EUOBSERVER MAGAZINE

EUROPE IN REVIEW 2013

THE RISE OF ANTI-EU PARTIES AND THE CRISIS OF POLITICAL CONFIDENCE

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RISING EUROSCEPTICISM MUST BE A WAKE-UP CALL FOR EUROPE

Growing euroscepticism in Europe should be a wake-up call for clear and concerted action if we wish to preserve our Union for the next generation.

Guy VERHOFSTADT
President of the Alliance of Liberals and Democrats in the European Parliament

Following the economic and financial crisis, the collective failure of the EU Member States to restore confidence in the banks and the markets, to invest in growth enhancing measures and to create real prospects for job creation is clearly undermining popular support for politicians at all levels and creating space for populists and eurosceptics to sow dissent.

Eurosceptics are wrong to seek to roll back 70 years of integration leaving every nation state adrift to fend for themselves. When the sea is rough it is safer to be in a large ship than a small boat.

This is no time to give up on the European Union. All the major policy challenges of the 21st century require us to work more closely together, not against each other. But EU leaders and Heads of Government also have a duty not to shirk their own responsibility to ensure that the commitments undertaken at summits, for example to urgently create a full banking union, become a reality.

EUOBSERVER WISHES EUROPE A MUCH BETTER YEAR IN 2014

The European Union is leaving 2013 in slightly better economic shape than it entered it. But only just.

It is heading into 2014 saddled with massive youth unemployment, structural problems in some of its largest economies, and the likelihood that Greece will need a third bailout.

It is also facing a crisis of political confidence, amid prospects of returning the most anti-EU parliament in history after the May elections.

But the vote, and the changing of the guard in EU top posts, will mean Brussels has other things on its mind.

Still, decisions need to be made, not least on banking union, designed to guarantee the future survival of the eurozone.

As an independent online newspaper, EUobserver will continue to report, investigate and analyse events.

We see it as our job to bridge the gap between the people who make the laws in Brussels and the people who have to live them. To double check what the EU is saying and why. To get the bottom line.

We are proud that half of our readers are under 30 years old. They are the future of Europe and our mission is to keep them informed.

We are equally proud that over 80 percent of our readers live outside the Brussels bubble.

This print edition looks back at the most important stories of 2013: moves towards economic and monetary union; the Cyprus bailout; the Lampedusa tragedy; the rise of Merkel; the Iran and Kosovo deals; and the EU implications of the Edward Snowden leaks.

We will continue to be inspired by our readers, old and new, in 2014.

Happy New Year!

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SNOWDEN AFFAIR: MUCH ADO AND THEN NOTHING

There is a fine line between security and privacy in free societies.

By: Nikolaj Nielsen

This year, a bespectacled, 29-year-old US intelligence contractor in a hotel room in Hong Kong showed what happens when the line is crossed.

Edward Snowden's leaks, which began to come out in British and US newspapers in June, quickly dwarfed the Wikileaks scandal of 2010.

They did not come out of nowhere.

The level of concern on Big Brother snooping was already on show in January.

When EUobserver reported that an obscure US law, called Fisa, allows the snatching of EU citizens' data from US-based clouds, it got big attention in chat forums.

But few could have suspected what US and EU countries' spooks are doing in the name of the war on terror.

The Snowden leaks include revelations that America's National Security Agency (NSA) introduced bugs into online security protocols which protect international commerce; that it has "unfettered" access to data held by firms such as Google and Facebook; and that the British agency, GCHQ, is tapping undersea cables which carry phone and internet traffic.

GCHQ hoovers up 21 petabytes of data a day. To put it in perspective, it would take one person 13 years to watch one petabyte of movies.

US officials said NSA snooping saved lives on both sides of the Atlantic.

But when Snowden revealed it is also bugging EU offices in Brussels, New York and Washington, the "war on terror" began to look more like economic espionage.

Some EU officials and MEPs voiced outrage.

But no EU leaders spoke out, even in Germany, home to Europe's most privacy-conscious society.

Perhaps they kept quiet because Dutch, French, German and Swedish intelligence agencies were also working with the NSA.

The level of concern on Big Brother snooping was already on show in January.

It took news that the NSA had bugged Chancellor Angela Merkel's mobile phone before she said anything: "Spying among friends is never acceptable."

The Snowden affair prompted calls for the EU to halt US free trade talks, to review the EU-US "Safe Harbour" accord on EU citizens' data and to copper-plate a new EU law on data privacy.

But the free trade talks went on.

The European Commission looked at Safe Harbour, found a few loopholes and asked the US to plug them. It also started, but quickly stopped, a probe into alleged US hacking of an international wire transfer system called Swift.

The data privacy law will be agreed next year.

But EU countries have said it cannot be used to curb espionage because "national security" is a prerogative of member states.

Meanwhile, Snowden worked out of Hong Kong because no EU country agreed to shield him from US extradition.

He later got asylum in Russia.

But the extent to which EU countries serve US interests was made clear one day in August.

When Bolivia's leader, Evo Morales, tried to fly home from a meeting in Moscow, France, Spain, Italy and Portugal closed their airspace, forcing him to land in Vienna, where Austrian security searched his plane because they thought he was hiding Snowden.

"Europe broke all the rules of the game," Venezuela's leader noted at the time. "I don't know whether to laugh or cry … Mother of God. What a world," Argentina's President said.

CAMERON'S BIG EU SPEECH FAILS TO CALM REBELS

David Cameron ended 2013 as he had started it: harried by his Conservative party over Europe.

