooting and demanding the mechanical implementation of the pact. If, according to a technical interpretation of the pact, we force these States to reduce their budget deficits by cutting back on investment spending, we run the risk of seeing economic recovery move further away. It is wiser to give these countries time to improve their finances on the condition that they carry out structural reforms at the same time, which is the case. The improvement of public finances is essential, as is the stability of the currency, but also sustainable economic stability that creates many jobs” [34].

Juncker has, it is true, been accused by the local opposition of leaving the paths of virtue and monetary orthodoxy in order to curry favour with France and Germany in pursuit of his personal ambitions on a European level, but it was easy for him to retort that a country with an open and inordinately large economy like that of Luxembourg, where foreign trade is an essential dimension of its well-being, cannot ignore the economic situation in its principal markets, which are primarily its closest neighbours. As far as the background is concerned, however, the local opposition, namely the Luxembourg social democrats (LSAP), who have meanwhile (since August 2004) become the coalition partner of Juncker’s CSV, agreed with this analysis, enthusiasts as they are of a good portion of Keynesianism and of reflation by demand.

Be that as it may, at the time of the Ecofin meeting of 25th November 2003 to decide on the implementation of the sanction procedures against Germany and France, the vote of the Grand

33 Le Monde, 13.9.2004.
34 La Croix, 23.10.2003.

Duchy made the difference and made the decision to break off sanction procedures possible, against the opinion of the Commission[35].

As far as his ideas on reform are concerned, Mr Juncker sees himself as realistic and modest, anxious in particular not to offend the sensibilities of the Commission and the European Central Bank. At the moment his thoughts revolve around the following aspects:

- taking into account economic cycles (reducing debt during a period of good economic conditions, allowing the automatic stabilisers to operate if the market slows down);
- taking into account the criterion of the sum of the debt and its development;
- intelligent accounting of surpluses: it is not a case of counting the surpluses put aside in prosperous times as a deficit when a government uses them when the economy slows down;
- neither is he an advocate of excluding spending on such areas as research and military investments from the deficit calculation because this, in his opinion, would be tantamount to opening Pandora's box.

Faithful to his policy to show flexibility in the interpretation and implementation of the pact, Juncker severely criticised the Commission when on 13 January 2004 it lodged an appeal against the conclusions of the Ecofin meeting of 25 November 2003: "We acted in strict observance of the treaty". Taking into consideration France and Germany's efforts to reduce their budget deficits, the Finance Ministers would have arrived at the same result as the Commission intends to achieve by another route. The appeal lodged by the Commission against Ecofin would, however, entail the risk of "seriously harming the public image of the European Union", as Juncker essentially said[36].

As far as the Lisbon strategy is concerned, the Luxembourg Presidency is in something of an embarrassing position since Luxembourg is far from being a model student. Indeed, benchmarking shows that it is lagging behind and underperforming, which is demonstrated in at least four significant areas, including eGovernment, the employment rate of older workers, research and training and the transposition of domestic market directives. Thus, for example, regarding the employment of employees of the age of 54 and over, the rate in Luxembourg, at

35 Le Monde, 27.11.2003. See also the following analysis by Arnaud Leparmentier (Le Monde 29.11.03): "For the first time, little Luxembourg has knocked things off balance in Europe. It allowed France, Germany and Italy to form a blocking minority to counter the Commission and open the way for the suspension of the Stability Pact. This matter reminds us that a country essentially carries weight when it is in a position to create or undo a majority. Now, although Luxembourg has ten times as many votes as the size of its population should accord it, it made use of the fact this week for the first time in 50 years."

36 Interview with Deutschlandfunk, 13.1.04.

hardly 30%, is distinctly below the Community average of 40% and obviously well below the target of 50%[37].

It will be up to the Luxembourg Presidency, according to the Multiannual Strategic Programme 2004-2006, to carry out a mid-term review of the strategy at the European Council of spring 2005. Jeannot Krecké (LSAP), minister for the economy and foreign trade, who will be in charge of this portfolio, intends also to tackle Luxembourg's substandard performance. He wants, however, to proceed in a circumspect manner by validating Lisbon and emphasising the progress made; by maintaining the three pillars intact and ensuring, in particular, a good balance between economic, social, environmental and regulatory areas; by finding, finally, the right way to revitalise the mechanics[38].

In fact, the main challenge of the Luxembourg Presidency will probably be to reconcile Lisbon with the other objectives pursued by the EU (Stability and Growth Pact, broad economic policy guidelines, competition policy, social policies, tax policies, etc.) in a coherent package. The Luxembourg Government intends to put to good use the main recommendations of the group chaired by Wim Kok, which is calling for a "revitalisation" of the strategy, which naturally entails "greater political responsibility".

The Luxembourg Government, like the Kok group, notes that the "open method of coordination" has not kept its promises, not by a long way. It will therefore fall to the Luxembourg Presidency to redefine the procedures, which should become more restricting. It will also have to manage the problem of coordinating the different strategies. In order to do this, it can make use of the rather conclusive results regarding employment strategy obtained during the Luxembourg Presidency of 1997[39]. It will also know how to take advantage, particularly in the troubling discussions around the "financial perspectives 2007-2013", of a suggestion in the Kok report to achieve a "better interpretation of the European Union's priorities in its budget". The Luxembourg Presidency will also, however, apply itself to rebaptising the Lisbon strategy as a "European social model for all" as suggested by Jean-Claude Juncker at the Brussels European Council of November 2004 , giving way to his known leaning towards social dialogue[40].

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37 Cf. the interview with Romain Bausch, President and CEO of SES Global, Luxembourg member of the Kok group, in the Luxembourg daily Luxemburger Wort on 5.11.04. See also the article by Serge Allegrezza, Director of Statec, the government statistics service, "For a Luxembourg Stability and Growth Pact", d'Lëtzebuerger Land, 4.6.04.

38 See his speech at the inauguration of the Luxembourg Autumn Fair on 16.10.04.

39 See Heintz, M./ Hirsch, M., 1998, L'Union européenne et la Présidence luxembourgeoise de 1997 ("The European Union and the Luxembourg Presidency in 1997"), CRISP, Brussels, pp.11-28 and Siweck, J.L., "Name and Shame", d'Lëtzebuerger Land, 5.11.04.

40 Frankfurter Allgemeine Zeitung, 5.11.04. On the Luxembourg social model, principal component of the Luxembourg political system, see the reference work Allegrezza, S./ Hirsch, M./ von Kunitzki, N., 2003, L'histoire, le présent et l'avenir du modèle luxembourgeois ("History, Present and Future of the Luxembourg Model"), Institute for European and International Studies, Luxembourg.

CONCLUSIONS

Luxembourg is embarking on its 11th presidency with the conviction that, despite its obviously limited resources, its ability to drive Europe forward remains intact and can call on vast experience. In the past, it has indeed succeeded in making real progress in the European portfolios during a presidency since, most of the time, it got down to it in an unbiased manner and with unfailing commitment.

Its “natural” role as arbiter between the Member States, facilitated by its privileged geographical position between France and Germany, remains a permanent and strong fact that succeeds in giving a real impetus to its European approach.

Luxembourg is still largely a good student of the European class, although it has lost some of its aura of model student. A certain dose of realism has of course taken over, which is a new thing in a country which has had to face the fact that as far as European integration is concerned, idealism and self-sacrifice do not always pay.

Over the years, Luxembourg has also learned to defend its own interests in this Europe that is becoming more and more like a “free-for-all”, but is doing this with a greater amount of restraint than others and on a very restricted number of portfolio, largely preserving its role as honest broker.

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