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STRATEGIC PANORAMA 2006/2007

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INTRODUCTION

INTRODUCTION

By Eduardo Serra Rexach
Coordinator of the Working Group

Once again the Spanish Strategic Panorama *is the fruit of collaboration between the Instituto Español de Estudios Estratégicos (IEEE) and the Real Instituto Elcano (RIE); between the public sector (the IEEE is part of the Ministry of Defence) and private or, at least, semi-private initiative. Although the public sector (the government) still plays what in my opinion is an excessively prominent role in the field of strategic thought in Spain, it is encouraging that this book, on the IEEE's own initiative, springs from cooperation between both sectors. The watertight compartments of which Ortega y Gasset spoke in* Invertebrate Spain *(1921) are, like the walls of Jericho, tumbling down gradually, very gradually; one might ask whether only the government sector is to blame. Answering this question would involve extremely complicated issues such as entrepreneurial initiative in matters of general interest or the role of universities and even whether or not they are autonomous. Such issues evidently fall outside the scope of this study.*

At any rate, the volume that the reader has in his hands is the result of the work of genuine specialists in their respective fields, a couple of them foreign, for what we aim is to reflect the strategic thought not so much of *Spain as* from *Spain. This is a logical consequence of Spain's progressive incorporation into the Western world, chiefly Europe, since emerging from the isolation which brought the country such disastrous results in its recent history.*

Indeed, our capabilities and our weaknesses and the threats we need to address are becoming increasingly less ours and increasingly shared by

our neighbours and allies. This is not only because of our membership of the European Union, on the one hand, and of the North Atlantic Alliance, on the other, but also because very recent phenomena such as globalisation and growing migratory flows are accentuating this need and, consequently, this trend.

As this book is a compilation of contributions, there is a risk of contradictions, lacunae and overlapping. We have attempted to keep these to a minimum, while naturally respecting each author's freedom.

Some specific lacunae are intentional (for example, Internet threats and illegal immigration), as we have not aimed to produce an exhaustive catalogue of threats; we have preferred to limit ourselves to the most important from a Spanish perspective. Our aim in doing so is merely to contribute our own viewpoint to the study of the strategic outlook of the Western world. Nor have we dealt with certain regions or countries with an outstanding and growing significance on the world stage since they have been addressed recently, as is the case of China.

Furthermore, as the reader will find, thematic and geographic approaches are juxtaposed; this is because (once again globalisation rears its head) borders are becoming increasingly blurred the more the world organises itself into supranational regions that are easier to identify from the point of view of our study. In addition, non-state actors such as terrorists, but also major corporations and transnational entities and NGOs whose action by its very nature reaches beyond the territory of national borders, are playing an increasingly significant role. Consider, for example, the Organization of Petroleum Exporting Countries (OPEC).

The world, or rather —let us not be egocentric— the Western world, is experiencing a situation of uncertainty and insecurity, whatever our perception of it. This calls for a vision as balanced and accurate as possible as far as the strategic outlook is concerned.

Indeed, in a very short time we have been shaken by extremely important phenomena of very diverse origin: the end of the Cold War and the existence of blocs; the appearance of Islamic fundamentalist terrorism on a large scale, which acts anywhere in the planet; the emergence of the big countries of South East Asia as very prominent players in economic life and, consequently, the announcement, increasingly a reality, that a world accustomed to having one billion consumers will have to adapt to three billion.

Furthermore, there are persistent regional and local tensions and conflicts and the consequent threat of the proliferation of nuclear weapons and other weapons of mass destruction.

Economic globalisation undoubtedly involves advantages of all kinds, but it also poses risks to the current status quo; consider industrial offshoring and the protection mechanisms for agriculture in the developed countries.

This accumulation of concurrent events is triggering major changes in the perception of threat. It is accordingly losing its predominantly – almost exclusively – politico-military nature and becoming tinged with economic, demographic, cultural and, why not, even religious considerations.

In this connection concern about the progressive exhaustion of natural resources (mainly, but not exclusively, energy) and awareness of global warming with its host of consequences of all kinds (some of which threaten to endanger the very existence of mankind) are elements that must be taken into consideration today when dealing with security issues.

Even the exclusively politico-military approach of the Strategic Panorama *is gradually shifting away from a cold list of capabilities and weakness and entering the hazy and vague field of Islamic fundamentalist terrorism whose ubiquity, added to weapons of mass destruction (WMD; conquests of technology), constitutes a considerable threat which we have – tragically – experienced.*

All these factors make for a strategic outlook predominated by uncertainty and comprised of elements that differ greatly in nature and origin.

Three factors thus shape the new strategic landscape:

First, the tremendous blow of 11 September, which was subsequently repeated in Madrid, London and other cities, underlined that the disappearance of the threats posed by the Soviet bloc by no means signified the end of other threats. On the contrary, they are evident and furthermore radically different from previous ones: they are not necessarily embodied by state actors, are extraordinarily diffuse and difficult to identify, and can be extraordinarily lethal if they involve WMD, an increasingly feasible possibility.

Second, a world which had been essentially bipolar and symmetrical is becoming progressively multipolar and asymmetrical. It is no longer any use focusing attention on one country; it is necessary to observe (as in a

radar) the whole environment and scrutinise the currently or potentially most dangerous countries or regions.

Two movements may be observed on this flowing horizon:

One very fast: the emergence of two giants, China and India, which, despite their huge size, had previously played only a very small role on the international scene, both politically and economically. Together with them Russia, now an ally of the West, is preparing to play a new role based on its vast reserves of raw materials (including oil and gas).

Sadly (for us), one slowly but surely: Europe is ceasing to be a very prominent actor on the international scene.

It had already renounced having substantial military capabilities, but the asymmetry of the new situation in which we Westerners are undoubtedly the powerful side has led individualistic and pacifistic ideas to take root, thereby consolidating this trend; there was talk of «peace dividends» and Europe renounced not only increasing but even maintaining military expenditure; compulsory conscription progressively disappeared; and it was increasingly considered that our armed forces performed an unnecessary function (except for humanitarian, peacekeeping or peacemaking operations) and should be replaced by organisations of civil society, NGOs. Basically, Europe aspires to no other power than politico-diplomatic power, or soft power, as it was –and is– thought that it is at least the most useful under the current circumstances.

Naturally this tendency is leading to a progressive divergence among the European and American public opinions and, therefore, among their governments regarding the perception of threat and how to address it.

To this military weakness should be added a loss of strategic importance, as Europe is no longer –fortunately– the hypothetical battlefield of the former blocs.

Even so, Europe's greatest problem today is not allowing its military decline to spread to other fields, particularly technology, but also the economy.

Third, threat is not only geographically diffuse but also in its very nature; as stated earlier, nowadays threat consists of phenomena such as climate change, immigration, cyber-terrorism, energy crises and pandemics which call for a radically new treatment on the part of our governments and our societies and even on the part of the international community as a whole. If,

as we said, threat may be embodied by non-state actors such as terrorist groups and may be very diverse in nature, the response must be multidisciplinary and must be mustered by different subjects, obviously acting in a coordinated matter. It can no longer be dealt with solely by the various defence ministries or even governments; naturally other government departments need to be more deeply involved, especially the finance ministries and those responsible for science and technology, but it is also necessary to bring together elements of civil society, from NGOs to the think-tanks of international and strategic studies, from research centres to major corporations. Globalisation has turned security into an issue that affects everyone.

The previous situation that emerged following the close of the Second World War and ended with the fall of the Berlin wall in 1989 was characterised by the existence of two major blocs that were ideologically at loggerheads, rigidly structured (with skirmishes here and there) and possessed symmetrical military capabilities. It was therefore a situation that was not difficult to analyse and was predictable as to response. As a result the defence and security structures of the Western bloc, basically the North Atlantic Alliance, were sharply defined, their strategic concepts were clear and the military forces that underpinned them were trained, prepared and equipped to address the threat par excellence.

The fall of the wall led some to believe we were witnessing the end of history no less. The eleventh of September (2001) awakened us abruptly from this dream and since then a new situation has gradually been taking shape, plagued, as mentioned earlier, with new realities and emerging phenomena that afford it a magma-like and flowing nature that is much more difficult to analyse and to which the response is unclear and, indeed, radically different from the previous one. Take, for example, military capabilities: it is becoming increasingly evident that our traditional conventional forces have lost much of their usefulness. What about the armoured divisions designed to face up to the Soviet forces on the plains of Central Europe? Or the naval forces intended to protect the convoys that would cross the Atlantic bound for Europe? It is clear that all this is largely obsolete, but how can we address the new reality? The response is not so much the fruit of a new doctrine; rather, it is being shaped on a de facto basis, day by day, and only subsequently is the doctrine created. One thing seems clear: the asymmetry of the new situation, in contrast to the previous one, is progressively diminishing the threat of a conventional, or rather regular, war, while there is reason to fear the emergence of different types of irregular war (terrorism, insurgency, guerrilla, sabotage…).

Furthermore, the incredible developments in computer technology, electronics and communications made it necessary to incorporate them into our armies with a not inconsiderable repercussion on costs.

In his article, Admiral Terán explains how even before 2001 our armed forces had been progressively incorporating new technologies which undoubtedly afforded superiority to the armies equipped with them. Talk then began of the Revolution in Military Affairs (RMA), and at the Washington Summit of 1999 the Alliance adopted a new strategic concept which, among other things, allowed «out of area» operations. However, it was only following the terrorist attacks that we became aware of the pressing need to transform our armies in order to embrace a host of missions in the new strategic landscape (crisis management, peacekeeping and peacemaking, etc.) in very different environments and circumstances. It was then that thought began to be given to the need to combine the action of very diverse state elements –military, political, diplomatic, legal, etc.– and even non-state elements (NGOs) in order to tackle these very different situations. This is the so-called Integrated or Comprehensive Approach which, together with the RMA, constitutes the core of the transformation our armed forces are undergoing.

As has been proven in Afghanistan and Iraq, and as stated earlier, the new military superiority, however resounding, is no longer sufficient; a combination of elements of very different nature, both civilian and military, is needed to settle conflicts once and for all.

The Comprehensive Approach, the details and vicissitudes of which are analysed, is therefore set to be one of the cornerstones not only of the transformation of armies but also of the different civilian elements, governmental or otherwise, which are due to perform functions in the security and defence action of states.

In correlation with the transformation our armies are undergoing, Admiral Terán analyses in detail the strategic evolution of the North Atlantic Alliance as an essential pillar of our collective security and also that of the European Union which, despite its clear political orientation, is attempting to create its own security and defence dimension. The foundations for the convergence of both have thus been laid.

Accordingly, perhaps in the not too distant future we may witness joint actions of both, and the distinction between hard power (military) and soft power (political and economic) could therefore gradually become blurred,

thereby putting an end to one of the sources of friction between Europe and the United States.

Nobody doubts the strategic importance of energy. Paul Isbell ends his analysis of this matter by stating that energy has become the global strategic issue par excellence. Indeed, to the well known repercussion of energy on the pace of the economy is now added its importance in world geopolitical stability and decisive effect on the future of the environment.

He begins his analysis with the alarm triggered in 2006 by the upswing in energy prices. However, unlike previous hikes witnessed since 1973, this one is not due to a shrinkage in supply but to a sudden rise in demand; the emergence of Chinese and Indian demand on the energy market caused the price of crude oil to soar practically to its historical maximum. This event leads him to analyse the relationship between energy prices and the world economy, and to show that in addition to cyclical, this relationship is becoming increasingly unstable, more so when to the free-market game are added political interventions (the Iranian revolution of late 1978 and the invasion of Iraq in 2003), underlining that a military attack on Iran now could cause similar effects.

In addition to the advent of the Asian giants to the energy market, Paul Isbell analyses the paradox that, in the current age of growing globalisation, we are witnessing a resurgence of energy nationalism all over the world. For example in Latin America, where the Venezuelan and Bolivian governments and a couple of others, no doubt under the leadership of Hugo Chávez, are using hydrocarbons as a weapon to achieve their own political aims. But they are not the only ones; this is also occurring in Russia, where, following the liberalisation of the sector, Mr Putin's government is using oil and gas as a key sector for asserting his power in the world, both with the former satellite countries (Ukraine and Belarus) causing major repercussions on the supply to Europe, and in his flirtations with China and Japan (construction of the Siberian oil pipeline). Indeed, Mr Putin's government is going even further, attempting to set up a gas cartel. Despite the practical difficulties this entails owing to the regional nature of the gas markets, his overtures to countries like Algeria, Qatar and Iran ought to warn us of a risk that would affect Spain in particular.

Paul Isbell goes on to analyse in depth the consequences of energy nationalism and its indubitable short-term advantages for those who

espouse it, but warns of the risks of using it, both externally as a geopolitical weapon (he maintains that in the end a mutual dependence arises between producer and consumer countries) and internally, as an excessive state presence has a negative impact on future investment.

Lastly, he refers to the risk energy consumption may pose to climate change, which has recently spurred the European Council to adopt drastic recommendations to reduce greenhouse gas emissions, increase the use of renewable energies and boost energy efficiency. In short, he states, there is an urgent need to shape a true European energy policy that is capable of meeting this three-fold economic, geopolitical and environmental challenge.

Following the end of the Second World War Europe was pervaded by a desire for political union between its countries, which materialised in the signing of the Treaty establishing the European Economic Community in March 1957; this sparked a debate that has dragged on until the present day, on whether this desire was merely a business deal (the so-called Europe of merchants), a way of preventing the nightmare of two world wars (more European than world), or a realisable ideal.

Now, 50 years on from the EEC Treaty, we are witnessing two opposite trends, the first of which is a recurrent effort to build Europe (to provide it with a Constitution, boost its competitiveness and economic might, give it instruments of a common foreign policy, equip it with military capabilities, etc.). On the other hand, we find a Europe that is patently growing old, not only on account of the richness of its history but also in purely demographic terms, a Europe that has lost the strategic importance that stemmed from its position between the two rival blocs during the Cold War, a Europe that lacks the military capabilities required to give it a say in the world and, above all, a Europe which, despite constituting the biggest market in the world in terms of purchasing power, is rapidly missing the bandwagon of economic development and, above all, that of cutting-edge technology. Consider merely that our per capita income is practically half that of the United States and, as regards technological development, if we were to spend a higher percentage (0.5%) of GDP than the United States every year –which is far from the truth– we would attain its current level of R&D expenditure by 2123 according to the European Chamber of Commerce.

And so we find a Europe that pursues an ideal of unity, peace and brotherhood alongside a real Europe whose role in the world is progressively shrinking and which is leaving real problems unsolved.

José M. de Areilza analyses this dual process, underscoring the lack of leaders and strategic guidance that is afflicting Europe. As for the leaders, or rather the lack of them, who can put an end to this progressive decline, the sole exception –for Mr Blair is a thing of the past– is Angela Merkel; Mr Sarkozy is put on a par with her, though he is still no more than an expectation. Indeed, in the short time she has held her post, Angela Merkel has shown signs of having clear ideas about Europe's future, although perhaps they are «too national». Furthermore, the dichotomy between enlargement and deepening has been settled, in principle, in favour of the former, which, as was foreseeable, is hindering the latter. Nor is the Commission's scant political weight helping put the EU back on course. The crisis sparked by the new approval of the constitutional text not only remains unresolved but has also divided the European countries, impeding the adoption of new and necessary measures.

Such measures are especially necessary in energy matters, as was evidenced by the uncertainty that arose over the supply from Russia owing to its problems with Ukraine and, more recently, with Belarus. Europe needs, also in energy matters, to speak with a single voice, to have a common energy policy, but neither does the Union have the necessary powers, nor are the Member States willing to cede them. In addition, it is not just supply-energy substantially affects economic growth and, by extension, employment; we have not managed to develop the internal energy market and a common response needs to be found to address the problem of climate change. Each country has its own policy and its own problems; so far Great Britain is self-sufficient and France produces significant nuclear energy. It is therefore not surprising that the most nervous country is Germany, which would explain its ruses to secure a privileged relationship with Russia, on the one hand, and to gradually wrest strength from its rival, France (proof of this is the attempt to purchase the Spanish company Endesa), on the other.

As for foreign and security policy and the building of a European defence capability, Areilza underlines, in addition to the efforts made, the meagre results obtained, the spread of a pacifistic mentality despite the blows dealt by the terrorist attacks and the reshaping of the Atlantic relationship following the crisis triggered by the Iraq war in 2003. Even so, Europe still

has to do its homework and continues to be a «military dwarf», and without military capability the EU's role as a principal actor is not credible.

The dramatic news is that it is also beginning to shrink economically, even though 2006 has been a good year in this respect (unemployment has dropped by eight percent), owing chiefly to failure to address the structural problems of its economies. The inflexibility of its labour markets, the non-integration of the financial markets, the lack of competition in the services sector and, in general, the conquests of the welfare state are causing the European economy to lag behind in competitiveness and only the current economic boom allows us to close our eyes to a risk as imminent as it is important, industrial offshoring.

But hope is not lost. At the end of 2006, President Durao Barroso underlined the importance of having a European energy policy; he has likewise called for greater responsibility in immigration matters and has promoted measures to stem climate change. So at least we are aware of our shortcomings and weaknesses. However, as Areilza concludes, the most worrying factor in security and defence matters continues to be Europe's conformism.

The first point we should stress about Latin America in 2006 is the consolidation of the democratic regimes, as the events of the busy electoral calendar have taken place with great normality. It has also been a positive year indeed on the economic front, marked by a high growth rate. However, not everything is good news in the political and economic spheres. Carlos Malamud analyses the events of 2006 from both perspectives.

As for politics, the Cuban dictatorship continues and we also witnessed a certain strengthening of the populism led by Hugo Chávez with the victories of Correa in Ecuador and Daniel Ortega in Nicaragua, in addition to that of Evo Morales in Bolivia in 2005. Mention should be made of the «indigenist» element of this wave of populism as it may contain the germ of undesirable movements; it is not simply that a certain demagogy is coming into play in the building of the so-called «21st-century socialism», but rather that it can endanger the region's very anchorage to the Western world; certainly it is too soon to make more grounded judgements, but its rejection not only of the American giant but also of the Western way of life should serve to draw our attention, as it questions the region's very identity.

What is significant is the new political alignment being witnessed in the subcontinent. I believe we cannot speak univocally of right and left when

referring to Europe and Latin America; in my view, it would be more appropriate to equate self-proclaimed left-wing regimes such as those of Brazil and Chile with the European countries governed by the right, as they coincide in their respect for the game rules (certainty of law) and in their aim of sound economic growth (instead of speaking solely of income distribution). In contrast to them we find regimes, probably headed by Bolivia, that question consolidated European values and even, as in the case of Venezuela and its Enabling Law, respect for the very rules of democracy. This allows us to speak, as Carlos Malamud states, of a new political map of the region and of the leftward turn seen in 2006.

From the political point of view, the most worrying aspect of the region is that despite the good news of the consolidation of Latin America's democracies, the concern remains about the non-existence in many countries of true states, agents of national cohesion, contributors to economic development, guarantors of legal security and promoters of a true civil society.

From the economic viewpoint, the trend witnessed in 2006 should be considered positive bearing in mind the main fundamentals (performance of external debt, foreign currency reserves, inflation rates, emigrants' remittances, etc.).