By: Benjamin Fox

David Cameron ended 2013 as he started it: harried by his own Conservative party over Europe and trying to persuade it not to vote for an early referendum on EU membership.

It wasn't supposed to be like this.

In January, the UK Prime Minister promised to renegotiate his country's powers vis-a-vis the EU before holding an in/out referendum in 2017.

He focused on the "democratic deficit" in EU institutions and proposed to beef up the role of national parliaments in EU law-making. He also wanted to strip down EU rules on social affairs and employment.

His speech, intended to outflank Nigel Farage's Ukip, a British eurosceptic party which is gobbling up Conservative votes, delighted the Tories.

But the euphoria did not last.

Cameron's assertion that British public support for the EU is "wafer thin" is accurate, but his EU plan faces several obstacles.

First, the idea the other 27 EU leaders will agree to a tailor-made package of opt-outs to satisfy the most eurosceptic wing of the Conservative party is fanciful.

Second, no matter what he gets from renegotiation, a large proportion of Conservative supporters do not trust him on Europe and want to leave the EU as quickly as possible.

The idea that Cameron is not eurosceptic enough may come as a surprise to some onlookers.

But such is the level of suspicion against him that one Conservative backbench MP, James Wharton, is piloting a bill through parliament to legally guarantee there will be an in/out vote by the end of 2017.

The other big problem is that both the EU renegotiation and the referendum depend on the Conservatives winning the next British election in 2015.

Meanwhile, in the months after Cameron's big speech, the business lobby has come out in favour of continued membership, with a drip-drip of multinationals warning they would scale back UK investment if it quits the Union.

Cameron is not alone in wanting a larger role for national parliaments and a scaling back of EU powers.

Mark Rutte's Dutch government has also started a "balance of competences" review.

In Germany, Chancellor Angela Merkel, Europe's most powerful politician, has indicated the European Commission should do more to cut red tape instead of expanding its remit.

Despite the obstacles, the prospects of the UK holding an in/out vote are greater now than at any time since its last EU referendum in 1975.

The opposition Labour party has not yet matched the referendum promise, but it will come under more pressure to do so as the 2015 election nears.

But as Cameron found to his cost five years ago, when he promised and then reneged on a referendum on the Lisbon Treaty, staking your word on the outcome of uncontrollable events is a dangerous business.

The Conservative party's fixation with the EU has damaged its unity for more than 20 years.

It has ended the careers of some of its brightest politicians. It may yet claim Cameron.

THE EU AND IRAN 'DEAL OF THE CENTURY'

It ended with a hug. But the EU's new role in stopping decades of conflict in the Middle East has just begun.

By: Andrew Rettman

The hug came from US secretary of state John Kerry for EU foreign relations chief Catherine Ashton in Geneva on 24 November, where she had just brokered a nuclear deal between six of the world's most powerful nations and Iran.

It helped transform her into a stateswoman with genuine gravitas.

Her moment came after five months of secret Iran-US diplomacy, which eased a 35-year-old confrontation between Washington and Tehran.

Israel's leader, Benjamin Netanyahu, dubbed it "the deal of the century."

He was being sarcastic. Israel, and some EU countries, believe Iran agreed to freeze its programme because it already has "breakout capacity" - enough knowhow and technology to make a weapon at short notice.

But Netanyahu's bombastic words fit the importance of the breakthrough.

The Middle East has been locked in conflict on two fronts: the Arab-Israeli war and Muslim sectarianism, which pits Sunni states like Saudi Arabia versus Shia countries like Iran, and which has cost tens of thousands of lives in Iraq and in Syria.

The US, Israel, Sunni states and EU countries used to be in league against what the US called "the axis of evil."

But Geneva opens the door to a new Middle East in which Iran helps to end the war in Syria, in which Sunni hawks bow to Western pressure, and in which Israel is no longer free to undermine the two-state solution on Palestine.

The EU is no match for US hard power in terms of shaping events, but Ashton's foreign service is doing its bit to keep momentum going.

It is drafting plans to relax EU sanctions on Iran. It aims to launch co-operation with Iran on day-to-day issues, like drug smuggling. There is even talk of an EU embassy in Tehran.

The EU this year also imposed its first-ever sanctions on Israeli settlements.

Three days after Geneva, EU and Israeli negotiators agreed new rules on science grants which stop EU money from funding Israeli activity on occupied land.

The deal is a template for all future EU-Israel projects. It is also a wake-up call on the occupation.

"The Western world that is our frame of reference … says to us in word and deed that we will no longer be able to belong to it while continuing our control over another people," Ofer Shelah, a leading MP in Netanyahu's coalition, said.

The region's historic problems aside, the Arab Spring has, over the past three years, also wreaked havoc in Egypt, Libya, Mali, Syria and Yemen.

Despite military action in Libya and Mali and frantic shuttle diplomacy, EU countries and even the US have, for the most part, struggled to control the forces at play.

British historian David Hirst warned in 2012 that the Middle East risks becoming "a giant failed state."

But a tweet by Ashton's spokesman at 3am in Geneva broke news to world media that an alternative future is possible: "#EU High Rep #Ashton: 'We have reached agreement between E3+3 and Iran'."

BOTCHING THE CYPRUS BAILOUT

Cyprus became the fourth eurozone country to agree an EU bailout in March, after being brought to the brink of bankruptcy by a banking sector whose liabilities were nine times larger than its assets.

By: Benjamin Fox

At €10 billion, the rescue package is by far the smallest of the bailouts to date. But it was also the most controversial.

The big question was how Cyprus would raise a €7 billion contribution to an overall €17 billion package. After a day of nervous talks in Brussels, eurozone finance ministers produced a blueprint which included a levy on savings under €100,000.

They justified the plan on grounds that Cypriot bank vaults had become a resting place for the fortunes of dodgy Russian businessmen.

But it didn't matter.

The proposal spooked markets and drove a coach and horses through the EU's deposit guarantee legislation, which is meant to protect the first €100,000 of any savings held in European banks.

It was swiftly rejected by the Cypriot parliament.

In the days that followed, Cypriot President Nikos Anastasiades flew to Moscow to try to get an alternative loan.

But when talks with Russia yielded nothing, he turned back to Brussels. The new deal levied deposits over €100,000.

One outcome of the botched agreement is that Cyprus became the first eurozone country to impose capital controls so that frightened savers did not take their money and run.

The controls are still in place and are likely to remain so for several years.

The country's second largest lender - Laiki bank - was also liquidated and its remaining, viable, part was merged with the Bank of Cyprus.

Calm later returned. But Cyprus faces a deep recession. By the end of 2014, the Cypriot economy will have shrunk by more than 15 percent in three years.

Meanwhile, the country's debt-to-GDP ratio is expected to reach 115 percent at the end of 2013 and to peak at 127 percent in 2015, compared with 86 percent in 2012.

The Cyprus crisis looks more like a molehill than a mountain.

The size of its rescue package is just 5 percent of the Greek one and Cyprus is too small to be "systemically" important to eurozone stability.

But the Cypriot crisis had major implications for future EU policy.

It showed the danger of linking indebted banks to sovereigns and increased pressure on EU leaders to create a banking union.

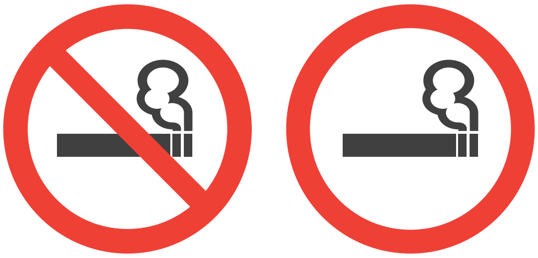
An EU law on bank resolution, which says the cost of future bank collapses will be borne by shareholders and bondholders first, and savers last, is now nearing completion.

Together with the proposed single resolution mechanism, the new rules are the EU's best bet to avoid another Cyprus-type debacle.

Cyprus also showed what you get when EU leaders try to keep their domestic voters happy while tackling complex financial problems: bad politics and bad economics.

Cyprus and Malta joined the euro in 2008

DALLIGATE
A BRUSSELS SOAP OPERA



The tobacco lobbying scandal, which last year saw the EU health commissioner, Malta's John Dalli, pack his bags, kept going this year like a never-ending South American telenovela.

By: Nikolaj Nielsen

Episodes so far include: allegations of soliciting a €60 million bribe in a Maltese restaurant; lawsuits; political incest; and mystery trips to the Bahamas.

Like in any good soap opera, the star, at one point, went missing.

When Maltese prosecutors called him for questions, Dalli vanished. He surfaced in Brussels in January, saying he was too sick to travel. But his health improved after his friends retook power in Maltese elections.

The story began in May 2012 when Swedish Match, a tobacco firm, quietly accused Silvio Zammit, a Maltese businessman, of using his ties with Dalli to solicit a bribe in exchange for watering down an EU tobacco law.

The European Commission blew the whistle in October 2012, saying Dalli had resigned from his job.

It noted that he was probably aware of Zammit's antics, but did nothing to stop him.

For his part, Dalli says he did not resign but was fired, and is suing the commission in the EU court in Luxembourg.

He also says he did nothing wrong on undeclared trips to the Bahamas, during which he facilitated a multi-million-euro wire transfer, while still an EU commissioner.

Meanwhile, the EU anti-fraud office, Olaf, claims to have "unambiguous circumstantial evidence" linking Dalli to the bribery attempt. But Maltese police said in June that, based on Olaf's material, there is not enough evidence to arraign him.

The lobbying scandal has seen tobacco firms get what they want

Olaf itself this year came under the microscope.

MEPs and NGOs questioned its handling of the case, noting, for instance, that Olaf's chief took a witness for a glass of wine half-way through their interview.

The Olafgate subplot of Dalligate is to re-emerge in January 2014, when the EU parliament's budgetary control committee discusses the agency's budget.

MEPs also want the commission's top civil servant, Catherine Day, to show up at the January hearings to ask if Olaf, which is meant to be independent, was acting on her instructions.

For their part, NGOs are angry that top EU officials had incestuous meetings with tobacco lobbyists.

Enter Michel Petite, the one-time head of the commission's legal service, who, by his own admission, now provides "legal advice to a tobacco company (Philip Morris International)."

It was Petite who advised Swedish Match how to handle its contacts with the EU commission.

But despite his work for Big Tobacco, two months after Dalli left, the commission re-appointed him to its committee on lobbying "ethics."

If it sounds comical, it has serious consequences: smoking kills 700,000 people a year in the EU.

But amid the twists and turns of events, companies like Swedish Match appear to have come out on top.

The European Parliament's final draft of the Dalli law broadly gives them what they wanted - a weakened EU tobacco directive.

The final episode of the story, the tobacco bill, is now in the hands of member states.