As with the political scene, the economic map appears to show a distinction between countries with sound or steadily growing economies like Chile and Brazil and those with populist policies that involve greater state intervention and less respect for legal certainty. This can be seen if trends in foreign investment in the region are analysed in detail.

There are clouds hovering over the Latin American region's economy: not least the difficulties and obstacles standing in the way of the regional integration process. In Europe the pressing need can be clearly perceived to establish supranational economic areas in a world heading for full globalisation. Given that Latin America has a basic cultural identity and a practically common language, it is strange that the integration process is not only at a standstill but even going backwards. As Malamud says, excessive rhetoric and nationalism combined with lack of political leadership are probably the causes of this state of affairs. The very encouraging macroeconomic figures should not blind us to the very uneven distribution of income, even though the poverty rate has fallen considerably, or to the fact that the region as a whole is growing at a slower pace than the rest of the developing countries, even Africa.

Lastly, the question arises of whether the current situation of improvement is not merely circumstantial, stemming from the rising prices of raw materials, and therefore lacks the desired consistency.

As for Cuba, 2006 witnessed the illness –incurable?– of the dictator, giving rise to an interim process during which one assumes that bloodless battles are being waged to secure a foothold in power with a view to Castro's death. At any rate, a transition process has begun on the island in which it is expected that the main actors –armed forces, Catholic church and political opposition (both domestic and in Miami)– will play their roles prudently.

As for Spain's presence in the region, where it is perhaps the main foreign actor, Spanish investment flows remain stable. This is a positive factor in itself and also with a view to the bicentenary celebrations that are approaching. It is hoped that these flows are not only maintained or even grow in the near future but are accompanied by «social» actions that help the population understand the beneficial nature of such investment. It is clear that the work Spain is performing is that of channelling savings from the whole world towards Latin America, notably improving its standard of living, but it is not so clear whether this is perceived by the populations of the recipient countries.

Lastly, a suggestion: given that South East Asia is undoubtedly the emerging region par excellence in the world economy, would it not make sense to direct at least some of our investments to this region via Latin America? That is, to strengthen the subsidiaries of Spanish companies in Latin America while using them as the most suitable channel for controlling our investments in South East Asia. After all, we find that the route of Columbus, or rather the Manila Galleon, is more appropriate for us than that of Marco Polo.

As is only natural, despite all that has been stated previously, not everything is new on the current strategic horizon. On the contrary, there are elements that are inherited from the previous situation, however novel they appear.

This is the case of the situation in the Middle East, which is analysed by Colonel Ballesteros. Traditionally a primary source of the world's oil supply, with countries of marked contrasts (among other factors in income distribution), a place of major and virulent ethnic and religious conflicts and the main seat of a monotheistic religion (that is not predominant in today's

world), the area is now also a principal, though not the sole, seedbed for Islamic terrorists and a source of powerful nuclear tension whose traditional instability has increased owing mainly to the situation in Iraq. Not to mention the seemingly unsolvable Palestinian-Israeli conflict. In short, the novelties are a negative sign. Colonel Ballesteros' analysis embraces what has been called «the greater Middle East», from Morocco to Afghanistan.

As for the southern shore of the Mediterranean, the Western Sahara conflict remains at an impasse, awaiting an agreement between the parties, and although the current situation is economically burdensome to Morocco and worse still for the Polisario Front, no substantial changes are expected in the short term in view of Morocco's unbudging position and the scant international interest the conflict arouses.

The situation in Algeria is more worrying, though Mr Bouteflika's government is overcoming its internal conflict, aided by the rise in gas and oil prices. Even so, the situation remains unstable owing to religious fundamentalism and terrorism.

In the Palestinian-Israeli conflict, 2006 witnessed the war between Hezbollah and Israel. In retaliation for the death and capture of a few soldiers, Israel invaded southern Lebanon for the third time, triggering a war which –and this is a novelty– ended without an Israeli victory, a fact from which the Palestinian organisation Hamas and its leaders have benefited vis-à-vis the PLO. In contrast, the result of the war has lowered the morale of the Israelis and created serious problems for Mr Olmert's government. What is more, it has heightened the country's traditional feeling of insecurity which, added to the weakness of Palestine's President Abbas, is hindering the peace process.

In Palestine, whose economic conditions are progressively worsening, the struggle between Hamas, which is backed by Syria, Iran and also Russia, and Fatah, which is supported by the United States and European Union, is becoming increasingly inflamed, sparking fears of the worst.

Nor is the situation in Lebanon assuring. The pre-eminence secured by Syria as a result of the civil war proved decisive in the 2006 conflict and has raised the status of Hezbollah, which emerged as the victor of the Israelis, making it a reference for the whole Arab world as the embodiment of the hope that Israel can be defeated.

Even so, the most serious situation is the conflict in Iraq where the growing number of victims of terrorists and the insurgency, chiefly Iraqis but

also American soldiers, is making it almost impossible for the Iraqi government resulting from the 2005 elections to take action. The spectacular military victory is turning into an absolute nightmare and, worse still, hopes of a solution are fading daily. The incredible –in Europe's eyes– decision to dismantle the Iraqi army and police, together with the rivalry between Sunnis and Shias, is driving the country towards chaos and civil war, from which it is currently spared by the presence of coalition forces. But this assistance cannot last forever (the losses and economic cost are becoming intolerable in the eyes of the American public) on the one hand and, on the other, their very presence is fuelling rivalries in the conflict.

And so we are witnessing a race against time in which the United States hopes to stabilise the political situation in order to be able to send its troops home.

The situation in Iraq is by far the most worrying in the whole of the region, though we should not forget the added tension caused by Iran, owing not only to its support for the Iraqi Shia faction and, further away, for Hezbollah in Lebanon and Hamas in Palestine, but above all to its uranium enrichment programme and the defiance of international legality that this entails. Despite Iran's declarations that it only wishes to have nuclear energy for civilian and peaceful uses, the evidence suggests that its true aim is to become a nuclear military power, which has yet to be confirmed by the International Atomic Energy Agency (IAEA). If this were the case and Iran were to become a nuclear power, tension would heighten in the area, particularly in view of its radical declarations against Israel. The current circumstances are in its favour, since the United States, which is bogged down in Iraq, has a limited capacity for action in the area and the international community is greatly divided, also over Iraq. Over the next few months it will become clear, first, whether Iran is driven by the aim of becoming a nuclear arm and, second, whether the international community will tolerate the situation. If the answer to the first question is affirmative, the tension will worsen and could become unbearable.

Lastly, Colonel Ballesteros analyses the current situation in Afghanistan, where we are also witnessing a spectacular rise in suicide terrorist attacks and the comeback of the Taliban insurgency, which is jeopardising the presence of the United Nations and North Atlantic Alliance forces.

In conclusion, the Middle East situation has worsened substantially in 2006 and there is reason to fear that it may become unsustainable in the near future.

CHAPTER ONE

THE TRANSFORMATION OF SECURITY AND DEFENCE STRUCTURES VIS-À-VIS THE NEW STRATEGIC LANDSCAPE

THE TRANSFORMATION OF SECURITY AND DEFENCE STRUCTURES VIS-À-VIS THE NEW STRATEGIC LANDSCAPE

By José María Terán Elices

A NEW INTERNATIONAL ORDER

The period between 1989 and 2006 has witnessed major changes in the international environment: the bloc politics of the Cold War has disappeared; the globalisation process has become consolidated; and a new framework for international relations has emerged. At the same time, together with the traditional threats to international peace, security and stability, new dangers of a very different nature and intensity have arisen, both from states and from non-state players.

Indeed, whereas during the Cold War the greatest threat hovering over Western countries was a conventional or nuclear war against the Soviet Union and Warsaw Pact countries, the numerous armed conflicts currently being waged in various parts of the world not only draw the attention of the media of the advanced nations on account of their causes and effects, but have implications that extend far beyond the place where they occur. This situation is shaping an increasingly uncertain security environment, which calls for a continuous and permanent effort on the part of the armed forces.

The tragic attacks of 11 September 2001 in New York and Washington –and their different after-effects all over the planet– showed the world that terrorism had become a truly global threat that transcends the classical boundary between internal and external risks and must be combated with all the means available to the state: diplomatic, economic, cultural, police and even military.

In addition to these deep changes in the strategic environment, the end of the Cold War also highlighted a series of social, political and ideological changes that had been developing during previous decades and have completely altered the way that advanced societies address the war phenomenon. Westerners of the beginning of this century are not only better educated, richer, more democratic and have a greater life expectancy than their counterparts of the past, but are also more individualistic and pacifistic and therefore less inclined to give their lives for their home country or nation. (1)

Among other profound changes, these transformations will cause a growing rift between the military and civilian spheres and lead to the permanent abolishment of compulsory conscription, which will complicate enormously the use of military force as an element of the state's foreign policy (2) and will cause the public opinion of advanced societies to pressure governments to employ their armies in humanitarian missions-actions that differ significantly from classical army missions such as territorial defence and conventional war and whose complexity calls for new requirements for the armed forces.

Therefore, it can be said that nowadays the armed forces operate in a more complex and confusing framework than in the past, in which non-military factors –such as legal, social or media matters– condition the course and outcome of any military action.

In short, the major world changes that have occurred in recent decades have significantly altered the framework of states' political, economic, diplomatic and military action. In the latter field, the new international environment has not only brought a change in the security and defence policies of the most advanced nations but has also spurred them to embark on a process of political and military transformation in order to adapt to the requirements of the strategic landscape of the 21st century.

Bearing in mind this general context, this chapter will examine how military assets are being adapted to the challenges posed by the current

(1) For an overview of the phenomenon, see: MOSKOS, CHARLES C., WILLIAMS, JOHN A. and SEGAL, DAVID R. (2000): *The Postmodern Military: Armed Forces after the Cold War*; New York, Oxford University Press. For his part, Colom (COLOM, GUILLEM (2006): «La gran revolución», in *Boletín de Información del CESEDEN* No. 294, pp. 7-28) maintains that these changes constitute a «military revolution» that is global in nature and consequences and which, by altering the existing relationship between state, society and war, has transformed the way the advanced nations address the phenomenon of war.

(2) See LUARD, EVAN (1988): *The Blunted Sword: the Erosion of Military Power in Modern World Politics*, London, I.B. Tauris.

strategic landscape. For this purpose it will begin by analysing the transformation in which the armed forces of the advanced nations are immersed, among them Spain, and will establish the need to progress in integrating the civilian and military effort in crisis-management operations, as required by the complexity of the current environment. Lastly, it will end by explaining how the North Atlantic Alliance and the European Union are adapting to the new strategic reality of the 21st century.

WHY DO THE ARMED FORCES NEED TO UNDERGO TRANSFORMATION?

Before discussing the need to undertake a transformation process aimed at adapting Cold-War armed forces to the social, political, economic, strategic, operational, tactical and technological requirements of the 21st century as basic elements of Western security and defence, it is necessary to examine briefly the process's theoretic underpinning, which is enshrined in the concept of the *Revolution in Military Affairs* (RMA).

The term RMA, which was the focus of political, military and academic debate in the defence sphere during the 1990s, may be defined as a profound change in the way armies operate stemming from the integration and exploitation of new technologies, doctrines and structures. This transformation, which should render earlier forms of combat obsolete, makes the first army to exploit these capabilities vastly superior and therefore its allies, for the purpose of interoperability, and indeed any possible adversaries, need to attain this new capabilities standard, either by joining in the revolution or developing a response to do away with this advantage. (3)

By and large, the debates on the possible existence of an RMA capable of transforming the art of warfare arose first in the Soviet Union and then in the United States halfway through the 1980s, at the same time as the military application of technological advances in the field of computing, electronics and communications. (4) These new technologies, divided into systems of Command, Control and Communications (C^3), Intelligence,

(3) However, the experience of history would appear to relativise this assumption. On this subject see: BOOT, Max (2006): *War Made New: Technology, Warfare and the Course of History, 1.500 to Today*, New Haven, Yale University Press.

(4) Although Soviet military theoreticians were the first to analyse the possible existence of a *Technical-Military Revolution* related to the introduction by the allied forces of C^3I systems and precision munitions, it was Andrew Marshall –a well-known analyst of the US Department of Defense– who defined the concept of RMA in 1993.

Surveillance, Target Acquisition and Reconnaissance (ISTAR) and precision munitions, promised to revolutionise the way armies operate. This equipment would not only allow large volumes of information to be gathered, processed and fused, providing military and political commands with a full X-ray picture in real time of what is going on in the theatre of operations. It would also enable any battlefield target to be attacked and destroyed from a long distance and with a high success rate thanks to smart precision munitions.

This unprecedented capability would be possible thanks to what Admiral William Owens –former Vice Chairman of the United States Joint Chiefs of Staff– described as a «system of systems», meaning the ability of all the equipment to act jointly or as part of a *network*. According to Owens this is the essence of the RMA: the possibility of accumulating a vast volume of information on the area of operations and of using it immediately. (5)

The United States' spectacular victory in the Gulf War of 1991 appeared to demonstrate the revolutionary scope of these changes, (6) and therefore the debate on the possible existence of a revolution capable of making the weapons, tactics, procedures and doctrines developed during the Second World War and the Cold War obsolete –still limited to the US and Soviet political and military sphere (7)– gained worldwide popularity, becoming the focus of any discussion in the defence field. (8)

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(5) See OWENS, WILLIAM (1995): «The American Revolution in Military Affairs», in *Joint Forces Quarterly*, No. 10, pp. 37-39.

(6) Nevertheless it should be remembered that although this technology played an important role, it is by no means sufficient to account for the United States' victory. Indeed, the Iraqi army, characteristic of the 1970s, was pitted against that of the United States, with its highly trained and skilled troops and an excellent historical context for putting into practice the procedures and technologies developed years earlier for facing the Soviet Union with guaranteed success in a Central European environment. For further information see: KAGAN, FREDERICK W. (2006): *Finding the Target: the Transformation of American Military Policy*, New York, Encounter Books.

(7) See IKLÉ, ALFRED and WOHLSTETTER, ALBERT (1988): *Discriminate Deterrence*, Washington DC, US Government Printing Office. This work publishes the conclusions of a working group of analysts as prestigious as ZBIGNIEW BRZEZINSKI, HENRY KISSINGER, SAMUEL HUNTINGTON, ALFRED IKLÉ and ANDREW MARSHALL created by the US Department of Defence in the mid 1980s to ascertain whether these technological advances could be considered revolutionary.

(8) For an overview of the RMA, see: COHEN, ELIOT A. (1996): «A Revolution in Warfare», in *Foreign Affairs*, vol. 75 No. 2, pp. 37-56; FREEDMAN, LAWRENCE (1998): *The Revolution in Strategic Affairs*, Adelphi Paper No. 318, London, The International Institute for Strategic Studies – Oxford University Press and MURRAY, WILLIAMSON (1997): «Thinking About Revolutions in Military Affairs», in *Joint Forces Quarterly*, No. 16, pp. 69-76.

Why did the idea of an RMA capable of transforming the art of warfare arouse such interest? Because this revolution not only promised to provide military capabilities that would have been unimaginable years earlier in terms of precision and speed, while limiting collateral damage and own casualties, (9) but also appeared to be the solution to all the problems that advanced societies needed to address at the turn of the century: erosion of the citizen-soldier model and the end of universal male conscription, the so-called «peace dividend» which was linked to the reduction in advanced nations' defence budgets following the disappearance of the Soviet threat and, very especially, appeared to remedy advanced societies' growing difficulty in choosing war as a political instrument. (10)

Therefore, it is not surprising that this idea should have seduced politicians and military the world over, as it not only promised to replace shortage of human resources with technology, but also offered governments the possibility of continuing to employ the armed forces as an element of foreign policy autonomously but with fewer political, economic and social costs. Furthermore, the United States –the promoter and greatest champion of the RMA– was also interested in its promising potential to maintain and increase its qualitative advantage over possible rivals, and, consequently, to preserve American military hegemony in the 21st century. (11)

Discussions on the RMA continued until 2001, when this concept was replaced by the term *transformation* (12) as the centrepiece of political, academic and military debate in the sphere of defence. It was initially considered that transformation was a process with a twofold aim: to achieve the RMA and to adapt the armed forces to the post-Cold-War world. (13) Nevertheless, transformation is currently taken to mean both elements,

(9) Indeed, smart precision weapons enormously cut the economic and political cost of any military action, as they enable targets to be defeated at a long distance, reducing the risk of own casualties, with great precision and less collateral damage. On the development, capabilities and limitations of weapons of this kind, see: FRIEDMAN, GEORGE AND MEREDITH (1998): *The Future of War: Power, Technology and American World Dominance in the Twenty-First Century*, New York, St. Martin's Griffin, pp. 212-242.

(10) See CREVELD, MARTIN VAN (2000): «Through a Glass, Darkly: Some Reflections on the Future of Warfare», in *Network Centric Warfare Review*, pp. 25-44.

(11) See SLOAN, ELINOR (2002): *The Revolution in Military Affairs: Implications for NATO and Canada*, Montreal, McGill-Queen's University Press, pp. 27-29.

(12) Nonetheless, it should be mentioned that the term «transformation» was first used officially in 1997 to define the process whereby the United States' armed forces should achieve the RMA. (Department of Defense (1997): *National Panel Report: Transforming Defense*, Washington DC: US Government Printing Office)

(13) See ROXBOROUGH, IAN (2002): «From Revolution to Transformation, the State of the Field», in *Joint Forces Quarterly*, No. 32, pp. 68-76,

and can therefore be defined as the process whereby the armed forces adapt to the technological, political, social, strategic, operational and tactical requirements of the 21st century. (14)

As will be seen in greater detail throughout the text, transformation not only consists in modernising or acquiring new material assets or introducing new organisational structures or operational procedures to the armed forces. This process also involves an ideological and cultural change, as all the sectors affected by this change must replace old customs with new, totally different practices. It is very possible that this situation will trigger clashes between the groups in question as, faced with the possibility of losing relative power and influence, they could prefer to maintain the status quo and accordingly oppose the transformation process.

Having said this, it is appropriate to ask why the armed forces need to be transformed. The answer is easy: the current strategic environment is more complex, uncertain and potentially dangerous than that of the Cold War. This situation has posed new challenges for the advanced nations' armies, which need to be prepared to perform a broad range of missions in all kinds of environments.

In this respect, whereas during the Cold War Western armies were prepared to defend the territory and to engage in conventional or nuclear warfare against adversaries such as the Warsaw Pact countries, the new strategic landscape requires them to be able to perform a broad range of missions. Modern armies must not only be prepared to respond quickly and effectively to crises of different kinds and intensity that may erupt in any corner of the world; once they are there they must also be capable of conducting all kinds of missions, autonomously or in a multinational environment (interposition, peacemaking, stabilisation, counter-insurgency or conventional warfare) against enemies that differ greatly in nature (governments, terrorist groups, guerrillas or warlords) and in all kinds of settings (urban, mountainous, desert or rainforest).