THE YEAR THAT ALMOST SAW A CLAMPDOWN ON TAX EVASION

A leaked database of offshore accounts created tailwind for initiatives on tax evasion. But it did not last long.

By: Valentina Pop

What do Russian oligarchs have in common with the campaign treasurer of French President Francois Hollande? Or Greece's richest with the family of Azeri autocrat Ilham Aliyev?

They were all listed in "Offshore Leaks," a database of over 130,000 offshore accounts obtained by Gerard Ryle, an Australian reporter who heads the Washington-based International Consortium of Investigative Journalists.

The consortium gave access to the data to over 80 media around the world, including EUobserver.

Some of the news reports which followed led to the resignation of Herbert Stepic, the CEO of Austria's Raiffeisen Bank International, amid revelations he owned secret firms in the Caribbean.

French President Francois Hollande was left with a red face when it emerged that his former campaign treasurer, Jean-Jacques Augier, held shares in offshore companies.

The embarrassment was all the greater because the Augier news coincided with the admission, by France's former budget minister, Jerome Cahuzac, that he had lied for 20 years about having €600,000 in foreign accounts.

Meanwhile, an investigative report into offshore holdings by a former Macedonian minister, Zanko Cado, published on EUobserver in October, proved that he was instrumental in the demise of state-owned companies in Serbia.

On the EU policy side, Offshore Leaks gave some tailwind to slow-moving initiatives on tax evasion.

EU tax commissioner Algirdas Semeta said the investigative reports helped him to revive the proposals.

"Citizens, people in member states have started paying much more attention to how their countries can collect taxes which are due under national law … If you ask me, I personally think Offshore Leaks could be identified as the most significant trigger behind these developments," he said.

The developments also shed a glimmer of light into places used to complete opacity.

UK Prime Minister David Cameron forced some of the Caribbean tax havens under British protection to sign up to a tax transparency initiative.

Switzerland lifted some elements of its bank secrecy and signed bilateral agreements on bank information with the US and the UK when they pursue tax cheats.

A deal with Germany is still in the making after the original one was struck down by parliament for being too narrow in scope.

Austria and Luxembourg, the two last hold-outs on EU automatic exchange of bank data, also caved in after Offshore Leaks and promised to agree a deal by the end of the year.

But they made a u-turn in November, suddenly restoring their old veto and saying they want to wait until Switzerland, Liechtenstein, Monaco, Andorra and San Marino sign up.

By way of compensation, Germany put pressure on Luxembourg to join a separate bank data exchange scheme with the UK, France, Italy and Spain.

In parallel, the publication of the leaked "Lagarde list" showed that some 2,000 of Greece's richest people have undeclared Swiss accounts at a time when the bail-out country is struggling to collect tax revenues.

The list is named after International Monetary Fund chief and former French finance minister Christine Lagarde, who had passed on the information to Greek officials in 2010, but to little avail.

Despite the leaks and the EU proposals, finance consultancies continue to create new "discretionary structures" to ensure the world's wealthiest people and corporations can still pursue their old habits of paying little or no tax at all.

BIG PAIN FOR SMALL GAIN IN THE EUROZONE

The past year was better than 2012, at least as far as the eurozone economy is concerned, but not much better.

By: Benjamin Fox

First, the good news. Europe came out of its double-dip recession, even if the 0.2 percent growth it saw in the first nine months of 2013 was just the tip of a green bud.

The four countries which started the year under some form of bailout - Greece, Ireland, Portugal and Spain - all made progress.

After six straight years of recession, the bloc's pre-eminent crisis country, Greece, may just break even in 2014.

Ireland and Spain both returned to growth and are on the verge of exiting their government and bank bailout programmes - indications that the worst is probably over.

There were also signs that countries in the southern periphery are moving towards an export-led economic model.

The average budget deficit is down to around 4 percent, while the eurozone recorded a trade surplus of €109.6 billion with the rest of the world between January and September, up from €50.2 billion last year.

Anti austerity protest. Europeans have less money to spend, so the trade surplus is better

Even if the eurozone recovery is slight, for Olli Rehn, the EU's hawkish economic affairs commissioner, it is proof that austerity works.

But there is plenty of bad news as well.

Cyprus became the latest to receive a bailout in March.

At a fraction above 12 percent, eurozone unemployment is higher than a year ago.

So are debt-to-GDP ratios. Access to finance, particularly in the countries most in need of credit, is still as tight as ever for businesses.

Meanwhile, the trade surplus figures carry a sting in the tail. Most of the extra surplus is the result of falling consumption rather than higher export levels, proving that Europeans are more austere, but not necessarily making and selling much more than before.

If anything, the figures indicate that the economic gap between EU countries is widening. Spaniards, Greeks and Portuguese are now five times more likely to be unemployed than Germans or Austrians.

Mass unemployment, particularly among young Europeans, but also the rapidly growing number of long-term unemployed, is becoming a structural problem.

The year also saw the European Commission wield its new economic governance powers. Finance ministers must now submit their draft budgets to Brussels at the same time as national parliaments.

At a meeting in November, no minister was sent back to the drawing board, but Italy and Spain were the biggest countries to be put on a "watch-list" and warned that their budget plans have left them with little wriggle room.

The EU executive also tweaked the nose of France, with Rehn repeatedly telling Paris to liberalise its labour market and pension system.

Rehn caused even more controversy in November, when he told Germany he would investigate whether the country's trade surplus, worth around 7 percent of its GDP, is hurting other eurozone economies.

All things being equal, the eurozone will continue its slow recovery in 2014. But with no sign that EU decision makers are going to reverse austerity, more pain for small gains will be the order of the day.

EU DEFUSES BALKAN TIME BOMB

Local elections in Balkan towns rarely make international headlines. But when masked men used baseball bats to smash ballot boxes in Kosovo's north Mitrovica, the world took note.

By: Andrew Rettman

It was, perhaps, the last gasp of die-hard ethnic Serbs who reject Pristina's rule after a monumental deal between Kosovo and Serbia, brokered in the salons of the EU foreign service in Brussels.

Behind one woman who chaired the meetings, EU foreign relations chief Catherine Ashton, stood another woman, German Chancellor Angela Merkel, who told Belgrade it can forget EU accession if it keeps funding the paramilitaries who threaten to tear Kosovo in two.

The deal claimed one life: On 19 September, gunmen opened fire on an EU vehicle in north Kosovo, killing Audrius Senavicius, a Lithuanian policeman and father of two.

It could have been much worse.

Croatia this year followed Slovenia in joining the EU.

But 14 years after the Balkan wars, the region is still a Pandora's Box of ethnic grudges.

Before the 2013 deal, the EU and the US considered semi-autonomy for north Kosovo on the model of Catalonia, a Spanish region. But the idea risked igniting calls for secession by ethnic Serbs in Bosnia and by ethnic Albanians in Macedonia and Serbia. "In the Balkans, everybody still has guns buried in the woods," one Albanian politician from Macedonia said.

Instead, Serbian PM Ivica Dacic vowed to bring Senavicius' killers to justice. He also went to Mitrovica to stop baseball bats at a re-vote.

Five EU countries do not recognise Kosovo and Spain, for one, is unlikely to do so in the run-up to Catalonia's independence referendum next year. But full normality for Kosovo is beginning to look realistic.

The EU deal has also seen Serbia accept Kosovo ID cards, let Kosovo control customs points and host a Kosovo "envoy" in Belgrade. Kosovo's foreign minister Enver Hoxhaj said it is "de facto recognition."

His deputy, Petrit Selimi, says EU non-recognisers are coming round: "They did not want to be more Catholic than the Pope."

Kosovo-Serbia aside, the region has a long way to go before it becomes "European."

Joining the EU did not stop Croatia from sheltering alleged war criminals or trampling on liberal values by making gay marriage illegal.

EU aspirations did not stop political deadlock in Albania and Bosnia.

They did not stop Macedonia's PM from erecting statues of Alexander the Great in a nationalist pantomime which irks both ethnic Albanians and neighbouring Greece.

Some problems - organised crime, massive percent unemployment - will take many years to overcome. Other problems will take generations.

But the EU-brokered deal defused the biggest threats to stability: Serbia is no longer a pariah, Kosovo no longer risks partition.

"Our people became big losers in the dissolution of former Yugoslavia … Serbia did not deserve such treatment by the international community," Dacic said on the eve of the EU accord.

"We will continue the dialogue. We will continue it all of our lives. We haven't been talking to each other since the fall of the Ottoman empire, so we have some catching up to do," Selimi said.

BYE BYE JUNCKER, HELLO MERKEL (AGAIN)

Merkel remained, Juncker left and Hollande became more unpopular.

By: Honor Mahony

A BRIEF LOOK AT SOME OF THE FACES OF 2013:

Angela Merkel, the de facto head of Europe, resumed the position after elections in September. The Chancellor has a new coalition partner in the form of the Social Democrats. However, Berlin's EU policy is set to remain largely the same. Brussels spent most of the year waiting for the German elections and then waiting for German politicians to form the coalition. Assuming all continues well in Berlin, the EU is expected to reopen for business proper in 2014.

If Merkel had remarkable political success, **Francois Hollande** had remarkable misfortune. The French President's post-Mali-intervention glory was short lived. After that came u-turn after u-turn on taxing the rich, topped off by rocketing unemployment, a stagnating economy and plummeting popularity. Brussels interjected at regular intervals that more "painful" reforms are needed, all the while casting doubt on his ability to carry them through.

There was also doubt in the south. **Silvio Berlusconi** might be gone - though he has come back from the dead so many times before, who can say for sure? - but the scale of the task facing **Enrico Letta** (who joined the EU Prime Minister club in April) is vast. Italy's economy has barely grown in 20 years and debt is predicted to be 133 percent of GDP by the end of the year. Letta has provided a southern counterbalance to the north's faith in austerity. But as Hollande has had to learn, in the EU, economic power equals political power. So Letta's voice at the EU table is not loud.

Meanwhile, Cypriot President **Demetris Christofias** was voted out of office in February. He will chiefly be remembered - beyond Cypriot shores - for having a penchant for Russian money and for allowing containers of ammunition to be stored in the sun for two years next to a vital power station. The (inevitable) explosion pushed Cyprus' economy into recession. And, along with a eurozone decision to write down Greek debt, helped force the country into a bailout. **Nikos Anastasiades**, his successor, had possibly the shortest political honeymoon ever as the country lurched into a new-model EU rescue, in which private depositors had to cough up a levy, leading Cyprus to become the first-ever eurozone country to impose capital controls.

Just as he looked like being granted lifelong access to the keys of the Grand Duchy, **Jean-Claude Juncker** was gone. The tart-tongued bon-vivant stepped out of Luxembourg politics in October, following a snap election called over a spy scandal. It is worth stressing the "Luxembourg" bit. He has since been doing a very poor job of saying he is not interested in another top post at the EU level (he was the chief of the eurozone ministers' club, the Eurogroup, for eight years) and could be the next European Commission President.