(14) It should be remembered that with the Strategic Defence Review of 2003, National Defence Directive 1/2004 and, lastly, with the creation –pursuant to Defence Ministry Order 1076/2005– of the Armed Forces Transformation Unit as an ancillary agency of the Defence General Staff (EMAD), Spain has also set this process in motion in order to equip itself with an army that is qualitatively superior to those of our potential adversaries and, as such, capable of defending our national interests, while preserving the capability to operate closely with our allies' armies in any scenario and against any threat. For further information on this process, see the paper given by the Defence Chief of Staff (JEMAD) on 6 June 2005 at the Club Siglo XXI, entitled «La Transformación de las Fuerzas Armadas Españolas» (http://www.realinstitutoelcano.org /materialesdocs/Discurso_JEMAD_junio_2005_Club_sXXI.pdf)

In order to perform this very wide range of missions, the armed forces are developing expeditionary doctrines to enhance both force projection capability (rapid and effective deployment of units to the theatre of operations) and sustainability (i.e. the ability to maintain the operability of the deployed units through appropriate logistic support and force rotation). This requires armies to be equipped with ground assets that are lighter and more deployable but capable of tackling any possible threat. At the same time, they should acquire means of naval and air transport capable of deploying and maintaining these forces at great distances, even to anywhere in the world. (15)

In parallel with the foregoing, in order to operate effectively in heterogeneous and changing environments, armies are enhancing both their adaptability and flexibility. For this purpose they are adopting modular organisational structures in order to provide the force packages best suited to the effective implementation of the missions. It should be pointed out that armies must not only develop modules that are optimised for combat in all types of environments but also modules that are prepared for zone control, reconstruction, infrastructure repair and civilian-military cooperation in crisis operations.

Third, the armed forces are also improving their combined and joint action at army level by integrating the ground, naval and air effort and between forces from different countries in the context of multinational operations that can be built from components belonging to a single country, formed around contingents from leader countries or as fully multinational units. (16)

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(15) As the JEMAD has pointed out, the Spanish transformation should give priority to improving our armed forces' expeditionary capability (statements made at the seminar organised by the Spanish Atlantic Association, *La Transformación de la OTAN: Generando Seguridad Transatlántica en el Siglo XXI*, 23 June 2005). Our armed forces are making significant progress towards this: the Army is lightening its force structure through an appropriate balance between light and heavy assets; the Navy is reorienting its blue-water and antisubmarine focus in order to become a force capable of projecting its power both in coastal areas and inland; and the Air Force is sizeably boosting its capability to project, sustain and supply the forces deployed overseas.

(16) Spain's active participation in multinational initiatives such as the United Nations Standing High Readiness Brigade, the Spanish-Italian Amphibious Force, Eurocorps, Eurofor, Euromarfor, the NATO Response Force and EU Battlegroups, to cite a few examples, has afforded our armed forces incalculable experience in integrating national effort with that of the rest of our allies. Furthermore, the EMAD's recent establishment of the Armed Forces Joint Doctrine Board is facilitating the designing of procedures that combine ground, naval and air effort with the aim of optimising the performance of new military operations.

Fourth, the tragic events of 11 September required the armed forces to be prepared to combat international terrorism. Therefore, forces must not only perfect electronic Intelligence, Surveillance and Reconnaissance systems –considered one of the lynchpins of the RMA– but also improve human intelligence, which has proven essential to combating this phenomenon on the ground. In this connection, it is also necessary to enhance special operations units, as their expertise in covert operations, effectiveness in counter-insurgency actions and ability to gather information on the ground have made them an essential element in combating international terrorism, as the Afghanistan and Iraq campaigns are showing.

At the same time, the armed forces should step up their cooperation with civilian intelligence services and law enforcement in domestic security tasks, either to help protect critical infrastructures by providing human and material resources for the police effort or by pooling military intelligence with its civilian counterpart. (17)

Lastly, recent experience in Afghanistan and Iraq is showing that the Western countries' armed forces need to improve both their skills with respect to operating in non-conventional environments and to addressing *asymmetrical* actions (18) and their ability to lead stabilisation and reconstruction actions. (19) Indeed, both conflicts have proven that advanced countries' armies –in particular that of the United States– are capable of performing conventional operations with undisputed success, but display major shortfalls when it comes to controlling and sustaining hostile territories for long periods of time and proceeding to stabilise, administer and reconstruct them. (20)

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(17) In the case of Spain, National Defence Directive 1/2004 established the need to bring together the different military intelligence services under an Armed Forces Intelligence Centre (CIFAS) that would be coordinated with the National Intelligence Centre (CNI). Royal Decree 1551/2004 placed it with the EMAD and Defence Ministry Order 1076/2005 developed its structure, organisation and functions.

(18) Very broadly speaking, the concept of *asymmetrical warfare* has acquired great importance among Western defence analysts when defining the actions employed by non-state players against the armies of advanced nations. However, actions of this type aimed at taking a militarily more powerful adversary by surprise by exploiting its weaknesses or fleeing from its capabilities are not new. For more information see: HAMMES, Thommas X. (2004): *The Sling & the Stone: on War in the 21st Century*, St. Paul, Zenith Press and LIANG, Quiao and XIANGSUI, Wang (2004): *La guerre hors limites,* Paris, Rivages.

(19) See GRAY, Colin S. (2006): «Stability Operations in Strategic Perspective: a Skeptical View», in *Parameters*, Vol. XXXVI, No. 2, pp. 4-14.

(20) See KAGAN, Frederick W. (2003): «War and Aftermath» in *Policy Review* No. 120, pp. 13-36.

One of the possible solutions tested individually by states or collectively within the North Atlantic Alliance or European Union is NATO's establishment of the Provincial Reconstruction Teams (PRTs). These groups, which are being put to the test in Afghanistan with great success, consist of small units incorporating military and civilian elements in order to enhance the capabilities of both to perform reconstruction actions in close coordination with the local authorities. For this purpose, while the military element takes charge of providing security, logistic support, civilian-military cooperation (CIMIC) and project management experts, the civilian element, which is comprised both of governmental organisations and NGOs, manages, directs and directly implements the reconstruction projects. (21)

However, it seems evident that the PRTs are only a compromise solution designed ad-hoc in order to address the need for civilian and military resources optimised for performing post-conflict reconstruction tasks while more general and permanent measures are defined and introduced that integrate and harmonise the action of military and non-military elements, both national and international, in crisis-management, stabilisation and reconstruction operations.

Why is there such interest? Because the current strategic environment is much more complex than that of the Cold War. Therefore, any crisis that erupts will be framed within a complex and multidimensional context that –as was seen in the Balkans, Afghanistan and even Iraq (22)– will make exclusively military, diplomatic, political or civilian action an unfeasible solution.

Indeed, only through a combination of full national and international powers, whether political, economic, military or civilian, will its resolution be possible. That is why the advanced nations are beginning to define formulas and procedures that integrate and harmonise all the instruments of national power, both military and non-military, in order to ensure coherence in national and international actions when it comes to addressing crises.

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(21) Suffice it to point out that our armed forces have provided a PRT in the region of Qala and Naw. This group incorporates military and civilian elements both from the Spanish Agency for International Cooperation and from the Red Cross and various national NGOs.

(22) Some examples of this huge complexity can be found in the following works: HIRSCH, JOHN L. and OAKLEY, ROBERT B. (1995): *Somalia and Operation Restore Hope: Reflections on Peacemaking and Peacekeeping*, Washington DC, United States Institute for Peace; CLARK, WESLEY (2001): *Waging Modern War: Bosnia, Kosovo and the Future of Conflict*, Oxford, Oxford University Press; and RICKS, THOMAS E. (2006): *Fiasco: the American Military Adventure in Iraq*, New York, Penguin Press.

This is in fact the logic that underpins the concept, still in its early stages of gestation, of the new «comprehensive (or integrated) approach» to security and defence, which is aimed at coordinating, combining and integrating all the elements of national and/or international power. This concept will be studied in greater detail in the following pages, as everything appears to indicate that it will be the basic action plan of the advanced nations for responding to international crises, as indeed they are currently attempting to do in Afghanistan-with reasonable success on the part of Spain.

WHY IS A «COMPREHENSIVE APPROACH» NECESSARY?

In the previous pages we have stressed that the strategic environment which emerged following the fall of the Iron Curtain and was confirmed after the events of 11 September is much more complex and heterogeneous than that of the Cold War. Indeed, a new framework of international relations has taken shape, the globalisation process has become consolidated, the proliferation of non-state actors is diluting the power and international centrality of the state, and new and dynamic threats of different nature and intensity have appeared. At the same time, not only has the social, political and ideological base of the advanced nations undergone profound changes that limit governments' scope of action but civil society has become an international player whose actions can be complementary or alternative to government action.

This huge complexity has been witnessed in all the conflicts that have erupted since 1991. Indeed, most of the crises that have emerged over the past 15 years have done so in disintegrating states or territories that lack centralised power and have brought face-to-face guerrillas or other militias that do not belong to regular armies and whose actions are therefore unfettered by legal restrictions. Furthermore, the hostilities have stemmed not only from one of the parties' aims of controlling the territory or resources, but in particular from ethnic or religious reasons, leading to serious humanitarian crises and genocide attempts.

These conflicts cannot be resolved by using traditional military power which, optimised for conventional war against symmetrical adversaries, should be capable of performing not only combat missions but also low- or very low-intensity actions such as peacemaking, stabilisation, humanitarian aid and even support for institutional reconstruction. These are some of the new requirements which have spurred the transformation of the armed forces, a process already analysed on previous pages.

However, transformation is one of the solutions that the armed forces are using to manage and solve these new international crises. The other lies in integration of the military, political, economic and civilian instrument, both national and international, in order to provide a common, single and coherent response to these conflicts.

Why is this necessary? Because most of the crisis-management operations performed since 1991 have been conducted in a multinational environment in missions led by the United Nations, the European Union or other international organisations.

In addition, all operations of this type have required the use of a broad range of military, economic, political, diplomatic and civilian instruments of varying provenance –national, international, governmental and non-governmental– to separate, demobilise and disarm the belligerents before going ahead with humanitarian aid, stabilisation and the institutional and political reconstruction of the territory.

The complexity and problems of coordinating the different states and government agencies (armed forces, diplomatic service, international cooperation, the economy, the police) when it comes to developing coherent action plans have been proven at the political level. However, the extent of these problems has been realised on the ground. The existence of protocols designed to coordinate the actions of the different players has not prevented the emergence of major problems of communication, coordination, harmonisation and even confidence, as is the case of governmental organisations with NGOs, among others. (23) This lack of coherence is evidently undesirable, as it not only hampers and complicates the individual action of the different organisations in charge of managing the crisis but also delays the attainment of results.

This is why the advanced nations –among them Spain– have opted to define and develop a «comprehensive approach» allowing all instruments of national and international power, both military and non-military, to be combined, harmonised and integrated in order to ensure coherence in state action when responding to crises that may erupt.

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(23) In the military sphere, in past operations in which military and civilian organisations worked together, coordination was carried out on the ground and informally through CIMIC cooperation. The need is now recognised to formalise and reinforce this type of cooperation, proof of which is the fact that enhanced CIMIC cooperation is one of the six basic areas of the allied military transformation. For further information on the need to step up civilian-military relations, see: PECO, Miguel (coord.) (2006): «Capacidades Civiles y Militares en Escenarios de Conflicto», in *Revista Ejército*, No. 779, pp. 29-64

It can be argued that the idea of integrating all means of national power, whether military, economic, civilian or informational is not new, as it was inaugurated with the advent of Total War. However, what is truly novel is that they all combine to act in a coordinated and coherent fashion in the planning and implementation of crisis-management operations by regulating their actions at the political, strategic, operation levels and, evidently, in specific actions on the ground. (24)

What does the adoption of this new «comprehensive approach» promise? First, it will make possible improved coordination of the goals and activities of the different government departments and agencies (defence, interior, economy, foreign affairs, cooperation, development aid...) in charge of crisis management when it comes to identifying, analysing, planning and implementing actions. Second, it will provide greater coherence in national and international action, as the tasks of all the instruments of national and/or multinational power will be complementary and geared towards a common end. Lastly, although in order to achieve the full effectiveness of this approach it would be appropriate for NGOs to coordinate their actions with the official organisations, it seems evident that the improvement –in both quantity and quality– in communication between both will provide the transparency needed to make NGOs less reluctant to cooperate with governments and international organisations in the management of international crises. (25)

In conclusion, although this new approach is still in the embryonic stage, (26) it is one of the pillars of the defence transformation processes of the advanced nations, as it will not only enable the state's foreign, secu-

(24) From an exclusively military viewpoint it could be stated that this approach is the logical consequence of the growing fusion of national and international ground, naval and air capabilities thanks to the development of combined and joint doctrines. Indeed, the integration of capabilities of the different military components should not only continue with the enhancement of their coordination with non-military players but with the achievement of coherence through joint civilian and military planning and implementation.

(25) In this regard, both the comprehensive approach –initially proposed by Denmark in the context of the Atlantic Alliance under the name of Concerted Planning and Action– and the European Union's Civilian-Military Coordination are mainly aimed at improving the exchange of information between the military and civilian sectors, including NGOs, in order to ensure the coherence of their crisis-response actions.

(26) Indeed, both the European Civilian-Military Coordination and the allied comprehensive approach and EBAO, in addition to the British proposal for an integrated approach and Danish proposal for concerted action, are currently being defined and developed in order to implement them in future crisis management. In the case of Spain, our armed forces have also proceeded to develop and define the military dimension of this «comprehensive approach».

rity and defence policies to be integrated with the other government departments, but will also optimise coordination between official bodies, both national and international, and non-governmental organisations.

The integration of civilian and military capabilities through the appropriate instruments will thus reflect unequivocally the idea of oneness in the state's external action.

Through its armed forces, Spain is playing an active role in defining this new «comprehensive approach» through our participation in European initiatives such as Civilian-Military Coordination (CMCO) and allied initiatives such as the «comprehensive approach» and the Effects Based Approach to Operations (EBAO), which constitutes the military dimension. At the same time, it is also taking part in Multinational Experiment 5, which is led by the United States Transformation Command with the participation of many European partners and is aimed at improving the interaction and coordination of military and civilian elements, both national and international, in post-conflict stabilisation operations. Furthermore, one of the mainstays of Spain's Military Strategy, which is both the guideline for the joint action of our armed forces and the frame of reference for military planning and is expected to be announced during the course of this year, will be to achieve the full integration of the Spanish military instrument in the national crisis-management system.

In conclusion, it may be said that the transformation of defence is an unavoidable process as its purpose is to adapt the military instrument to the heterogeneous and changing strategic, political, technological and social reality of the 21st century while maintaining the qualitative advantage vis-à-vis potential adversaries. The ultimate aim of this process is to ensure that armies continue to be an effective tool at the service of the state, in the same way as diplomacy, the economy and culture are.

This is why the adoption of a «comprehensive approach» capable of coordinating, combining and integrating all national assets, both military and non-military, in order to ensure coherence in the state's external action, is an essential part of the transformation of the armed forces.

Why? Because the broadening of the armed forces' missions is leading us increasingly to scenarios that require structured coordination between civilian and military capabilities. Therefore, the institutionalisation of collaboration and cooperation measures between civilian and military capabilities, both national and international, in order to achieve coherence in the

state's external action is the logical consequence of adapting armies to the new strategic environment of the 21st century.

Having said this, we will now examine how the North Atlantic Alliance and European Union are adapting their strategies to the new international landscape.

THE STRATEGIC EVOLUTION OF THE NORTH ATLANTIC ALLIANCE

The purpose of the North Atlantic Treaty Organisation (NATO) is to defend the freedom and security of all its members in accordance with the principles of the United Nations Charter. To this end the Alliance possesses political and military assets that can be used to address threats to its Member States' security.

NATO was established in 1949 to defend Western Europe from a hypothetical aggression from the Soviet bloc, a situation that enabled Europe's strategic balance to be preserved throughout the whole of the Cold War. However, the huge transformation the international environment has witnessed since the fall of the Berlin Wall has triggered profound changes in the Alliance's structure, organisation and goals.

Indeed, in order to meet the challenges that emerged following the end of the Cold War, the Alliance has embarked on a process of both political and military change. In the institutional and political field, the Alliance has established a new framework for relations with its former adversaries; developed new initiatives; taken on new tasks; and reaffirmed its commitment to act when and where necessary, even out of area, to combat new threats.

Furthermore, since the dissolution of the Warsaw Pact, NATO has been adapting, strengthening and transforming its military muscle in order to meet the new requirements. For this purpose it has revamped its command and force structure; is developing its military capabilities; has created a response force capable of addressing any eventuality that could arise in any part of the world; and is now defining the principle that will guide the allied military transformation: the Effects Based Approach to Operations (EBAO) or coordinated use of full allied military, political, economic and civilian powers in order to ensure the coherence of NATO's action.

Having said this, we will now go on to explain the Alliance's evolution in the post-Cold-War world, a change that has been carried out in three

major steps: an adaptation phase culminating in the approval of a new Strategic Concept in 1991; an enlargement process ending with the definition of the Strategic Concept of 1999; and a third that concluded in 2003 with the creation of a new command structure. A fourth stage has been in progress since the Prague Summit: the allied political and military transformation. (27)

The disappearance of the Warsaw Pact radically altered the world strategic environment. This situation meant that, for the first time in its history, NATO found itself forced to vary its Strategic Concept and initiate a process of adaptation to the new international environment. This aim was reflected in the Strategic Concept of 1991, a document that ratified the allies' determination to preserve its members' security while opening the doors to cooperation with its former adversaries.

Three years later, the Alliance launched two important political initiatives: the Partnership for Peace and the Mediterranean Dialogue. (28) The first initiative stems from the North Atlantic Cooperation Council (NACC), a forum for dialogue and consultation created in 1992 to support the countries of Central and Eastern Europe in their political transitions. Although the success of this political forum was limited, its practical dimension, established in 1994 with the name of Partnership for Peace, has enabled NATO to become consolidated as a great security organisation, as its members include not only all the NACC states but also the rest of the nations belonging to the Organisation for Security and Cooperation in Europe (OSCE). In 1997, the NACC member states and those of the Partnership for Peace chose to reinforce their political and military cooperation, leading to the disappearance of the NACC and its replacement by the Euro-Atlantic Partnership Council (EAPC), an initiative that is now shared by all the allies, together with the members of the Partnership for Peace.

This association is a forum in which NATO establishes bilateral relations with each of its partners in order to promote activities that may be of

(27) For a more general view of the Atlantic Alliance's process of adaptation and transformation, see: CARACUEL, MARIA ANGUSTIAS (2004): *Los Cambios de la OTAN tras el fin de la Guerra Fría*, Madrid, Editorial Tecnos.

(28) In addition to the Partnership for Peace and Mediterranean Dialogue, in recent years the Alliance has launched other important cooperation initiatives: the Istanbul Cooperation Initiative aimed at contributing to the security and stability of the Middle East; the South East Europe Initiative designed to promote regional cooperation and stability in the Balkans; and the so-called Contact Countries, nations such as Japan, Australia and New Zealand, which are able to contribute materially to the NATO-led missions.

interest to them and has enabled many of them to modernise their defence planning systems, progress in security and defence reforms, and improve their interoperability with the allied countries.

For its part, the Mediterranean Dialogue, which sprang from the Brussels Summit of 1994 on a Spanish proposal, is aimed at contributing to security and stability in the Mediterranean, facilitating mutual knowledge and overcoming the Mediterranean partners' prejudices about the Alliance.