Juncker was replaced as Eurogroup chief by **Jeroen Dijsselbloem**, the Dutch finance minister. Dijsselbloem almost caused his own little eurozone crisis by saying that the levy on Cypriot savers is a template for future bailouts. He ate his words in a painfully explicit "this is not a template" statement almost immediately afterward.

EU politics also lost its most flamboyant eurosceptic this year when **Vaclav Klaus** left office in March. The Czech President had been a rowdy critic in the east, even comparing the EU to the Soviet Union. He refused to fly the EU flag on his castle. He held out until the last minute before signing the Lisbon Treaty in 2010 and he published a book cataloguing EU faults in 2012.

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EU POWER SHIFTS BRUSSELS TO BERL

While the eurozone crisis in 2013 lingered in most countries, Germany seemed to be doing better than ever.

It had low unemployment, high productivity and exports so strong that the European Commission asked it to do more to help ailing periphery countries in the single currency bloc.

Chancellor Angela Merkel - the most powerful leader in Europe - was elected once again. As this magazine went to print, she was set to take up her third mandate in a coalition government with the Social Democrats.

Merkel's popularity is remarkable in Europe, where most leaders are distrusted by their voters and governments are unstable due to the economic crisis, austerity fatigue, perceived incompetence or corruption scandals.

By contrast, Merkel's party almost won a supermajority in the September elections scoring 41.5 percent of the vote. It was the party's best result in more than 20 years.

Merkel's "safe pair of hands" are appreciated by Germans. They like her cautious governing style; the fact that she rarely rushes into decisions.

A giant billboard close to Berlin's government quarter did not even feature her face, just her signature 'rhombus' hand gesture. It suggested that all Germans needed to do was to keep "Mutti" in charge.

Her election message was simple: "Germany is doing well." By reelecting her, Germany would continue to be well-off, an "anchor of stability" in a shaky Europe where several countries have had to apply for a bailout.

Merkel's success with her voters is also based on her tried and tested approach to eurozone policy: acting only when necessary and never in advance.

In 2013, her centre-right government continued to preach "structural reforms" and told other countries to do their "homework."

Her probable coalition government with the Social Democrats will not deviate from that course.

The coalition programme agreed after almost two months of negotiations promised more of the same: more sticks than carrots; supervision; control and a little bit of "solidarity" with troubled euro peers.

This approach has dominated the major euro policy decisions taken in Brussels.

FROM
LIN

Germany in 2013 consolidated its power within the EU, with key decisions, ranging from bailouts to car emissions, tailored to Berlin's demands.

By: Valentina Pop

With Germany having to pay the lion's share of any EU bailout, the German taxpayer stood and will continue to stay at the forefront of all policy decisions on the euro.

When a leaked report from the German intelligence service showed that Cyprus' banking sector was full of shady Russian money, it caused uproar in Germany.

Wasting German taxpayers' cash to protect Russian oligarchs became a political no-go.

The conditions for Cyprus' €10 billion bailout was that bank depositors had to take a hit. The smartest Russians had already moved their money elsewhere, but Berlin needed a political sacrifice. And it got what it wanted.

Protests in southern Europe denouncing Germany's "austerity diktat" did prompt some cosmetic change in Merkel's policy.

She became more active on youth employment, organising a mini-summit on the issue in Berlin. The German development bank also granted bilateral loans to Portugal and Spain to help small enterprises.

But the underlying message continued to be "fiscal discipline" coupled with centralised supervision. The German government's latest push is for binding "contracts" in which counties oblige themselves to painful reforms in return for cheap loans.

Germany's industrial leaders also made a show of power.

The EU commission watered down a proposal to cap CO_2 emissions and delayed its implementation until 2021 after Germany's environment minister, with auto lobbyists snapping at his heels, said Nein.

The power shift was noticed abroad.

China's Prime Minister Li Keqiang visited Berlin in May. He did not bother to go to Brussels. Merkel said she supports China's stance in an EU trade war on solar panels and a grimacing commission bowed to Berlin once again.

US President Barack Obama also visited Europe for his second time since taking office. He skipped the EU capital, but he also went to Berlin.

His visit was overshadowed by the US spying scandal. Merkel remained courteous and even joked in a TV interview that she did not think her phone was being tapped.

But the joke was on her a few months later, when US whistleblower Edward Snowden revealed that US spooks had bugged her mobile.

They were not alone - British, Chinese, Russian and even North Korean spies were also keeping tabs.

The famous question - "Who do I call when I want to talk Europe?" - has no answer. The EU is too complicated. But 2013 showed that calling Berlin (or bugging its calls) is a good place to start.

SAVING MIGRANTS WITH CAMERAS

For a brief while in October it seemed the EU might be shocked into doing something about the recurring immigration tragedy on its southern coastline.

By: Nikolaj Nielsen

Over 350 people drowned when a boat from Africa capsized near the Italian island of Lampedusa.

It was the largest incident of its type in a sea which has been called a “graveyard” for the number of lives it claims of people trying to reach Greece, Malta or Italy.

Italian Prime Minister Enrico Letta, visibly moved, granted the dead Italian citizenship and paid for their funerals.

European Commission President Jose Manuel Barroso and home affairs commissioner Cecilia Malmstrom also came to pay respects.

Barroso said it is “indispensable” for the EU to step up efforts on migration and pledged €30 million to help Italy resettle those who come.

He was heckled by crowds on the tiny Island.

Throwing money at the problem is easier than trying to persuade EU countries to make migration reforms.

Under EU rules, the country where a migrant first enters the Union has to process their asylum application, putting a disproportionate burden on southern countries.

Italy, Malta and Greece have been calling for solidarity from northern states for years.

But despite Lampedusa, it did not take long to return to business as usual.

At an EU summit on migration two weeks later, German Chancellor Angela Merkel thumbed her nose at calls for change. “I’d like to remind you we have quite a large number of asylum seekers that we have accepted [in Germany],” she told press.

The summit agreed to examine EU rules next June instead.

In truth, there is no quick fix to the fundamental problem. People will stop fleeing to Europe only when there is no more conflict or poverty in their home countries.

In the meantime, some EU countries are, quite literally, creating a fortress Europe. Bulgaria wants to build a 30km wall along the Turkish border. Greece already has a wall.

EU institutions have also made “border security” a big priority.

The EU foreign service is training militias in Libya to stop people getting into boats in the first place.

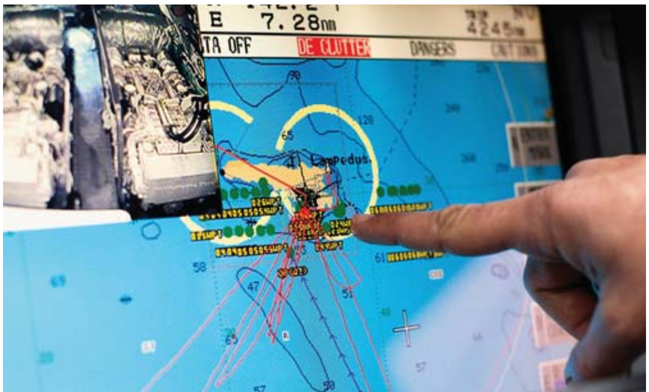
The European Commission wants to put more patrol ships, planes, high-tech surveillance equipment and, in future, drones, into the Mediterranean zone to intercept them before they arrive.

Malmstrom’s border control agency, Frontex, has a new mandate to do search and rescue in an area “covering the whole Mediterranean, from Cyprus to Spain.”

In December, 18 EU countries also activated Eurosur, the European Border Surveillance System.

Eurosur co-ordinates border surveillance information from participating states. Each one sends near-live data feeds to Frontex, which raises the alarm if it gets a warning about smugglers or irregular migrants.

The EU says that Eurosur will help save lives. But critics say it is another, “virtual,” wall.



The European Border Surveillance system, Eurosur, went live in December

THE RISE OF ANTI-EU PARTIES AND THE CRISIS OF CONFIDENCE

This year saw relative economic calm after the euro's existential crisis in 2012, but a different type of crisis is starting to emerge: rising anti-EU sentiment and collapsing political confidence.

By: Honor Mahony

Across the European Union, politicians have realised they can no longer dismiss parties which fundamentally dislike the EU as mere fringe movements.

Far-right, nationalist or anti-EU parties are expected to scoop a record number of seats in the European Parliament elections in May 2014.

It is a disparate group, but their common grievance is that "Brussels" is "dictating" people's lives and there is little they can do about it.

Based on current polls, most French and Dutch seats in the EU assembly will go to France's far-right National Front and the Netherlands' anti-immigrant Freedom Party.

It is hard to imagine a bigger set-back in symbolic terms: Both countries are founding EU states.

Marine Le Pen, the National Front leader, and the Freedom Party's Geert Wilders, two of the most savvy politicians in the anti-EU camp, have pledged to create a pan-European "patriotic" party.

Similar parties in Austria (Freedom Party), Belgium (Vlaams Belang), Italy (Lega Nord) and Sweden (Swedish Democrats) have said they will come on board.

If they attract 27 MEPs from seven different countries, they will become an official group in the EU parliament, entitled to funding and to chair committees.

The neo-Nazi Golden Dawn from Greece is set to enter the EU assembly for the first time, and its Hungarian equivalent, Jobbik, is likely to increase its number of seats.

Britain's eurosceptic Ukip party could come top in the vote next May. The anti-EU True Finns party is polling second and the Danish People's Party is the third largest in the country. Even Germany has a newly formed anti-euro party, the AfD.

Meanwhile, broader trust in the EU is at an all time low.

A survey in Spring showed that the number of people who do not trust the EU institutions has soared between 2007 and 2012. The change in Spain were starkest - from 23 percent to 72 percent.

A common theme is hostility to immigrants. But the psychology and politics of migration is rarely dealt with at the EU level, where people tend to concentrate on technical adherence to EU rules.

There are other issues too.

The economic crisis saw EU countries give the European Commission powerful new tools to scrutinise member states' budgets.

But the change, which has profound implications for national sovereignty, was made with almost no public debate at the national level.

Elections come and go with as good as no mention of the EU, even in Germany, which paid the most to stop the euro from falling apart.

Politicians also continue to play the old game of agreeing something unpopular in Brussels and then undermining it at home.

As the EU heads into 2014, it finds itself in a peculiar situation: fearful of the surge in anti-EU sentiment, but unable to find a compelling counter-narrative; granting more power to Brussels, but without democratic mandate.

It all bodes ill for mobilising a generation of young voters to go to the polls in May.

GEERT WILDERS

EU BATTLE FOR UKRAINE ENDS IN TRUNCHEONS AND TEAR GAS

The EU this year lost a battle for Ukraine. But it might still win the war.