The Washington Summit attested to the importance the Mediterranean basin holds for NATO, as it was affirmed that European Security is closely related to stability in this region. Cooperation was therefore stepped up between all the countries of the Mediterranean arc by holding multilateral meetings to deal with security aspects, foster transparency and establish confidence-building measures and introduce military cooperation activities that eventually materialised into the Mediterranean Dialogue Military Programme.

The attacks of 11 September heightened the Alliance's awareness of the important role this forum could play in addressing the fight against terrorism jointly. Therefore, during the Istanbul Summit, the Mediterranean Dialogue received the status of Partnership, its political dimension was enhanced and a new framework of action was agreed on for this forum.

Lastly, at the recent Riga Summit, the Mediterranean Dialogue received fresh impetus when the possibility arose that the countries taking place in this forum may use the tools that had previously only been available to the Partnership for Peace countries. Riga also saw the launching of the NATO Training Cooperation Initiative aimed both at the Mediterranean Dialogue countries and at those of the Istanbul Cooperation Initiative.

Furthermore, immediately after the fall of the Berlin Wall, NATO also established relations with its former adversaries, particularly Russia and Ukraine, which enjoy special partnership status with the Alliance.

Indeed, in its relations with NATO Russia has always sought to be considered a special case and not to lose its power status. Accordingly, in 1997 both players agreed to set up the Permanent Joint Council, a common consultative organ whose scope was relatively limited, as Russia preferred to maintain direct bilateral relations with all the allies. However, the events of 11 September spurred a fresh rapprochement between the Alliance and Russia, a fact that was ratified a year later with the creation

–during the Rome Summit of 2002– of the NATO-Russia Council, a forum for consultation and decision making on matters of common interest such as combating terrorism, crisis management, military cooperation, non-proliferation, the reform of the defence sector, new threats and Euro-Atlantic security.

For its part, Ukraine is a member both of the EAPC and the Partnership for Peace. Nonetheless, given this nation's nature and aspirations, the Alliance decided to accord it special treatment, which crystallised in 1997 with the signing of the Charter on a Distinctive Partnership, a document regulating relations between both players, and the creation of the NATO-Ukraine Council, a forum for consultation on matters of common interest. Lastly, in April 2005 NATO established an Enhanced Dialogue with Ukraine in order to guide its aspirations of belonging to the Alliance.

Having examined the initiatives that NATO proposed immediately after the fall of the Berlin Wall and its special relationship with Russia and Ukraine, we will now go on to explain the North Atlantic Alliance's strategic evolution and political and military transformation.

Very broadly speaking, it could be said that NATO's transformation was initiated during the Washington Summit of 1999 when the 1991 Strategic Concept was replaced by a new document defining the guidelines NATO should follow in order to adapt to the challenges posed by the strategic environment of the 21st century. (29)

The 1999 Strategic Concept basically establishes that the risks the Alliance must address are multidirectional and difficult to predict. Indeed, the document points out that whereas the likelihood of widespread conflict erupting in Europe –the Alliance's *raison d'être* from its creation to the fall of the Warsaw Pact– is practically nil, the Alliance needs to address new risks and threats that are both military and non-military, such as ethnic conflicts, human-rights violations and political and economic instability; particularly serious threats are the proliferation of weapons of mass destruction and their means of delivery, and the spread of dual technolo-

(29) Consider that the Alliance has not yet drawn up a document adapted to the post-11 September international reality. Nonetheless, at the end of 2005 the North Atlantic Council approved the *Comprehensive Political Guidance*, a document describing the current and future strategic environment, the most foreseeable threats NATO will need to address and the capabilities it will have to develop in order to meet the challenges posed by the strategic environment in the coming ten to fifteen years. This document, which was ratified by the heads of state and government at the Riga Summit, is in itself a strategic pseudo-concept, as it will mark the direction of allied policy in coming years.

gies which could provide possible adversaries with sophisticated military capabilities.

At the same time, the document points out that the Atlantic Alliance should also take into account global phenomena, as it could be threatened by terrorist actions –as was to occur with the 11 September attacks in New York and Washington, those of 11 March in Madrid and those of 7 July in London– of sabotage, organised crime and interruption to the supply of essential resources. (30)

In order to address the risks entailed by the international environment of the turn of the century, the Strategic Concept maintains that the Alliance must provide the foundations for the stability of the Euro-Atlantic area, serve as a forum for consultation on security matters, deter and neutralise any attempted aggression against any Member State, (31) promote partnership, cooperation and dialogue with the rest of the countries in the European and Atlantic area, and prevent conflicts and involve itself actively in crisis management.

For this purpose the Strategic Concept reaffirms the Alliance's commitment to act according to the principles of international law and the United Nations Charter (32) and establishes its determination to conduct crisis-management and peacekeeping operations around the world. (33)

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(30) Following the publication of the Strategic Concept of 1999 and the attacks of 11 September 2001 against the United States, a new assessment is being conducted of the risks posed by terrorism and failed and disintegrating states. An interesting study that makes a comparative analysis of allied and European responses to the new international challenges can be found in: GARDNER, HALL (2004): *NATO and the European Union: New World, New Europe, New threats*, London, Ashgate.

(31) Article 5 of the Treaty of Washington, which constitutes the Alliance's raison d'être, establishes that an armed attack against one of the allies will be considered an attack against all of them. As is well known, the first time in history that Article 5 was invoked was on 12 September 2001, immediately after the terrorist attacks on New York and Washington. This was initially a provisional invocation, pending determination that the attacks were directed from abroad, and was confirmed on 2 October 2001 when the United States representatives submitted to the North Atlantic Council the results of the investigations demonstrating that the terrorist network al-Qaeda was responsible for the attacks.

(32) Indeed, the 1999 Strategic Concept binds allied intervention to international legitimacy, in particular to the principles enshrined in the United Nations Charter. Nonetheless, this does not mean that any allied action requires the express approval of the United Nations Security Council. This decisions stems from NATO's need to maintain a minimum margin of freedom of action to address exceptional situations.

(33) In this respect it should be considered that although the missions set forth in article 5 of the Treaty of Washington, linked to the collective defence of the sovereignty and territorial integrity of the Member States, are restricted to the traditional area, non-Article 5 crisis-management operations are not limited to any specific geographic area. This approach should allow the Alliance to respond with sufficient flexibility to the threats or risks that may emerge in the future.

And this is the reason why NATO must also enhance and upgrade its military capabilities to meet the new requirements it has set itself. (34) However, it was the events of 11 September 2001 that highlighted NATO's urgent need to adapt its capabilities, increase the flexibility of its structure and develop its assets—in short, the need to transform itself in order to adapt to the new millennium.

The Prague Summit in 2002 marked the full political recognition of the end of the Alliance's Cold-War strategy centred on defence of sea and air routes over the Atlantic Ocean, forward defence on the Central Front and flexible nuclear response, and its replacement with a new force projection strategy for addressing any kind of threat to global security, including transnational terrorism.

Indeed, Prague marked the beginning of the allied military transformation, a process that should equip NATO with the necessary tools to meet the «grave new threats and profound security challenges of the 21st century». To this end, the Allied military transformation was to be based on three major initiatives: defining a new military command structure; a new force structure culminating in the creation of a new response force; and the determination to improve Allied military capabilities. A series of defence initiatives specifically geared to meeting the new threats were furthermore undertaken. (35)

First of all, it was decided at the summit to establish a more flexible and streamlined command structure consisting of an operational command called Allied Command Operations (ACO) and a functional command known as Allied Command Transformation (ACT) (36).

ACO is responsible for leading all allied operations in the Euro-Atlantic area. For this purpose, ACO has a Joint Headquarters and two standing

(34) Indeed, not only was the Defence Capabilities Initiative (DCI) eventually leading to the Prague Capabilities Commitment (PCC) established for this purpose, but the European Security and Defence Initiative (ESDI) continued to be developed. The latter should enable the European allies to make a more coherent and effective contribution to the Alliance's missions and activities, while also helping them act autonomously according to the needs of each moment. For the purpose the Alliance can provide its assets and capabilities to operations conducted under a European flag, according to the known principle of «separable but not separate capabilities».

(35) See NATO (2003): *The Prague Summit and NATO's Transformation*, Brussels, NATO Public Diplomacy Division.

(36) Indeed, NATO went from a command structure consisting of three main commands (Europe, Atlantic and the English Channel) and a planning group for Canada and the United States, to one with only two: Allied Command Europe (ACE) and Allied Command Transformation (ACT).

Joint Force Commands capable of leading operations both from their static location and by deploying a land-based Combined Joint Task Force (CJTF). Each of the Joint Force Commands has at its disposal a land, air and maritime Component Command, while the Joint Headquarters does not have a Component Command but can provide a sea-based CJTF HQ capability.

Furthermore, ACT replaces the Atlantic Command (ACLANT), which had been responsible for controlling the Atlantic Ocean during the Cold War. This functional command is in charge of regulating, coordinating and supervising the Allied military transformation process in order to generate useful military capabilities for the strategic environment of the 21st century. (37)

In addition to managing the acquisition of new capabilities –particularly C^3I systems; nuclear, chemical, biological and radiological defence assets (NCB-R); and combat, deployment and force sustainment capabilities– it is responsible for training and developing new doctrines and procedures intended to enhance the cohesion and homogeneousness of allied military capabilities, by improving their interoperability and capacity for joint action with a clear goal in mind: to generate capabilities equivalent to those of the US and useful in the 21st-century environment. (38)

Second, in order to generate new capabilities and improve current ones, the Summit saw the signing of the Prague Capabilities Commitment whereby all the members publicly undertook to carry out specific improvements in essential areas within concrete deadlines and closely supervising their implementation. (39)

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(37) It should be mentioned that the Supreme Allied Commander Transformation, General Lance L. Smith, is also commander of the United States Joint Forces Command (USJFCOM), the driving force behind the change in the US armed forces.

(38) Although the ACT headquarters is located in Norfolk, in the United States, this command includes the Joint Warfare Centre in Stavanger (Norway), the Joint Forces Training Centre in Bydgoszc (Poland and the Joint Analysis and Lessons Learned Centre in Monsanto (Portugal) and supervises the activities of the Undersea Research Centre in La Spezia (Italy).

(39) It should be stressed in this connection that there are many references to the gap between US and European military capabilities; there is a similar gap between European countries themselves. Therefore, it is being attempted either to maintain a certain equivalence in capabilities –hence the signing of the Prague Capabilities Commitment in the case of the Atlantic Alliance or of the Headline Goal 2010 for the European Union, coordinated by the NATO-EU Capability Group– or to follow the option pointed out by certain analysts who state that the United States could specialise in high-intensity actions, and its allies in peacemaking and stabilisation actions. On these problems see BINNENDIJK, HANS and KUGLER, RICHARD L. (2003): «Dual-Track Transformation for the Atlantic Alliance» in *Defense Horizons* No. 35 and BARNETT, THOMAS P. M. (2004): *The Pentagon's New Map: War & Peace in the Twenty First Century*, New York, Putnam.

The Allies have made over 430 political commitments to improve their capabilities in different areas, some of which are considered decisive, such as strategic maritime and air transport, in-flight refuelling, combat support units, C^3 and ISTAR systems, air/surface surveillance devices, precision and intelligent munitions, anti-air defence systems and NBC-R defence capabilities, while the feasibility of developing a missile-defence system is being studied.

The enhancement of these capabilities –which are also being developed in the European environment with the Headline Goal 2010 and coordinated with the Alliance through the NATO-EU Capability Group– has made it necessary for many countries to redefine their defence expenditure. Nonetheless, it seems evident that it is not sufficient simply to spend more effectively but also to spend more. Therefore NATO is currently analysing measures to remedy these shortcomings, such as sharing certain capabilities, national specialisation in specific functions, joint acquisition of equipment and common and multinational financing. (40)

Both the Istanbul and Riga summits acknowledged the progress made in these initiatives and encouraged nations in particular and the Alliance in general to continue developing these capabilities.

Lastly, the *NATO Response Force* (NRF), whose full operability was announced during the Riga Summit, as mentioned earlier, is intended to provide the Atlantic Alliance with the capability to project its force rapidly in response to any crisis that may erupt in any part of the planet. This combination of ground, naval and air forces organised in a modular structure and technologically advanced, flexible, highly deployable and sustainable, and capable of being employed across the whole range of missions in which the Alliance can be involved, consists of some 21,000 men and women and is capable of deploying globally and of sustaining a brigade-size land unit, a naval Task Force and an air support element capable of performing a high number of daily missions for no less than 30 days. It is interesting to note that this force is also proving to be a catalyst for steering and giving impetus to the allied military transformation, as it provides experience of the systems, capabilities, concepts and procedures considered «transformational» in order to achieve the military capabilities it needs.

(40) In this regard these initiatives are being undertaken by the allies both through national commitments and multinational cooperation projects. Spain has made a total of 35 specific commitments in different areas, some through cooperation with other countries.

The forces required to generate the NRFs are designated in rotation from the contributions of the allied countries. All the forces that take part in the NRFs are duly assessed and certified in order to ensure their suitability in accordance with the necessary requirements that are previously established by the Alliance.

In short, the NRF is a high readiness multinational force able to operate autonomously, as part of a larger force, or as an initial entry force capable of preparing for the arrival of a larger continent. When an NRF is activated, the command will be exercised by a Joint Headquarters bringing together specific land, maritime and air headquarters.

Finally, at Prague –the first Alliance Summit to be held after the 11 September events– several initiatives designed to improve allied capability to combat international terrorism were also approved. For this purpose the Alliance defined a new concept of defence against terrorism that envisages, among other aspects, that the fight against this phenomenon should know no geographical limits; that NATO should lend its support to all countries or international organisations that combat it; and that it is necessary to integrate the military, police, financial and judicial effort in order to address this threat.

However, the theoretic underpinning of the process of allied military transformation began to take shape following the Istanbul Summit in 2004. Indeed, although Istanbul is known as the «Enlargement Summit» as it is the first meeting in which the Alliance's seven new members took part (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia) and in which NATO extended its relations to the Middle East and Mediterranean, in order to boost the process not only was an initiative launched to improve the allied forces' deployability and sustainability in out-of-area operations, but the political foundations were laid for the *Effects-Based Approach to Operations* (EBAO), the theoretical basis of allied military transformation.

Why did the EBAO mark the beginning of allied military transformation? Because NATO, aware of its political-military nature and of the fact that the *Comprehensive Political Guidance* –approved by the Atlantic Council on 21 December 2005 and endorsed by the Riga Summit– establishes that specific capabilities will not be developed for civilian purposes, realises that current conflicts develop in a complex and multidimensional environment that makes an exclusively military solution unfeasible and that solely through the combined and unified use of all national and allied capabilities will their settlement be possible.

Therefore the Alliance is developing the EBAO, (41) a new operational concept in which all the instruments of allied power, both military and non-military, combine to act in a coordinated and coherent manner in order to create effects in operations and thereby achieve the goals set by NATO in the management of international crises. (42)

What are the instruments of allied power? They are political (political and diplomatic resources that need to cooperate with other independent players such as international organisations and NGOs), economic (the use of economic incentives and/or disincentives), civilian (legal, police, educational, informational, infrastructural and civilian administration) and military (both the threat of use of force and its real use). This is why an EBAO, as it combines these civilian and military instruments, provides the Alliance with greater flexibility when undertaking crisis management.

Nonetheless, in order for NATO to optimise its capacity to perform EBAO operations, it must first ensure that the effects of the military operations are coherent with those of the rest of instruments of allied power. It must also decide better and more quickly than the adversary, both at the political/strategic level and on an operational and tactical scale. This skill will be achieved when the Alliance converts its superiority as regards information (that is the ability to gather, manage and disseminate information more quickly and effectively than the adversary) into better knowledge of the adversary, of the area of operations and of all the factors that could influence the performance of the operation. Lastly, NATO must also be capable of deploying its forces quickly and effectively where and when they are required and of sustaining them through integrated logistic support and appropriate force rotation.

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(41) Anyone familiar with military matters will note that the term EBAO is very similar to EBO (*Effects-Based Operations*), used to define both a manner of selecting goals and the operations that use military and non-military assets to influence the will of the adversary, neutral parties and allies to achieve the desired aims. NATO has developed the concept of EBAO to define a form of crisis management in which all the instruments of allied power are coordinated to ensure the coherence of allied action while attempting to achieve the desired effects on the adversary. It may therefore be said that whereas the idea of approach refers to the joint and coordinated use of all the instruments of national power to achieve effects on the adversary, the term EBO represents the military dimension thereof. For further information see: SMITH, EDWARD (2006): *Complexity, Networking and Effects-Based Approaches to Operations*, Washington DC, CCRP Press.

(42) The definition of EBAO as approved by the allied Military Committee on 6 June 2006 is as follows: «*…the coherent and comprehensive application of the various instruments of the Alliance* [political, economic, civil and military]*, combined with the practical cooperation along with involved non-NATO actors, to create effects necessary to achieve planned objectives and ultimately the NATO end state.*»

This is why superiority in joint decision making, deployment and sustainment and coherence in effects are not only the basic elements for the effective implementation of the EBAOs but also the basic areas of the Alliance's military transformation.

In conclusion, although the EBAO is the fundamental principle of allied military transformation –as shown both by the approval of the concept by the Military Committee on 6 June 2006 and the recent creation of a working group that will combine both allied strategic commands and will coordinate all aspects of the definition and military implementation of the concept– its political evolution is proving slower than expected. Indeed, the EBAO is triggering certain clashes between the allied countries with respect to the possible institutionalisation of measures focusing on coordinating allied actions with the rest of the players in the crisis area. This is why the North Atlantic Council has not yet expressed an opinion on the political facet of the EBAO, and the Riga Summit did not issue an express mandate to progress towards its definition and implementation.

Nonetheless, at the Riga Summit the heads of state and government tasked the North Atlantic Council to further develop a "comprenhensive approach" to NATO´s operations, which could be described as a civilian dimension of the EBAO. This proposal –initially presented by seven allied countries in the middle of 2006 under the name of «Concerted Planning and Action»– is aimed at establishing measures to encourage and optimise coordination between allied civilian and military organisations and the rest of the players, particularly with the United Nations and European Union, in crisis management operations in consonance with the Comprehensive Political Guidance, which states that the Alliance shall not develop specific capabilities for civilian purposes.

Although the EBAO, the mainstay of allied military transformation, is triggering certain political clashes between the allied countries, the recent approval of the «comprehensive approach», which constitutes its civilian dimension, appears to demonstrate that all the allied nations recognise the need to integrate the military, economic, political and civilian instruments at the Alliance's disposal and to coordinate them with the rest of the players present in the crisis area as the sole means of settling conflicts that may erupt either at present or in the future

This review of the North Atlantic Alliance's strategic evolution would not be complete without a brief reference to the recent Riga Summit held in November 2006. From a military perspective the heads of state and

government noted the efforts made in the Alliance's military transformation and gave impetus to the initiatives already under way, though the EBAO –which should constitute one of the major transformational initiatives of the Summit– received significantly less impetus than expected, in contrast to the approval of the civilian facet, the «comprehensive approach». However, the Riga Summit's greatest military achievement was the declaration that the NRF was fully operational.

Furthermore, the Mediterranean Dialogue and Istanbul Cooperation Initiative were given a fresh boost in the political arena. Second, the possibility was established of non-Partnership-for-Peace countries using its tools and Serbia, Bosnia-Herzegovina and Montenegro were invited to join this forum. Third, the allied heads of state and government also recognised the validity of the «Alliance of Civilisations», an initiative presented by Spain and Turkey. Lastly, endorsement was also given to the Comprehensive Political Guidance, a document that will map the course of NATO's policy over the next few years and will be replaced by the next Strategic Concept, which could be presented at the 2009 Summit the year of the Alliance's 60th anniversary.

In short, NATO is undergoing a political and military transformation to meet the risks posed by the strategic environment of the 21st century. To this end, not only is it reformulating its strategic concept, expanding its sphere of influence, taking in new members and acting as a guarantor of international peace and security, but it is also adapting, modernising and optimising its military arm. Nonetheless, the Alliance's most important transformation may be recognition of the need to adopt an approach to crisis-management operations that integrates and coordinates all the instruments of the potential ally in order to ensure NATO's coherence in its present and future operations. The results of these first partial experiences of this new approach have been seen in Afghanistan, where the PRTs are enjoying considerable success in stabilising and reconstructing the country. Now all that is needed is to proceed with the development and implementation of the EBAO in order for the Alliance to be able to manage any crisis that erupts more effectively and lastingly than in the past, when the military option not only seemed the sole possible action but also the fastest and most effective.

THE STRATEGIC EVOLUTION OF THE EUROPEAN UNION

Unlike NATO, an eminently political/military organisation, the European Union is political/civilian in outlook. Nonetheless, it has repeatedly attempted

to create a security and defence dimension; indeed, this effort has been incessant since 1991. It should likewise be pointed out that whereas the EU has not explicitly proposed any military transformation process, the Headline Goal 2010 capabilities document, the creation of the Battlegroups and the Civilian-Military Coordination document suggests that Europe has also noted the need to undertake such a process.

Whereas during the Cold War defence of Western Europe was the responsibility of NATO –which provided the necessary security to allow Europe to recover both economically and politically (43)– the end of the Soviet threat facilitated the emergence of a European security dimension, a need that became evident following the crises that ravaged the Balkans during the 1990s.

More specifically, it can be stated that the European security dimension began to be shaped in 1991, when the Maastricht Treaty provided the newly created European Union with a common foreign and security policy (CFSP) capable of «the eventual framing of a common defence policy which might in time lead to a common defence». To this end the Western European Union (WEU) was not only to elaborate and implement any decision relating to European defence but also to take shape as NATO's European pillar.

In 1992 the European security policy was endowed with content when the Petersberg Tasks were defined. These crisis-management actions embraced missions ranging from humanitarian and civilian evacuation actions to peacekeeping operations. The Petersberg Tasks therefore covered all military and non-military operations laid down in chapters VI and VII of the Charter of the United Nations, their only limit being collective defence— the responsibility of NATO pursuant to Article 5 of the Washington Treaty and Article 5 of the Brussels Treaty.

Nonetheless, the Balkan crisis became the driving force within the Union of a security and defence policy accompanied by the related crisis-response capabilities.

Indeed, the Amsterdam Treaty of 1997 enhanced the coherence and efficiency of the CFSP's capabilities by boosting the role of the European

(43) An interesting through very controversial vision of the consequences of this situation can be found in: KAGAN, ROBERT (2003): *Of Paradise and Power: America and Europe in the New World Order*, New York, Knopf, derived from the well known and much discussed article by the same author (2002): "Power and Weakness," in *Policy Review*, No. 113.

Council in defining common strategies in foreign policy, speeding up the decision-making process, envisaging the possibility of the EU using WEU assets automatically, and integrating the Petersberg Tasks within the Union. Therefore, the European Security and Defence Policy (ESDP) got off the ground with the Amsterdam Treaty, which establishes in connection with the CFSP that progress will be made towards a common defence policy.

A year later the British and French governments met at Saint Malo to discuss the development of autonomous European military capabilities that could be used in crisis-management operations. (44)

In 1999 this declaration was adopted by the Cologne European Council in which the European nations showed their determination to equip themselves with the necessary assets and capabilities to allow the EU to assume its responsibilities in security and defence matters. That is, at Cologne the foundations were laid for establishing a real European defence based on creating an autonomous capability for action with credible military forces and, without prejudice to NATO, on providing military capabilities required to operate in crises that affect Europe's interests, and which integrated the WEU into the European Union.

These decisions determined the coming into operation of the ESDP and subsequent creation during the Helsinki European Council of the organisations required for its functioning: a Political and Security Committee in charge of strategic management and control of operations; and a Military Committee entrusted with making relevant recommendations to the latter and establishing the guidelines that will be implemented by the General Staff in charge of leading military operations.

The Council likewise approved the Helsinki Headline Goal, a document defining the capabilities required to put into practice the ESDP goals and stating the need to establish an army corps-level autonomous rapid action force consisting of 60,000 personnel, which should be capable of deploying in 60 days and sustaining itself for a year. This force, which was due to

(44) At the Saint Malo Summit, the French and British governments agreed to give impetus to the European Security and Defence Initiative (ESDI) within the Union. This proposal, sponsored by the United States and backed by NATO, established the generation of «separable but not separate capabilities» between NATO and the WEU when envisaging allowing the use of allied assets for the performance of operations led by the WEU and the generation of new military capabilities defined in the allied Defence Capabilities Initiative (DCI).

become fully operational by 2003, should be capable of intervening rapidly in a broad range of peace support missions, even those involving peace imposition.

A year later, the Nice European Council saw the presentation of both the General Capabilities Catalogue establishing the Union's total needs with respect to military forces –greater than those identified in the Helsinki Headline Goal (45)– and the Helsinki Force Catalogue specifying the contributions offered voluntarily by the nations.

In 2003, during the EU General Affairs Council, it was declared that the operations of this rapid reaction force would be limited to the range of Petersberg Tasks. However, given the obvious failure by the European partners to meet the capabilities commitments established in the Helsinki Headline Goal, in 2004 the need was recognised to set more realistic goals that were better adapted to the new international outlook for 2010.

The Headline Goal 2010, which reflects the European Security Strategy –the EU's first strategic concept– establishes the need to acquire fully interoperable capabilities in the field of force, and materiel and command structures that are more deployable, sustainable and coherent with those of the Alliance in order to prevent unnecessary duplication of military structures and capabilities. (46) This document furthermore specifies in detail the creation of the European Union Battlegroups.

The Battlegroups marked the materialisation of one of the European Security Strategy's greatest aspirations of achieving a rapid response capability available to the EU; they are high-readiness combined arms units formed by 1,500 personnel and organised into modules. The

(45) The General Capabilities Catalogue set goals of 100,000 personnel, 400 combat aircraft and 100 ships, which soon proved to be unrealisable. For a more realistic analysis on European force requirements, see FATJÓ, PEDRO and COLOM, GUILLEM (2005): *La Defensa de la Unión Europea: Voluntades Políticas y Capacidades Militares Básicas*, Documento CIDOB de Seguridad y Defensa No. 5, Barcelona, CIDOB.

(46) Indeed, the Headline Goal 2010 states that: «*Interoperability but also deployability and sustainability will be at the core of Member States' efforts and will be the driving factors of this goal. The European Union will thus need forces which are much more flexible, mobile and interoperable, making better use of available resources.…*» To achieve this goal, the Capabilities Action Plan identifies clearly transformational capabilities such as unmanned aircraft, special operations forces, precision munitions, surveillance and strategic reconnaissance systems and strategic naval and aerial deployment capabilities. It should be noted that these capabilities are also being developed by the Alliance's Prague Capabilities Commitment, coordinated with European initiatives by the NATO-EU Capabilities Group.

Battlegroups, which are capable of performing the full range of crisis-management missions, including combat missions, can be deployed in periods of five to 15 days to a distance of 6,000 km and sustain themselves for 120 days. These units, which will be provided with organisational naval and air support, will be fully interoperable, as they can be built from components belonging to only one country, from contingents from leader countries or as fully multinational units. (47)

The European Union, which now has fully operational Battlegroups, expects to have 15 teams capable of performing military operations simultaneously in two different theatres, either autonomously or as part of a more extensive operation, in accordance with the limits established by the European Security Strategy. (48)

What are the limits established by this strategy? The European Security Strategy entitled «A secure Europe in a better world» was adopted at the Thessaloniki European Council in June 2003 and approved at the end of the year at the Brussels European Council. This document, the EU's first strategic concept, sums up both the European strategic goals and the threats to its security and most effective means of minimising them.

This document states that while a large-scale aggression against a European nation is highly unlikely, the Union must face new risks and threats that are more diverse, dynamic, unforeseeable and less visible such as terrorism, the proliferation of weapons of mass destruction, organised crime, state failure and privatisation of force. These threats are not exclusively military, and their solution will not only require military means but the combination of the various instruments the Union has at its disposal. (49)

This declaration, together with the experience the European Union has acquired in crisis management, appears to constitute the theoretical basis for drafting the Civilian-Military Coordination (CMCO), an initiative which

(47) Two critical analyses on the capabilities of these groups can be found in: QUILLE, GERRARD (2004): «Battle Groups to strengthen EU military crisis management?» in *European Security Review* No. 22 and FATJÓ, PEDRO AND COLOM, GUILLEM: «Los Grupos de Combate de la Unión Europea: Un instrumento militar para Europa», in (2006): *Futuro de la política europea de seguridad y defensa,* Madrid, Ministerio de Defensa, pp. 131-157

(48) Spain contributes with three groups: one nationally based group which will become operational next year, one in coordination with Italy based on the Spanish-Italian Amphibious Force (SIAF), already available, and lastly a contribution to the French-German Brigade.

(49) Indeed, as the European Security Strategy states: «*…none of the new threats is purely military, nor can any be tackled by purely military means. Each requires a mixture of instruments.*»

although still at the embryonic stage appears to constitute the European proposal for coordinating, combining and integrating all assets –both military and civilian– at the European Union's disposal in order to ensure coherence in European crisis-management action.

Continuing with the European Security Strategy, it should be stressed that it gives priority to its goals in three basic areas: to tackle threats hovering over Europe, to improve security in neighbouring countries as an integral part of European security, and to create an international order based on effective multilateralism in order to establish «a stronger international society, well functioning international institutions and a rule-based international order». (50)

To this end the document proposes that the European Union and its members pursue their security goals multilaterally, basing their action on law and on the United Nations Charter and addressing the root causes of conflicts, such as poverty or bad governance, through measures to enhance dialogue and cooperation, acting preventively.

Lastly, the document establishes that the EU should both improve its military capabilities and broaden the range of missions to be performed, including joint disarmament operations, support for third countries in combating terrorism and reforming the security sector.

This is why the Headline Goal 2010 constitutes the capabilities catalogue to ensure that the Battlegroups perform the classic Petersberg crisis-management tasks, in addition to those included in the European Security Strategy (joint disarmament operations, support for third countries in combating terrorism, and security sector reform). (51)

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(50) In order to achieve the strategic goals of this strategy, the experts JOCELYN MAWDLSEY and GERRARD QUILLE appear to ratify the need to adopt an approach that integrates and combines all the elements of European power, as they assume that any military response must be combined with political, economic, civilian, cultural and informational initiatives (MAWDLSEY, JOCELYN y QUILLE, GERRARD (2004): *The EU Security Strategy: a new framework for ESDP and equipping the EU Rapid Reaction Force*, Brussels, International Security Information Service).

(51) In any event it is likely –as the document assumes– that the operations performed by the European Union will be executed jointly with the Atlantic Alliance or using its assets. Indeed, Berlin Plus is the most recent agreement of this kind entered into by both players and establishing the terms and conditions under which the EU may request allied assets. This agreement ensures Europe's access to the operational plans drawn up by the Supreme Headquarters of the Allied Powers in Europe (SHAPE), the availability of allied assets and capabilities, and that the operation will be commanded by the longest standing EU officer within SHAPE, who is also the Deputy Supreme Allied Commander in Europe (DSACEUR). For further information on the Berlin Plus agreements, see: QUILLE, GERRARD (2003): «What does the EU agreement on operational planning mean for NATO?» in *NATO Notes*, Vol. 5, No. 8.

This review of Europe's strategic evolution will end with a brief reference to European initiatives in the Mediterranean region, of which Spain has not only been a promoter but also a firm supporter and champion.

The Euro-Mediterranean Partnership was established in 1995 by the Barcelona Declaration, a document entered into by the EU Member States and the 12 partner countries, (52) structured into three main chapters or «baskets» (political and security, economic and financial, society and culture) and with three aims: the creation of an area of peace and stability based on democratic principles and respect for human rights; the establishment of an area of shared prosperity and free trade between the EU and the Mediterranean partners and among themselves; and the improvement of mutual understanding between the peoples of the region.

As was to be expected, of the three chapters, that which deals with political and security issues is developing the most slowly. Why? Because the perception of these issues differs considerably from one side of the Mediterranean to the other, as whereas the European partners focus their interest on security, stability and political dialogue, in the south it is attempted to link security to social development and cooperation policies. Furthermore, the Arab-Israeli conflict continues to be a major hindrance –perhaps the main one– to the development of any initiative in this area.

Nevertheless, during the Fifth Euro-Mediterranean Conference –held in Valencia in April 2002 during the Spanish Presidency of the EU– an Action Plan was adopted which established the need to reinforce political dialogue, including security and defence aspects, and the need to adopt a common approach to combating international terrorism.

In order to implement this Action Plan, the Secretariat drew up the document entitled «Dialogue and cooperation on ESDP between the EU and Mediterranean Partners» approved by the European Council in March 2003, the first document on the Mediterranean dimension of the ESDP. This document amounts to significant progress in institutionalising relations between the countries north and south of the Mediterranean basin in that it establishes the paths to be followed in order to develop proactive mechanisms for collaboration, cooperation and enhancement of political dialogue.

(52) Nonetheless, it should be borne in mind that, of the initial partners (Algeria, the Palestinian Authority, Israel, Egypt, Lebanon, Jordan, Morocco, Syria, Tunisia, Turkey, Cyprus and Malta), two –Cyprus and Malta– have now joined the European Union.

On another note, special mention should also be made of the 5+5 Initiative. This proposal, which involves Spain, France, Italy, Portugal, Malta, Morocco, Algeria, Tunisia, Libya and Mauritania, arose in 2004 with the aim of addressing security issues that may affect the Western Mediterranean from a military perspective. A year later this initiative became institutionalised with the creation of a steering committee made up of representatives of the defence ministries –in the case of Spain the Director General for Defence Policy and the Joint Chief of Staff– and an annual rotating presidency for each of the Member Countries. This has enabled regulating mechanisms to be introduced between the signatory countries and confidence-building measures and practical cooperation activities to be established to ensure that relations between both sides of the Western Mediterranean flow smoothly. Spain has taken a very active role in this initiative and has proposed three activities for this year: a joint seminar with Algeria on aerial security, one on the environment and a search and rescue exercise.

In short, in little more than a decade the European Union, an indisputable political, economic and civilian player, has established the pillars of a security and defence policy that will allow it to meet the challenges of the 21st century with great hope: it has set its strategic goals; it has created autonomous crisis-management instruments; it is generating its military capabilities; and it is currently devising a new approach enabling its civilian power to be combined with the military instruments it is currently developing in order to provide a stable and lasting solution to the crises that may erupt in the future and require an integrated European response.

Precisely for these reasons it is evident that Europe's military arm needs to undergo transformation in order to generate the capabilities required to meet the risks of the 21st century with guarantees of success.

A FINAL NOTE: THE EVOLUTION OF THE OSCE

This essay would not be complete without a brief reference to the Organisation for Security and Cooperation in Europe (OSCE), which will be presided over by Spain throughout 2007.

The OSCE is an international forum that sprang from the institutionalisation of the Conference on Security and Cooperation in Europe (CSCE). This organisation is made up of over 50 countries of Europe, Asia and

North America and is aimed at fostering security and stability in this vast region.

It should be stressed that the OSCE regards security as a concept that is *global* (security is comprised of many dimensions: human, political, military, economic and environmental) and *cooperative* (all the countries have the same hierarchical status and decisions are made by consensus on a politically binding basis). This approach sets the OSCE apart from the rest of the security and defence organisations that operate in the Euro-Atlantic region, such as the Atlantic Alliance and the European Union.

The CSCE was established in 1973 as a forum for dialogue between the countries of the Eastern and Western blocs. The meetings and conferences held under its aegis led to the signing of the Helsinki Final Act in 1975, a document that enshrines a Decalogue on the conduct to be observed by states both in their mutual relations and with respect to their citizens. Until the end of the Cold War this forum continued to stage periodic meetings that made possible, among other major progress, the signing of the Conventional Armed Forces in Europe (CFE) treaty in 1990 and the Open Skies Treaty in 1992.

It became permanently institutionalised in 1994, changing its name to OSCE, and two years later its chief role took shape: fostering security and stability in all their dimensions.

At the end of 1999, during the Istanbul Summit the OSCE Heads of State and Government approved a Security Charter which should become a code of conduct for all members of the organisation; renewed the Vienna Document on confidence-building measures; and updated the CFE treaty. They also decreed the establishment of a civilian rapid reaction corps to provide a non-military component for the peace operations performed by OSCE.

The Spanish Ministry of Foreign Affairs and Cooperation has held the presidency of the OSCE since 1 January and will continue to do so throughout 2007 and, as such, will be responsible for giving political impetus to the organisation. Spain's priorities are, first and foremost, to progress in settling the so-called «frozen» conflicts; to improve civilian and military crisis-management mechanisms; to approve the OSCE's own environmental strategy; and to pay attention to the many aspects of the fight against terrorism.

CONCLUSIONS

In order to meet the challenges arising from the social, political, technological and strategic environment of the 21st century, it is necessary and unavoidable to undertake a defence transformation process. This process not only seeks to adapt the military instrument to a changing, heterogeneous environment but also to ensure that it continues to be an effective foreign-policy tool at the state's disposal.

Therefore, the defence transformation process of the advanced nations should be based not only on improving military capabilities through the introduction of new technologies, doctrines, organisational structures and concepts, but also on developing a new approach that combines all the instruments at the state's disposal –both military and non-military– in order to ensure coherence in national and/or multinational action and accordingly achieve a stable and permanent solution to international crises and conflicts.

The adoption and use of this «comprehensive (or integrated) approach», as it is called, will not only entail institutionalising measures and procedures designed to coordinate the action of national and international civilian and military players, but will also require the armed forces to design new capabilities, concepts, doctrines and procedures to steer these new operations that are more joint, combined and coherent with the action of the rest of the instruments of the national and international powers.

Our armed forces are participating actively both in the transformation of our capabilities (materiel, infrastructures, human resources, training, doctrine and organisation) and in fully integrating the military instrument into the national crisis-management system in order to strengthen coherence in Spain's external action.

Throughout this essay we have also attempted to show how the Atlantic Alliance is fully immersed in a process of political and military transformation in order to meet the risks of the 21st century. For this purpose it is not only redefining its strategic concept, expanding its sphere of interest, taking in former adversaries and acting, to an extent, as an element that can guarantee international peace and security, but is also transforming its military arm.

Nonetheless, NATO's most important change may have been to recognise the need to define a new approach that integrates and coordinates all the instruments at its disposal in order to ensure coherence in its crisis-management actions. This new approach is the EBAO and although it is

not yet fully operational, it is the fundamental principle of allied military transformation.