By: Andrew Rettman

Ever since the Orange Revolution in 2004, the EU and Russia have tried to pull the former Soviet republic in opposite directions.

The EU's big incentive is a political association and "deep and comprehensive" free trade agreement, or DCFTA, described by the people who drafted the several-thousand-page-long paper as a "blueprint for future accession."

Russia's tactics included: threatening to block trade; calling in billion dollar gas debts; and calling Ukrainian leader Viktor Yanukovych to Moscow for "man-to-man" chats.

Ukraine's DCFTA signature was to crown an EU summit in Vilnius on 28 November.

In the run-up to the event, EU countries agreed to do it even if he keeps opposition leader Yulia Tymoshenko in jail. "It's sad, but true. The future of Ukraine is more important than the future of one woman," an EU diplomat remarked.

But on 21 November, Yanukovych shocked Europe again just a few hours later.

He still went to Vilnius. A video published by the Lithuanian EU presidency showed the stony-faced former lorry driver talking about Russian pressure to German Chancellor Angela Merkel.

"Nice of you to come. But we expected more," Merkel said.

"We see external pressure being used as an excuse for stopping the integration process with the EU," Lithuanian President Dalia Grybauskaite noted.

Yanukovych again shocked Europe a few hours later.

At 4am the day after Vilnius, his "Berkut" riot police brutally attacked a group of students at a pro-EU protest in Kiev.

But the biggest shock came next, when more than half a million Ukrainian people joined street protests waving EU flags and calling on Yanukovych to go.

The numbers dwarfed the Orange Revolution itself.

Police clashes got worse and EU diplomats, who expected a mass-scale crackdown, began talking about Ukraine as Belarus II: autocratic; isolated; under Russia's boot.

The rest of the story remains to unfold.

But Yanukovych has relaunched EU trade talks and some EU officials hope he might make a second u-turn by signing the DCFTA in December or March.

If he does, it will mark a geopolitical shift in Europe.

Russian leader Vladimir Putin needs Ukraine to be the cornerstone of his "Eurasian Union" - a project designed to revive Russian hegemony in the east.

If Yanukovych signs it because of street protests, it will also mark a threat to Putin's grip on power. An Orange Revolution II in Ukraine risks inspiring pro-democrcay groups in Russia.

Meanwhile, whether or not Yanukovych signs, the events in Ukraine this year have made their mark.

People have stopped laughing at the EU's "soft power" and "benchmarks" after the scenes on the streets of Kiev.

They have also noticed that Ukraine exists amid other priorities in Iran and Syria.

"It goes to show that what we take for granted in Europe - rule of law and political freedom - is a rare and precious thing," one EU diplomat said.

"The reason why Ukrainians want to get closer to Europe is precisely because we did not go for some cheap deal with Yanukovych. Because we have standards and values," he added.

CHANGING OF THE GUARD IN THE EU

As the EU heads into 2014, it is clear its economic woes are not over. But it is election year and Brussels will be distracted.

By: Honor Mahony

When the EU last trotted into election year, in 2009, things were very different. The scale of the global financial crisis and the eurozone trauma were only just becoming apparent.

At the height of the crisis, there were real fears the single currency would break up. This is no longer the case.

But heading into 2014, it is clear problems are far from over. Unemployment is at a record high. Eurozone growth is likely to be meagre at best.

Greece might need a third bailout, Portugal a second and Slovenia a first. France, the eurozone's second largest economy, which is in need of profound reform, will continue to make EU officials very nervous.

But despite the big to-do list, it will be a disruptive year in Brussels. The European Parliament will stop work in Spring ahead of the 22 to 25 May vote. Many will be looking to new political horizons.

The commissioner in charge of economic affairs, arguably the most important dossier, has already said he plans to run for a seat in the EU assembly.

Nevertheless, key legislation - such as common rules for winding down ailing banks - needs to be wrapped up before parliament breaks and a lull falls in Brussels until the autumn.

The elections have a particular resonance this time around.

EU politicians are hoping to avoid the downward slide in turnout, which reached a low of 43 percent in 2009.

A further decline would undermine arguments the EU assembly is able to fill the Union's democratic gap and hold the European Commission - newly empowered to pick apart national budgets - to account.

Meanwhile, anti-EU parties are expected to win a record share of the parliament's 751 seats. This would also highlight how far removed average people feel from Brussels and the decisions it takes in their name.

The posts of European Commission President, the EU "foreign minister" and the EU Council President are also at stake.

There was talk that political groups which do well in elections will nominate candidates in a more transparent way. But EU leaders want to stick to tradition, enabling them to manipulate the outcome in behind-the-scenes bartering on political, geographic and gender balance.

Two self-effacing people - Herman Van Rompuy and Catherine Ashton - were given the then new posts of EU Council chief and foreign minister in 2009.

Bigger personalities are being mentioned as their possible successors.

Meanwhile, the European Commission was left in the hands of Jose Manuel Barroso, who has a flair for following the prevailing political wind, for a second term.

The commission became a champion of austerity. But despite gaining significant powers on economic governance, its standing has diminished vis-a-vis the European Council - the EU leaders' forum - and the European Parliament.

Who - and how - the leaders choose the next set of top EU officials will be a clue to how they want the EU to evolve over the next five years.

We at EUobserver wish our readers a Happy Christmas and a peaceful New Year

We are always looking for feedback and ideas from our readers, so don't hesitate to contribute!

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