It has furthermore been pointed out that in little more than a decade the European Union has established the pillars of a security and defence policy with which to address with great hopes the challenges brought by the 21st century. Indeed, it has set its strategic goals; it has created autonomous crisis-management instruments; it is generating its military capabilities; and it is also laying the foundations of an «integrated approach» called Civilian-Military Coordination, which will allow it to combine its civilian power with the military instruments it is currently generating in order to provide a stable and lasting solution to crises that may appear in the future and require a holistic European response.

Lastly, a brief mention has also been made of the OSCE, a forum comprised of over 50 American, European and Asian countries whose purpose is to foster security and stability in all its dimensions (human, political, military, economic and environmental). As security is conceived as a multidimensional concept, the reader can appreciate why it is necessary to develop a «comprehensive approach» that combines all the instruments of national and international powers in order to achieve a stable and permanent solution to international crises and conflicts.

Bearing in mind all these elements, it seems logical that the next step in the development and implementation of this new concept will be for the North Atlantic Alliance and the European Union to coordinate, combine and integrate their powers to a greater extent in order to ensure coherent and single action when addressing the crises that may emerge in the complex and uncertain world of the new millennium.

CHAPTER TWO

THE NEW ENERGY ENVIRONMENT AND ITS GEOPOLITICAL IMPLICATIONS

THE NEW ENERGY ENVIRONMENT AND ITS GEOPOLITICAL IMPLICATIONS

By PAUL ISBELL

If the issue of energy issue came to the forefront of world attention with the outbreak of the Iraq crisis in the autumn of 2002 –after more than a decade of absence from the international community's strategic concerns– over the past year it has emerged as *the global strategic issue par excellence*. It is not just that energy now exerts an enormous influence on the dynamism of the international economy, the stability of world geopolitics and the future of our environment on a planetary scale; it also appears that the energy issue will not recede into the strategic background again for several decades. The Gordian knot of the international system –in which nearly all our major strategic challenges are intertwined in some way or another– is energy, and it will continue to be well into the future.

This chapter analyses the world's new new energy scenario, the factors that have recently reshaped it, and the implications for Spain's strategic panaroma.

THE PRICE RESURGENCE: THE ENERGY ALARM SOUNDS AGAIN

The world's alarm bells first went off over the energy issue in the autumn of 1973, when the Arab countries of the Organization of Petroleum Exporting Countries (OPEC) placed an embargo on oil exports to the USA and Holland as a result of the Yom Kippur War. This disruption to oil sup-

plies revealed to the cartel its possible influence over the price of oil, inspiring the subsequent nationalisation of the energy sector in many of the cartel's member states, along with a much more aggressive pricing policy on behalf of OPEC. The price of oil rose from three dollars a barrel in 1973 (some 10-12 dollars in real terms, measured in current dollars) to more or less 35 dollars by the end of the decade.

The sensation of political urgency –and of business opportunities– triggered by the oil crisis of the 1970s stimulated a major effort to curtail the OPEC's power. The international private oil companies undertook a powerful investment campaign of exploration and production to develop oil resources in non-OPEC areas (including Alaska, the North Sea and the Gulf of Mexico). As a result of this effort, the international petroleum sector experienced a sort of technological and financial renaissance that continued to invigorate it until only very recently. In the geopolitical arena, the US exercised a foreign policy aimed at driving a political wedge between the key cartel countries. This led to US political and military support for Saudi Arabia and Kuwait *vis-à-vis* other major powers in the Persian Gulf (such as Iraq and Iran), US political and military support for Iraq against Iran during their 1980s war, US military intervention first Libya and later in Iraq, and its political and economic support for Venezuela during the 1990s.

The clearest response to this early energy alarm bell, therefore, was not to develop a profound economic policy designed to transform the base of the world's energy economy through diversification of energy sources and a reduction in our dependence on oil (and its fossil fuel sisters, gas and coal), but rather a geopolitical policy of diversifying the geographical (and political) sources of those same hydrocarbons and of undermining the political feasibility and economic sway of the OPEC cartel. Following an initial tentative response from the OECD countries in the late 1970s and early 1980s to boost energy efficiency and promote the introduction of renewable energies (such as wind, solar, hydrogen and even nuclear power), public opinion –and the preferences of the political elites– in the advanced economies once again became very complacent about the world economy's widespread dependence on the use and importation of hydrocarbons. This complacency only deepened further as oil prices began to plummet in 1986 (when OPEC unity was shattered and the new supply of oil from the Gulf of Mexico, Alaska and the North Sea started to invade the market), and with the accident at the Chernobyl nuclear power plant that same year. (1) Measured against any possible parameters, not much had

changed in world energy policies and habits during the 30 years from the Yom Kippur War (1973) to the invasion of Iraq (2003).

But the alarm bells went off again in the summer of 2006. The price of oil –the main reference price for energy– reached an historic high in nominal terms (78 dollars per barrel of Brent crude), an increase of nearly 300 percent since the beginning of 2002 and close to the historic record in real terms (just over 80 dollars per barrel in current dollars, recorded in 1979 and 1980). Although the price settled down considerably during the second half of the year, even dipping to a new low of just under 50 dollars, the year ended with an annual average price of nearly 65 dollars per barrel of Brent crude. (2) Compared to the annual average for 2002, this represents an increase of approximately 150 percent in four years.

In any event, this price moderation since July 2006 has provided the world economy with a beneficial respite, allowing it to continue growing at an historically high rate (nearly five percent in 2006) and possibly postponing –though we do not know for how long– a substantial worldwide deceleration. (3) The most convincing explanation of why the world economy has withstood the recent rise in energy prices so well –the highest growth recorded for a consecutive period of four years since before the oil shocks of the 1970s, while oil prices have risen more than in any other period since those shocks– is relatively simple. Contrary to what occurred with the previous energy shocks (1973-1974,

(1) Interestingly enough, the Chernobyl nuclear accident dashed many of the hopes some may have had of making more use of nuclear energy to increase energy independence in Europe and the US. Furthermore, the slump in oil prices on international markets was the last straw that broke the economic and political back of the Soviet Union, which was already increasingly dependent on income from its oil and gas exports to carry on financing its growing external deficit with the West since the 1970s on account of its increasing grain imports.

(2) In the first months of 2007, the price of crude oil remained under 55 dollars, giving very considerable impetus to the world economy. However, the prices of both Brent and WTI have recently returned to above 60 dollars per barrel.

(3) Actual world economic growth for 2006 was even higher than our estimate published in last year's *Strategic Panorama 2005/2006*. Given an average annual price of 60 dollars per barrel (one end of our «scenario B»), we had estimated that world growth could be nearer to four percent in 2006 (significantly lower than the resulting rate of nearly five percent). Indeed, even the IMF had underestimated growth for the previous years (5.1 and 4.3 percent respectively for 2004 and 2005, when the world rates turned out to be 5.3 and 4.9 percent). See PAUL ISBELL and RICKARD SANDELL, «Nuevos escenarios, nuevos desafíos: la transformación del horizonte estratégico», in *Panorama Estratégico 2005/2006*, Ministerio de Defensa, Instituto Español de Estudios Estratégicos and Real Instituto Elcano, March 2006, p. 41.

1979-1980, 1990-1991 and even 1999-2000), the rises in the price of oil in recent years are due more to increased demand, which in turn is generated by substantial economic growth, than to sudden and substantial cutbacks in the supply of oil to the market (though certain supply restrictions have played a secondary role). Indeed, without the rises in the price of oil, the world economy would have grown even faster in recent years. (4)

THE ECONOMIC FACET OF ENERGY GEOPOLITICS

Energy plays a pivotal role in the economic field—particularly in world economic growth, which is such an important stabilising factor in international geopolitics. Economic behaviours as basic as consumption and investment have a direct effect on both sides of the market (demand and supply) and therefore directly influence energy prices. But the most significant fact from a geopolitical perspective is that the relationship between energy and the world economy tends to be cyclical and increasingly unstable, exerting a potentially destabilising and unforeseeable influence on international relations.

For example, periods of strong economic growth (such as the 1960s, the second half of the 1980s and end of the 1990s) may be the result, at least partially, of a previous period of relatively low energy prices. Low oil and gas prices stimulate economic growth (as they pull down much of the economic cost structure, thereby stimulating production and limiting inflationary pressures). However, low energy prices tend to dampen the energy industry's incentive to invest in expanding supply, as investment is this context is perceived as a risk that is not compensated for by the possibility of sufficiently high returns. Over time, this powerful economic growth tends to increase energy demand (as has occurred since 2002), while the low level of previous investments by the energy industry continues to restrict supply. The result is a rise in energy prices, as experien-

(4) The International Energy Agency reckons that the world economy would have grown a further 0.3 percent in annual average terms without the rises in the price of oil since 2002. In general, the IEA estimates, on the basis of several economic studies published in recent years, that a sustained increase of ten dollars per barrel would reduce average real GDP by 0.3 percent in the OECD countries and by 0.5 percent in the rest—or 0.4 percent in the world. The developing countries would be the worst affected, losing nearly one percent of GDP. See *World Energy Outlook 2006*, chapter 11, «The Impact of Higher Energy Prices», IEA, Paris, November 2006, pp. 269-314.

ced since 2002. (5)

In turn these energy prices –sooner or later– begin to affect the two basic macroeconomic variables, inflation and growth (and, by extension, employment). If prices rise sufficiently as a result of the combination of strong demand (triggered by an economic boom) and shrinking supply (caused by insufficient previous investment), the economy may be struck by growing inflation and increasingly slow growth (the feared scenario known as «stagflation»). (6) This subsequent period of weaker economic growth tends to lower the demand for energy and with it the price of energy. (7) The new period of low energy prices will be reinforced by an increase in supply as a result of a new significant rise in investment levels triggered by the previous period of very high prices. But in the end this new period of low energy prices may act as a stimulus for a new phase of substantial economic growth (with a decreasing level of investment) and the cycle thus starts all over again.

This cyclical relationship between energy and the economy may be even more unstable if we consider the fact that the cycle can be reinforced –or, rather, destabilised– by political intervention (intentional) and geopolitical or even climatic events (unintentional), introducing influences that affect

(5) The current high level of economic growth, however, is due more to low interest rates from 2001 to 2005-2006 than to very low energy prices. At any rate, the collapse in energy prices in 1998 helped lay the foundations for subsequent world expansion—which was interrupted only by the bursting of the stock market bubble and recession of 2001, but revived by the slump in interest rates for a long period afterwards. In this connection many commentators have argued that the artificially low interest rates of the first half of the decade spurred high growth which eventually sent oil prices soaring. Indeed, instead of higher rates during these years, higher energy prices (and those of other commodities) were witnessed, a development which in theory will have an even worse impact on the economy («stagflation») than that of higher interest rates.

(6) The rise in inflation would be much more notable than the economic slowdown if the monetary authorities were to respond with an accomodative policy with respect to inflation, in order to minimise the impact on unemployment (such as the widespread response in the OECD countries following the first oil shock in 1974). But if what the authorities aim for is to maintain price stability at all costs, through a strict policy of non-accomodation, the impact of the adjustment could be much more focused on economic activity, including the possibility of exacerbating an already serious recession (as was the case following the second oil shock in 1979-1980).

(7) In the short term –the time frame of the economic cycle– energy demand is much more sensitive to changes in income than to changes in energy prices. That is, the price elasticity of energy demand is lower, in the short term, than the income elasticity of energy demand (according to the IEA: -0.03 compared to 0.09, respectively, in the short term, and -0.15 compared to 0.48 in the long term). The hypothesis, therefore, is that in the absence of substantial cuts in supply triggering very intense and sudden price hikes, the economic cycle has greater influence on price than vice-versa. But a fast price rise triggered by a cut or restriction in supply will lead to «stagflation», whose impact on demand for oil will depend on the monetary response of the major consumers. See note no. 6.

supply beyond those merely generated by investment in boosting capacity at each of the various links in the energy supply chain. (8) At one point in the cycle, characterised by low (but rising) prices, an incipient increase in energy demand and progressively stronger world growth, the producer countries (particularly the members of the OPEC cartel, but not necessarily only them) may decide to reduce their output –or simply not to increase it– thereby causing a price rise. This is what happened in 1974 and 1999 with the official cuts in the production levels of the OPEC countries.

Whatever the case, this shock on the supply side may also be the result of another type of political event (planned or otherwise) such as, for example, the Iranian revolution at the end of 1978, which led to the withdrawal from the international market of much of Iran's oil production during 1979 (2mbd) and 1980 (4mbd). The invasion of Iraq in 2003 (and its subsequent occupation and civil war) has also been depriving the international market of nearly half a million barrels per day for several years, putting greater upward pressure on an oil price that was already rising as it was. Finally, a possible military attack on Iran could result in a significant reduction in the oil exports of several of the Persian Gulf countries (not necessarily only Iran), including Kuwait and Saudi Arabia.

However the rises in the price of oil (and other energy sources closely linked to oil, such as natural gas) witnessed in recent years have gone beyond the traditional cyclical movements to which we have become accustomed since the early 1970s. Owing to structural changes in the world economy, together with a resurgence in energy nationalism on the part of the producing countries and the public perception that we are reaching the geological limits of the supply of the main sources of hydrocarbons, the relationship between energy and the world economy appears to have pushed the cyclical range of possible prices up to a much higher level than previously. Whereas the price of oil tended to fluctuate cyclically between ten and 40 dollars per barrel from the early 1970s until the world recession in 2001, since then it appears to have crashed through the ceiling and set new cyclical limits of between 40 dollars and 80 dollars per barrel. Nevertheless, this new energy landscape is such that while a return to the long-sustained price of under 40 dollars per barrel appears unlikely, a renewed price increase –even a new shift in the cyclical range– beyond 80 or 100 dollars per barrel is perfectly feasible.

(8) For example, in the oil chain: exploration, development, production, maintenance, transport, refinement and distribution of the end products.

STRUCTURAL CHANGE AND THE NEW ENERGY GEOPOLITICS

What is the nature of these structural changes? Where has this upward shift in the price of oil come from? What might the geopolitical implications of such changes be for the energy landscape of the future?

The rise of China and India

On the demand side, the key change has been the recent incorporation of the major emerging economies –particularly China and India– into the integrating process of globalisation. With the progressive opening and liberalisation of their economies, these two countries (which account for one-third of the world population) have joined the world economy and embarked on a path of sustained rapid growth and increasingly strong energy demand. Suddenly, in the short space of a few years, the world economy now has over two billion new consumers of modern energy— particularly oil and coal, but also gas.

This rapid growth of China, India and large areas of the rest of the developing world has more than offset the increasingly modest pace of growth in OECD energy demand. Asia is currently the highest energy consuming continent in the world, surpassing North America in the annual consumption of oil for the first time in 2005. Half of the growth in oil demand over the next 15 years will come from Asia. According to the IEA's projections, from now until 2030 seventy percent of the new increase in world demand for primary energy (which will rise by over 50 percent) will come from the developing world, driven by dynamic giants such as China and India. Whereas the major advanced OECD economies are entering a phase of economic maturity, high (and increasingly saturated) levels of per capita energy consumption and low income elasticity of oil demand, the new emerging major economies such as China and India continue to grow with low (but rising) levels of per capita energy consumption and high income elasticity of oil demand. (9) Between now and 2015, the growth in demand

(9) Whereas the G7 countries currently consume 18.6 barrels of oil per capita (Japan 16 and the USA over 25), the developing countries of Asia consume only 1.7 barrels per capita, and China even less (1.6). This means that Asia's energy demand has sufficient room for further growth in the future. The two major emerging economies, China and India, display a 50 percent higher income elasticity of oil demand than the rest of the world. See the Asian Development Bank, «The Challenge of Higher Oil Prices», in *The Asian Development Outlook 2005 Update*.

for primary energy in China will be double (four percent annually) that of the world in general (2.1 percent annually), whereas in the developing world it will be 3.3 percent per year, compared to the annual growth of 0.7 percent in the EU's energy demand, 0.9 percent in that of Japan and 1.2 percent in that of the USA and OECD. The weight of the OECD in world demand for primary energy will drop from 50 percent in 2004 to 40 percent in 2030, while that of the developing world will rise from 40 to 50 percent and that of China will grow from 15 to 20 percent. (10)

Asia's explosive economic growth and consequent increase in energy needs has been –and will continue to be– a shock to the world energy system. (11) The key to this outlook in strategic terms is China. On the one hand, China's growing energy demand will significantly influence all the major world energy dilemmas: 1) its growing demand for imported oil will continue to put upward pressure on the price of oil in the international market and will deepen the already existing sensation that there will much more competition in the future to ensure access to oil resources, particularly in the Middle East but also in Central Asia, Africa and Latin America; 2) its growing use of coal will lead Chinese carbon dioxide emissions to surpass those of the US within only a few years (by 2010, or even earlier, according to the IEA), practically guaranteeing that climate change will remain a burning issue; 3) its growing demand for natural gas will enhance the geopolitical power of Russia, its neighbour and the world leader in gas reserves and production, and also the major supplier to Europe, the natural supplier to China and potentially to Japan and Korea; and 4) its possible large-scale development of nuclear energy will complicate international non-proliferation policy and add a fresh element of uncertainty to the debate on nuclear waste and its possible sale on the black market. In addition, China's huge size and substantial weight in the international system also make it a factor of great uncertainty. Very slight changes in China's pace of growth or energy behaviours would imply significant differences for the world outlook in the medium and long term. (12). Therefore, within a very short time China will be as important an energy con-

(10) See «Annex A» and chapter 2, «Global Energy Trends», of the *World Energy Outlook 2006*, International Energy Agency, Paris, 2006.

(11) For more extensive analyses on the energy challenge in Asia, see Pablo Bustelo, «La Cumbre de Asia Oriental y la Seguridad Energética», Real Instituto Elcano, ARI no. 10/2007, 26/I/2007, and Paul Isbell, «Dragones que escupen fuego: Asia y el reto de la seguridad energética», *Anuario Asia-Pacífico 2005-06*, Casa Asia-CIDOB-Real Instituto Elcano, Barcelona, 2006.

(12) According to the IEA, a difference of one percentage point in China's average economic growth between now and 2030 would be equivalent to six percent of world demand for primary energy and four percent of world demand for oil, *op. cit*., p. 69.

sumer and importer –if not more so– than the US or Europe in economic, geopolitical and environmental terms.

The resurgence of energy nationalism

A paradox of the apparent success of economic globalisation and the strategic victory of the market economy over the state-dominated economy –visible in the explosion of growth in a few key emerging countries like China– is the new and unexpected increase in the pressure of world demand on energy sources. The resulting price rise has in turn contributed to a new phenomenon that has had the effect of reinforcing these price increases owing to its negative impact on the perception of energy insecurity in the markets in the short term and, in the medium term, on the supply side: the resurgence of an energy nationalism that has been felt in nearly all areas of the world recently. The increasingly perceptible sensation that liberalising reforms have not worked sufficiently well since the end of the Cold War has combined with the spectacular rise in oil prices since 2002 to stimulate and direct the new tendency of state intervention in the energy sector to take advantage of the high prices and achieve social and geopolitical goals, which are seen to clash with integration into a liberal and global economy.

Latin America

In Latin America, where rejection of the Washington Consensus and anti-Americanism are increasingly palpable, the left-wing neo-populism of Hugo Chávez in Venezuela, Evo Morales in Bolivia, and possibly Rafael Correa in Ecuador and Néstor Kirchner in Argentina, illustrate this trend well. Over the past year, both Venezuela and Bolivia have pursued the «re-nationalisation» of their energy sectors and have changed the legal framework (both in terms of taxes and royalties, and in terms of participation in and control of exploration, production and export projects); this has had a negative effect on the interests of the so-called international oil companies –IOCs– including Spain's Repsol YPF). In both countries only a few years ago taxes and royalties accounted for less than 20 percent of the IOCs' income from hydrocarbon production, but following the recent changes in hydrocarbon legislation over the past two years, this percentage has risen to over 80 in both countries. (13)

(13) See *Petroleum Economist*, November 2006, p. 33, and PAUL ISBELL, «Hugo Chávez y el futuro del petróleo venezolano (I): el resurgimiento del nacionalismo energético» and «Hugo Chávez y el futuro del petróleo venezolano (II): el pillaje de PdVSA y la amenaza a su nivel de producción», Real Instituto Elcano, Madrid, ARI nos. 15 and 16, 9/II/2007 and 12/II/2007.

Furthermore, as a result of successive legislative changes, Venezuela's state-run PdVSA will now be entitled to renegotiate contracts in order to secure a majority interest in all hydrocarbon production and export activities (both conventional and non-conventional, both oil and gas), while in Bolivia the May 2006 decree on the re-nationalisation of the sector has led to the renegotiation of contracts with the foreign companies (chiefly Repsol and Petrobras) leading to a situation similar to that of Venezuela. Ecuador (under its previous president, Alfredo Palacios) followed Venezuela and Bolivia, almost as if in a chain reaction, in May 2006 by expropriating the assets of Occidental Petroleum (Oxy) in an oilfield producing over 100,000 bd in the Amazon region and raising the levels of taxation and royalties. (14) Although it is not yet certain whether the new president, Rafael Correa, will allow himself to be steered along the path of the new energy nationalism, his announced intention of returning Ecuador to the OPEC cartel and promoting collaboration between the state-run oil company PetroEcuador and other national oil companies (NOCs) in the region (including PdVSA and Petrobras) indicates that this is a real possibility.

The Chávez factor

The clear leader of this movement is Hugo Chávez and his government in Venezuela, the country with the largest gas reserves in Latin America and potentially the biggest oil reserves in the world (if Venezuela eventually manages to exploit commercially the extra-heavy oil deposits of the Orinoco Oil Belt). Striving to secure a role for Venezuela as an international energy leader, Chávez serves as a reference point for left-wing neo-populist leaders (among them Morales, Correa, Humala and López Obrador) and even exerts considerable influence on the more moderate left-wing leaders (for example, Bachelet and Lula). (15)

Combining various aspects of the energy issue with his opposition to the FTAA and supposed US imperialism, Chávez's energy nationalism has developed several facets over the past years. First, he continues to subsidise the oil imports of small Central American and Caribbean countries (including Cuba). This policy is linked to his campaign to command support for the ALBA, his alternative to the FTAA for regional integration.

(14) See *Petroleum Economist*, February 2007, p. 35.
(15) There are other cases that are less clear, such as Néstor Kirchner, Alan García, and Daniel Ortega, leaders who appear to display a certain amount of independence and scepticism concerning Chávez.

Chávez's plan to build the «great southern gas pipeline» together with Brazil and Argentina is also aimed at integrating the continent along the political backbone of a new energy infrastructure originating in Venezuela. Furthermore, his plans to link up PdVSA with other national companies to develop the country's extra-heavy oil resources, together with his diplomatic campaigns to cultivate ties with other producing countries (such as Russia and Iran), fit in very well with his long-term plans to divert Venezuelan oil exports toward China, to the detriment of the US. (16) The first group of policies aspires to consolidate the country's political leadership at the regional level, while the second group of initiatives is aimed at coordinating an axis of resistance to the US's international hegemony.

Russia

The former USSR, particularly Russia, is another area where disillusionment with the transition to a market economy and fatigue stemming from liberal reforms has combined with the new high energy price environment to produce a powerful cocktail of energy nationalism. A country that has proved incapable of fully completing the transition from a command economy to a market model has experienced a significant decline in its political and economic influence in the international system until the energy boom began only a few years ago. The sector that saw significant opening and privatisation during the 1990s –energy– has been the battlefield for the Russian state in its fresh attempt to dominate the sector that is perceived to hold the key to projecting the Kremlin's power in the world.

After designing a system for stimulating and channelling foreign investment that is fairly advantageous to private international oil and gas companies –the so-called production sharing agreements (PSAs)– and allowing a fair number of private Russian companies to develop in the hydrocarbons sector, for several years now Vladimir Putin's Kremlin has been putting an end to the previous period of opening and liberalisation. The campaign to claim debts of supposedly unpaid taxes led to the imprisonment of Yukos' chairman Mikhail Khodorkovsky, state intervention in what was then Russia's largest private oil company, and the subsequent integration of a large part of the company into the state-held Rosneft in 2004. Since then, the Russian government has attempted to return the sector's

(16) Venezuela supplies some 13 percent of the crude oil consumed in the USA, according to the American IEA. See Venezuela Country Analysis Brief, *http://www.eia.doe.gov/emeu/cabs/Venezuela/Background.html*

activities –and profits– to a small group of state companies (chiefly Rosneft and Gazprom), driving private international companies away from the most interesting projects (as occurred in 2006 with Shell and its Sakhalin-II LNG project, or with BP and its plans to export natural gas from Siberian gas fields of Kovykta to China or South Korea) and reserving these projects for the state monopoly Gazprom. (17)

Russian energy policy and the former Soviet republics

Russia has exerted its influence on the former Soviet republics to prevent these Central Asian producers from creating new export routes for their oil and gas that do not pass through Russia via the traditional networks. While it has been fairly successful in this endeavour, in 2006 hydrocarbons at last began to flow out of the Caspian zone via the BTC oil pipeline from Baku to Turkey and along Kazakh routes to China. In any event, although the Kremlin has lost a certain amount of influence as a transit country for the hydrocarbons of the Caspian and Central Asia, it has enjoyed greater success in its energy diplomacy with the transit countries through which pass Russian gas and oil destined for European consumers.

Indeed, although the energy alarm sounded again in 2006, particularly in Europe, this was due above all to the very brief cuts in the flow of the gas and oil that Russia habitually exports to Europe through the pipelines that cross Ukraine and Belarus. Early in January 2006, after a conflictive renegotiation of the price of Russian gas for the Ukrainian market –which until then had been sold for under 20 percent of the market price– Gazprom reduced the gas flow, supposedly to briefly deprive Ukraine of its supply until the latter agreed to Russia's plans to significantly increase the subsidised price. When Ukraine responded by appropriating part of the flow intended for Europe, the gas that reached countries such as Hungary and the Czech Republic was over 30 percent lower than usual. As a result, panic nearly gripped the European Union (which depends on Russia for nearly 50 percent of all its gas imports and for approximately 25 percent of its entire consumption). A few weeks later, the European Comission published the first draft of a Green Paper on energy, and entrusted Javier Solana, the EU high representative for foreign affairs, with a new paper on the foreign

(17) See PAUL ISBELL, «El 'gran creciente' y el nuevo escenario energético en Eurasia», *Política Exterior*, no. 110, March/April 2006, pp. 103-120.

dimension of a possible European energy policy and its implications for energy security. (18)

Although throughout 2006 the representatives of the Kremlin and Gazprom denied that Russia intended to use gas as a weapon in its foreign policy with Europe, the perceived threat of Russia as an unreliable –and even hostile– source of much of the energy consumed in the EU sparked lively debates on European energy security and the possibility of devising a new unified energy policy capable of representing the EU with a single voice in relations with its energy suppliers. The Commission led a strategic review of the energy question during the second half of 2006, but just before it published its recommendations to the European Council in mid January 2007 the flow of Russian oil supplied to Europe via Belarus through the Druzhba pipeline was cut off due to a clash over the subsidised price (similar to the incident with Ukraine a year earlier). (19) Although the Kremlin's chief aim during these episodes may not have been to cut off gas and oil supplies to Europe, the message that has come across –for good or ill– is a warning of the energy and strategic risk that Russia poses to the EU (particularly to its northern and eastern members). (20)

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(18) See the European Commission (8/3/2006) *Green Paper: European Strategy for a sustainable, competitive and secure energy policy* [online] COM(2006)105final (available at *http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf*) and Commission and the Secretary General/High Representative Javier Solana for the European Council (6/15/2006) *An external Policy to serve Europe´s Energy Interests* [On line] S160/06 (available at *http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/EN/reports/90082.pdf*)

(19) For the conclusions of the EC's strategic review on energy policy and recommendations to the European Council of 8-9 March 2007, see European Commission (01/10/2007) *The Commission proposes and integrated energy and climate change package to cut emissions for the 21st century* (IP/07/29). For a more in-depth treatment of the crisis between Russia and Belarus, which analyses the differences and similarities to the case of Ukraine, see «Belarus Highlights Russia's Export Vulnerability», *Global Oil Report*, CGES, vol. 18, no. 1, January-February 2007, pp. 5-8, and ISABEL GORST, «Price War Settled, For Now», *Petroleum Economist*, February 2007, p. 22.

(20) Furthermore, the Russians maintain –as well as claiming not to represent a threat to Europe in terms of security of supply– that they themselves feel insecure in their energy relationship with the EU: insecurity with respect to demand, on the one hand, and transit on the other. The insecurity that Russia may perceive with respect to the unforeseeable –or at least defiant– behaviour of the transit countries that are former republics appears to underlie its efforts to seek transport routes for its gas and oil that reach Europe directly (such as the new Baltic Sea gas pipeline negotiated primarily with the Germans) without crossing Ukraine and Belarus.

The «Asian card»

Another aspect of Russia's energy policy which in 2006 continued to contribute to the perception that the Kremlin is using energy as a geopolitical weapon was the decision to commence the construction of its Siberian oil pipeline that is set to transport crude oil from Siberia to East Asian markets. Early in the year President Putin had confirmed several times that the pipeline would convey 1.6mbd of oil to the Pacific coast to be transported by ship, mainly to Japan. But this apparent Japanese diplomatic success (and possibly American as well) was soon questioned when in March, during a bilateral summit between China and Russia, Mr Putin signed numerous energy collaboration agreements. Although this was not the first time Mr Putin and Gazprom had committed themselves to deeper energy integration with China, this time the commitments included projects to supply Siberian gas to China through two new planned gas pipelines and to convey approximately 600,000bd of oil to Siberia via a new additional spur of the Siberian oil pipeline—in practice, diverting one-third of the Japanese market's future supply.

With this modification to the original plan for the Siberian oil pipeline, it appears that the Kremlin has decided: (1) that it would like to keep all its options open regarding its possible supply of oil to Japan or China; or (2) that it would prefer to supply energy to both markets simultaneously, by dividing Siberian oil between them, transporting the natural gas to China and reserving the possibility of leaving some of the Sakhalin liquefied gas for Japan. Indeed, Russia is pursuing a «realistic» policy par excellence, treating all countries as possible allies and threatening supposed allies (some more subtly than others) with possible punishment, bringing the EU into potential conflict with former Soviet republics, Japan with China, and the West with the Far East.

A gas cartel?

But the facet of Russia's new energy nationalism that could one day exert a tangible impact on Spain, at least in the medium term, is undoubtedly the Kremlin's idea of exploring the possibility of creating an international natural gas cartel. Unlike many European countries, Spain does not import Russian gas; nonetheless, 33 percent of its consumption is supplied by Algeria and a further 15 percent by Qatar. (21) During 2006, the

(21) See *Boletín Estadístico de Hidrocarburos CORES,* Ministerio de Industria, Turismo y Comercio, December 2006, no. 109, p. 8.

Kremlin held talks with these two countries and Iran on the possibility of establishing a «gas OPEC». (22) Between them these four countries possess over 60 percent of the world's proven reserves of conventional gas and currently produce 30 percent of the world total—similar figures to those of OPEC itself in the petroleum sector. (23)

Although many analysts doubt that an international gas cartel would be feasible, we should not rule out this possibility, at least in the middle or long run. One of the criteria that any cartel should meet is a sufficiently high level of concentration in terms of market share. That is, there should be relatively few suppliers who possess a large share of the market between them. A good gauge of market concentration is the Herfindahl-Hershman (HH) index –the sum of the squares of the percentage of market share of each of the participants in a market– which ranges from 0 to 10,000. An HH score of over 1,000 (and particularly over 1,400) suggests an interesting potential for cartelisation. The HH score based on the market shares of the producer countries in terms of gas reserves is 1,230 (compared to just 980 for the oil producing countries). Basing the HH index on export shares –a more appropriate indication of current market power– we obtain a score of 1,580 for gas exports via gas pipelines and 1,130 for exports of liquefied gas (LNG). Since the score for oil exporters is below 1,000, it seems that a gas cartel might be possible. (24)

However, one of the main obstacles that hinder the feasibility of such a cartel, at least in the short term, is the local and regional nature of the gas markets, dominated as they are by pipeline transport and bilateral long-term supply contracts. (25) Until the liquefied gas (LNG) market acquires the critical mass necessary to form a global spot and futures market, there are few possibilities that a cartel would function effectively in the sense of substantially influencing a global market and a single global gas price. Even so, now that Algeria has a certain capacity to export

(22) Although practically all the public clarifications of nearly all the possible players in this game deny the feasibility of a cartel (and their intention to pursue it) –with the possible exception of Iran– these assertions are not entirely credible. Indeed, some of the strategic partnership agreements, such as that of Gazprom with Sonatrach, are logical first steps on the medium-term path to the formation of a cartel.

(23) See the *BP Statistical Review of Energy 2006*.

(24) See «Another OPEC in the Making?», *Global Oil Report*, Centre for Global Energy Studies, vol. 18, no. 1, January-February 2007, p. 4.

(25) According to the *BP Statistical Review of Energy*, of all the gas that is exported –nearly 25 percent of the entire world consumption– over 70 percent is transported through gas pipelines and less than 30 percent by ship (gas tanker) in liquefied form.

LNG (26), together with Egypt and Qatar (and Iranian plans to expand the country's gas production, particularly the offshore gas fields of South Pars and the Gulf project, envisage liquefaction), the critical long-term influence over this possibility is held by Russia, the world's largest gas power. In this connection, one of the strategic decisions most relevant to the future development of the world gas market will be that of the Kremlin and Gazprom on the role of liquefaction in the Russian export system from now into the future. (27) If LNG, with global spot and future markets, came to dominate the international gas trade, an international cartel with these members could indeed influence the international price of gas in the same way that the OPEC influences the price of oil. For the time being, however, this is still a relatively remote future possibility (that may emerge between 2020 and 2030). Such a development in the gas market would have major implications for Spain, which is increasingly dependent on gas consumption but also on imported liquefied gas. (28)

(26) According to BP, *op cit*., of the 65 billion cubic metres of gas that Algeria exports (nearly 10 percent of the world total), approximately 40 is transported in liquefied gas form.

(27) This subject deserves further attention and research. In the short term, it appears that the Kremlin is not so interested in the idea of developing its capacity to export liquefied gas. While such a strategic shift would increase Russia's export flexibility and lessen its dependence on European consumption, transforming Russia's export apparatus into an infrastructure based on liquefaction and LNG carriers as opposed to gas pipelines would involve that loss of geostrategic control –if indeed such control is real and effectual– over the gas «tap». On the other hand, whereas everyone –both consumers such as Europe and exporters such as Russia– stands to gain in terms of flexibility and independence from the creation of a liquid, fungible and global gas market, these characteristics would be the very requisites that are necessary –but currently non-existent– for Russia to create and lead a new gas cartel with a certain influence over global prices. The fact is that Russia is interested in gas transported by pipelines in the short term but would be much more interested in liquefied gas in the long term. The dilemma is how and when to embark on a new strategy of investment in a new infrastructure, while maintaining state control of the sector (as it would be a lengthy, expensive and technically difficult project). Some analysts, such as Antonio Sánchez of the University of Valencia (and a member of the working group of the Real Instituto Elcano «La geopolítica de la energía: vista y analizada desde España»), believe that some of the specific points of the recent partnership agreement between the state-run Gazprom and Sonatrach may be a collaboration plan to help Russia develop its liquefied gas infrastructure in the long term. Russia could thus dispense with the IOCs with experience in LNG (such as the Spanish firms Repsol and Cepsa); all that would remain is the issue of financing this project.

(28) Spain is the European leader in terms of liquefied gas imports and import and regasification infrastructure. Approximately 65 percent of all its gas imports arrive in liquefied form. Spain is the third largest importer of liquefied gas in the world, after Japan and South Korea, but it is still ahead of the US.

ENERGY NATIONALISM AND ITS IMPLICATIONS

The new rise in energy nationalism described earlier has also affected, though to a lesser degree, the Arab and Islamic countries of the Middle East and North Africa, the epicentre of the original outbreak of energy nationalism in the early 1970s. These countries have been unwilling –or unable– to relinquish state control over their energy sectors, mainly because they have had to address the rise of Islamic fundamentalism in their societies owing to the continual existence of poverty and uneven distribution of wealth. This circumstance has required a secure source of public funding for social programmes and investments in economic infrastructures in order to meet the demands of their populations and prevent them from being seduced by radical movements (such as al-Qaeda in Saudi Arabia and, now, in the Magreb).

To cite just one example, the financial position of the Saudi government –and its ability to undertake greater social expenditure in the medium term– has improved greatly since prices began to rise. In 2006 Saudi Arabia received over 157 billion dollars in oil revenues. Of this sum, nearly 30 billion were used to repay public debt, bringing it down from nearly 180 billion dollars in 2002 to under 100 billion by the end of 2006. As a result, public debt as a percentage of GDP dropped from nearly 100 percent in 2002 to below 30 percent in 2006 (28 percent, compared to a maximum of 118 percent in 1998). A tax surplus of 70 billion dollars was recorded in 2006, helping the country not only in its endeavour to reduce internal public debt but also to increase its volume of international assets (which reached 216 billion dollars in 2006, quadruple the figure for 2002). (29)

But this improvement in financial position has also been witnessed in many other producer countries apart from Saudi Arabia. As a result of the price hike, Russia has cancelled almost all its external debt; the Venezuelan state company PdVSA has earmarked the huge amount of 24 billion dollars to social expenditure since 2003 (nearly 12 billion dollars –or 21 percent of its entire income– in 2006 alone, more than double its own investments); and countries such as Angola and Nigeria have become independent from the Monetary Fund. In consequence, nearly all the non-OECD hydrocarbon producing countries now feel much stronger, more

(29) See «Saudi Arabia's Public Finances in 2006 and 2007», *Global Oil Report*, Centre for Global Energy Studies, vol. 18, no. 1, January-February 2007, pp 15-17. The estimate of oil income for 2006 given by JAMES GAVIN in *Petroleum Economist* («Good Cop, Bad Cop», February 2007) is higher: 187.5 billion dollars (and 164.7 billion in 2005).

independent, bolder and more willing to defy the IOCs and consumer countries with more autonomous policies characterised by growing energy nationalism in all respects. Another example of this new autonomy is that Angola recently joined OPEC at the beginning of the year, while Ecuador, which had «suspended» its participation in the cartel back in the early 1990s, is now contemplating reactivating its membership.

Even Saudi Arabia now appears more independent and autonomous. Although it has always been one of OPEC's most moderate members and has always proven willing, in the end, to cooperate with the US, its population is one of the most sensitive in the Middle East to the appeal of Wahabi fundamentalism in general and that of al-Queda in particular. At any rate, with the shift in the cyclical range of prices to at least double those prevailing during the previous 20 years, Saudi Arabia has returned to the role of defending a price floor and boosting OPEC's market power. In autumn, by which time the price had dropped to nearly 50 dollars per barrel –threatening producers' newly achieved high income levels– the members of the cartel, headed by Saudi Arabia, agreed on new cuts in OPEC output of some 1.2mbd, with Saudia Arabia making the most substantial cutback (some 500,000bd) since then. However, of all the producer countries whose oil sector is nationalised and controlled by its NOC (at least outside the OECD), Saudi Arabia is the subtlest player (and its NOC, Saudi ARAMCO, the most sophisticated). It does not use energy (at least not openly) as a political weapon; rather, it concentrates its efforts on the effective management of the cartel as an economic tool for the various Arab Gulf societies and on using its role as swing producer as a disciplinary stick to maintain cohesion and effectiveness of the cartel.

The external facet of energy nationalism: energy as a geopolitical weapon (30)

But can a producer country really exercise energy nationalism as a geopolitical strategy in a credible and effective manner? Although conventional wisdom would say it can, one may argue that the external facet of energy nationalism (for example, Russia's use of its sway as a supplier to influence European policy, or Venezuela's threat to redirect to China the

(30) A further expression of energy nationalism that cannot be dealt with here is the energy nationalism of the new major consumer countries, particularly in Asia (that is China and India). For an analysis of this phenomenon, see PAUL ISBELL, «Dragones que escupen fuego: Asia y el reto de la seguridad energética», *op. cit.*

exports traditionally intended for the US) should not be of such concern to the consumer countries, as state control over energy export flows in the producer countries has no substantial force beyond the sensationalist and superficial rhetoric of the media. (31) With well-designed and executed emergency plans, sufficient oil and gas stockpiles, and effective energy policies directed at both demand (efficiency) and supply (renewable energies, nuclear energy and/or other new technologies), it can be argued that even a supplier as important as Russia loses much of its perceived influence, as in the medium term relations between Russia and Europe are based on mutual dependence (or interdependence). Even the possible short-term asymmetry in Russia's favour will disappear if Europe feels capable of withstanding with normality and calm a hypothetical absence of Russian gas from its market for several months. (32) After all, the level of risk implicit in any type of vulnerability or external dependence is inversely proportional to the quality of political leadership, level of citizens' awareness and proactive preparation of society. In short, energy security depends as much, if not more, on the actual management of the internal energy sys-

(31) In addition to the arguments set out here, which play down the importance of the vulnerability of the consumer countries, taking a sceptical view of the true power of the energy weapon in foreign policy, Aurelia Mañé maintains that the dichotomous concept of two actors (consumer country versus producer country) with a relationship of obvious dependence (such as, for example, a vulnerable and insecure Spain versus a powerful Algeria, which supplies Spain with more than one-third of its gas consumption) does not convey the complex reality that includes –in addition to the consumer and the producer– the web of energy companies, both in the consumer country and in the producer country (which are increasingly more integrated) and possibly transit countries (which may be consumer countries themselves, as in the case of Turkey, or possibly in the future, Spain). This complex reality usually causes a situation of interdependence and mutual integration which qualifies or reduces the vulnerability and risk posed by dependence on imports, according to Mañé, or at least this is the case of Spain with respect to its partner-suppliers of the Maghreb, particularly Algeria. See Aurelia Mañé Estrada and Alejandro V. Lorca Corrons, «África del Norte: su importancia geopolítica en el ámbito energético», paper of the working group of the Real Instituto Elcano, «La geopolítica de la energía: vista y analizada desde España», published in March 2007.

(32) Many analysts argue that Russia cannot afford to consider cutting the supply of gas to blackmail its clients, as it depends as heavily on its gas sales to Europe as the latter does on Russia for its gas supplies. Nonetheless, others point out that this mutual dependence is not symmetrical in the very short term –and consequently does not act as a deterrent– since Russia can endure going without some income in the short term (provided that it is more or less assured in the medium term) whereas the European consumer countries will be plunged into social chaos and total political crisis owing to their significant vulnerability and apparent lack of preparation for a possible supply crisis. The solution for eliminating this asymmetry in the short term and the political power Russia is perceived to wield would be to devise and share credible plans for business reaction and citizens' response in the event of an energy supply crisis, and the construction of a greater natural gas storage capacity.

tem than on the policies of the country of origin of much of the primary energy supply.

Nor is it at all clear whether an oil producer –like Venezuela– can specifically choose to penalise a particular consumer country politically by cutting off its supply. If the exporter diverts the flow of oil to other markets, the global nature of the market (for a fungible product like oil) will merely lead to a readjustment in flows to ensure that the «penalised» country (for example, the US in the case of Venezuela) receives its oil from elsewhere in the global marketplace. In the «best» case scenario (from the point of view of an aggressive producer country), if the market does not succeed in making the necessary adjustments quickly, the result could be a temporary rise in the price that the target country in question would have to pay. (33) On the other hand, if the producer's oil is not diverted to other markets, the result of a disruption in the flow of exports to a particular country will merely succeed in pushing up the global price of oil, thereby «penalising» all consumers. (34)

The domestic facet: state control of the energy sector and the threat to the level of investment

While the influence of the external expression of energy nationalism (the use of supply as a foreign-policy weapon) on international politics depends primarily on consumer countries' perceptions (accurate or otherwise) of vulnerability (and on their own passivity), the domestic facet of the same energy nationalism can have important and tangible implications for the energy security of consumer countries—and possibly for the producer countries as well. Indeed, the true threat that energy nationalism poses to energy security is not the use –of dubious efficacy– of energy as a foreign policy weapon, but rather the likelihood that the growing presence of the

(33) For a more in-depth treatment of this matter, see PAUL ISBELL, «Hugo Chávez y el futuro del petróleo venezolano (II): el pillaje de PdVSA y la amenaza a su nivel de producción», Real Instituto Elcano, Madrid, ARI no. 16, 12/II/2007.

(34) Nor would this increase in the overall price that «penalises everyone» be possible if there were one or more producers with sufficient idle capacity to replace, in a credible manner, the oil of which the market is deprived. In 1991, when Saddam Hussein's troops began to burn the country's own oil wells during the first Gulf War, Saudia Arabia alone had more than double the amount needed to cover the lost Iraqi oil on the market; however, as things stand today, if for some reason Iran were to cut back significantly its exports to the world, the Saudis would not have sufficient idle capacity (at most, 2.5mbd) to cover it credibly on the market, and the global market prices would rise significantly.

state in the producer countries' energy sector would have a negative impact on future investment levels. The strategic risk –for all parties– of the increasing wave of energy nationalism will be its impact on the supply of oil and gas in the future and, by extension, its upward influence on prices.

As mentioned previously, the recent revival of nationalist policies in the upstream of the hydrocarbons industry in many producer countries has been conceived of as a tool for maintaining national and state control over production levels and income from the energy sector (in almost all the producer countries) and for boosting the weight of the nation in geopolitics (in some cases in particular, such as Russia, Venezuela and Iran). The effect of this new phase of state intrusion into the upstream –added to that of the first period of energy nationalism during the 1970s– has been to drive the major private international companies (the IOCs) even further away from the areas that are rich in hydrocarbons, particularly non-conventional oil and gas, where the experience and knowledge of the IOCs might prove pivotal to their exploitation (such as the case of Venezuela's extra-heavy oilfields). The IOCs now control less than 15 percent of the world's proven conventional hydrocarbon reserves, whereas the NOCs control (at least partially) over 85 percent.

This situation stems from a paradox that poses a strategic risk to all the consumer countries. On the one hand, the IOCs –which now possess more money than ever and much of the existing technical and technological know-how– only have access to non-conventional petroleum, which is increasingly difficult and expensive to find, develop, exploit and maintain. On the other, the NOCs –which have access to what remains of easy and cheap petroleum, and also greater financial sway than ever– tend to be held hostage to the foreign and social policy of their owners, the states of the producer countries which are earmarking increasingly large slices of their energy revenues to expenses of dubious long-term social impact and are managing their expenditures and investments in general according to increasingly less «economic» and more «political» criteria. (35) What is more, whereas the NOCs tend to hail from countries with questionable democratic credentials, it is also usual, as in the case of Venezuela and Russia, for future energy power –in either market or geopolitical terms– to

(35) In recent years the major IOCs (the majors and supermajors) have recorded their largest net profits in history—between 25 and 35 billion dollars per year, in the case of the biggest companies. The NOCs, for their part, have also brought their states record levels of energy income, with Venezuela verging on 50 billion dollars a year and Saudi Arabia some 160 billion.

depend on investments in aspects of the sector in which NOCs lack the experience or technical expertise of the IOCs (such as Venezuela's extra-heavy oil or the liquefied gas and oil of the Arctic and ultra deep waters, in the case of Russia). (36) Lastly, the NOCs also control many mature deposits that are now in decline or almost past their peaks. At any rate, it is essential to make major investments in these deposits in order to step up the recovery rate and at least maintain net output.

The implication of this many-sided paradox is that a clash of interests can easily arise between the technical and business need to continue investing increasingly large amounts of income in order to maintain –if not increase– output in the future (a clear priority from the perspective of the consumer countries) and the political priorities of the state budget of the producer countries. But with high prices and energy incomes at record levels, with the state increasingly regaining control over the energy sector, and the erosion of democratic checks and balances which restrict the use (or abuse) of state and executive power in many producer countries, the major risk in the short and medium term is that insufficient investment is being made in the three major focal points of energy nationalism today –the Andean region, the Middle East and Russia– to carry on boosting the supply of hydrocarbons to meet projected demand. (37) Without significant changes in current demand, supply and technology trends, the IEA reckons that primary energy demand will increase by 50 percent between now and 2030 (for oil the increase would be almost 45 percent), and the investments required in the world sector to ensure the relevant supply will amount to over 20 trillion dollars (in annual terms more or less equivalent to the current GDP of an emerging economy such as that of Brazil). (38).

This gigantic increase in the energy (and oil) supply levels, together with the huge investment in the energy sector that is required to achieve it, has no historical precedents. It would be a major economic, business, technological and legal challenge in the best future imaginable. However, viewed through the prism of the current context of growing energy nationalism

(36) There are a few notable exceptions to this rule. For example, the Saudi ARAMCO is one of the most sophisticated oil companies in the world in terms of experience, know-how, technology and financial and investment strategy. Furthermore, NOCs such as Petrobras and Statoil of Norway have gained very valuable experience in oil and gas in deep or ultra-deep waters.

(37) For an analysis of this risk in the case of Venezuela, see PAUL ISBELL, «Hugo Chávez y el futuro del petróleo venezolano (II): el pillaje de PdVSA y la amenaza a su nivel de producción», *op. cit*.

(38) See «Summary and Conclusions», *World Energy Outlook 2006*, IEA, *op. cit*.

fuelled (and even driven insane) by widespread discontentment with g l obalisation and international economic integration, on the one hand, and high energy prices –and the substantial income they represent– on the other, it would seem almost far-fetched to think that the world would be capable of producing over 115mbd in 2030. When this dubious eventuality is analysed in conjunction with the new explosion in demand from China, India and the rest of the developing world (where another third of the world's population has not even entered the circuits of modernity to begin to consume more than symbolic amounts of electricity and oil), the backdrop to the significant upward shift in the cyclical range of hydrocarbon prices in the past years can be quickly and clearly understood.

The «resource curse»: A curse for whom?

But whereas energy nationalism –and, more specifically, the threat it entails to world production levels– represents a strategic risk for consumer countries, an interesting question is whether this same nationalism goes against the economic interests of the producer countries. The IEA maintains, for example, that the falling production levels that may result from a shortage of investment caused by excessive state intrusion in the energy sector would lead to a decrease in oil income to individual producer countries despite their upward effect on prices.

But this result depends on several empirical features that define each producer's environment, such as, for example, its size in the market. A sufficiently large exporter could trigger a price rise that is higher in percentage terms than the actual slump provoked in its production level. It also greatly hinges on the economic health of the world and of demand, which can push prices up independently of the market share of the producer country reducing output. If the price elasticity of demand continues to be very low, it is perfectly feasible for a producer country to reach the conclusion that it is in its interests to pursue a policy of punishing the IOCs by raising taxes and royalties, driving them away from reserves, and accepting the fall in production level that these actions might trigger over time. Current examples of this type of producer country are Venezuela and Russia (if Mr Chávez and Mr Putin turn out to be more astute than most observers think). For the time being, these countries have higher revenues than ever and the only ones who are complaining are the consumers, the major IOCs and certain private local interests –such as the Khodorkovskys of this world– not run-of-the-mill Venezuelans and Russians.

However, others argue that in the long term the effects of energy nationalism, expressed in terms of higher prices, paradoxically end up impoverishing their populations, despite short-term economic upswings. A study headed by Paul Collier of Oxford University shows that following a 100 percent increase in oil prices, on average producer countries record a GDP growth of approximately seven percent. But a further ten years on, the same countries' GDPs tend to be some ten percent lower than the initial GDP level at the time of the price rise. What is the cause, according to Collier?: the absence of effective democratic institutions and mechanisms fully integrated into the political system capable of restricting and neutralising government abuse and the possible corruption of the leaders of the moment (ie, «checks and balances»). Instead of being the key to economic and social development, oil and gas are typically the triggers of economic disaster and the root of the so-called «resource curse» owing to a lack of good governance. (39) Nigeria has always been the classic example of this phenomenon (though the experience of recent years under Obassanjo's rule may foreshadow, if not guarantee, a change in this trend).

RESPONSES TO THE STRATEGIC RISKS OF THE NEW ENERGY GEOPOLITICS

The energy alarm rang loudly during 2006. The bells began to sound in Europe and Spain as the price of oil peaked at nearly 80 dollars per barrel and Europeans were engulfed by a palpable feeling of insecurity following the disruptions in the supply of Russian gas and oil. In addition, Europe experienced a noticeable change in its perception of the risk of climate change from emissions of carbon dioxide as a result of the rapid international dissemination of Al Gore's film (*An Inconvenient Truth*, which was awarded several Oscars in 2007). (40) This triple threat (high prices, insecurity of supply and climate change) has spawned a notable effort during 2006 and 2007 on the part the European Union institutions –above all the Commission, but also in the European Council– to design and establish

(39) See PAUL COLLIER, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, Oxford University Press, 2007.

(40) The «greenhouse effect» and climate change caused by gas emissions produced by use of hydrocarbons is another strategic risk posed by the new energy landscape. For reasons of space, it is only possible to address this subject briefly in this chapter. For an analysis of the strategic risk posed by climate change, see PAUL ISBELL and RICKARD SANDELL, *op. cit.*

compulsory priorities and goals for the EU Member States and also to seek a political formula for shaping a genuinely common European energy policy.

The core aspects of the recommendations that were designed, debated, refined and finally implemented by the European Council on 8 and 9 March 2007 could be summed up as follows:

1. Establishment of the fight against climate change and the transformation of Europe into a post-hydrocarbon society (what José Manuel Durão Barroso calls the «post-industrial revolution» as fundamental political policies for the European Union—even more important than the Lisbon goals.
2. To make this vision a reality, the Commission has recommended –and, very significantly, the European Council of March 2007 has adopted– several binding targets that the EU must meet by 2020.
   a) First, the binding objective of reducing greenhouse gas emissions by 20 percent (below equivalent 1990 levels) by 2020 (with an appeal to the world to join forces in order for the planet to achieve an overall drop of 30 percent. A target reduction of between 60 and 80 percent by 2050 is also planned).
   b) Second, in order to achieve this, another binding target has been adopted to boost the use of renewable energies to a minimum of 20 percent of the European energy mix by 2020 (compared to the current level of under 10 percent) with the additional goal of increasing the weight of biofuels in the fuel mix by at least 10 percent by the same date (compared to the current level of under five percent).
   c) Finally, in order to achieve a single and competitive internal energy market, instead of forcibly separating the transport, transmission and distribution activities of electricity generation companies (as recommended by the European Commission), the Council has opted for the establishment of new regulatory agencies to manage the assets of generation companies in the electricity and gas transmission and distribution network.

It has not been easy for the EU to reach these agreements. Above and beyond the fact that there are no clear legal foundations for a common energy policy in the treaties on European Union, the energy field is riddled with national interests that are perceived as different—or even clashing and causing major rivalry between «national champions» in the gas and electricity sectors. Decisions on the optimal energy mix have likewise always been left to national governments, sparking a certain tension be-

tween advocates and opponents of nuclear and renewable energies. Since the Ukrainian crisis, the European energy debate has been characterised by these disagreements, which continue to hinder efforts to reach common positions in the energy field. Although the Council decisions of 8 and 9 March 2007 are historic –and represent the first and minimum requisite for keeping alive Barroso's dream of inaugurating the post-hydrocarbon society and stimulating a post-industrial revolution– there is still much work to be done. In particular, this year the Commission will have to negotiate and design individual national agreements that jointly express the finally accepted solution for sharing both the burden of the national adjustments in terms of emissions and the specific goal for each Member State in terms of the weight of renewable sources in the national energy mix.

In this connection, the European Council has accepted the principle of flexibility for specific nations with respect to meeting the compulsory target for renewable energies. Although this concession made the March agreement possible, without resolving the underlying political problem, it also leaves the door open for nuclear energy (now defined by the Council as a «low-emission energy source») to be finally accepted as a valid and recognised energy source in the fight against climate change and energy insecurity stemming from hydrocarbon dependence. Although the nuclear debate cannot be dealt with in depth in this text, this nuance of the March Council agreements may be relevant to the future of Europe's energy policy, as there are serious doubts about the ability to meet the emissions target without at least renovating Europe's existing nuclear plants, which generate 30 percent of its electricity.

Even Michael Glos, the economy minister of Germany –the central country in this debate, which continues to reject the idea of renewing its nuclear plants (not to mention expand them)– admits that under no circumstances can the European emission reduction targets be met without nuclear energy, given Europe's inability to deploy other renewables sufficiently quickly. Unless existing nuclear energy is renewed in Germany (where it provides over 25 percent of the power supply), growing use of renewables with have to be supplemented by greater coal use. This scenario, according to the Germany finance minister, will result in an *increase* of up to eight percent in German emissions in 2020. (41) The related outlook for Spain, where nuclear energy currently accounts for 20 percent of the power supply, cannot be very different.

(41) See Derek Brower, «Bold and Green», *Petroleum Economist*, February 2007, p.8.

CONCLUSION

The energy alarm sounded again in 2006. Energy prices have permanently shifted to a much higher level than was usual in the past. If there is further price movement in the future, it is much more likely to be upward than downward. The perception that energy is now the central geopolitical battlefield has also grown considerably in Europe as a result of the disruptions to the supply of Russian energy, regardless of their duration or true causes. Public awareness of the role of our dependence on hydrocarbons in climate change has heightened even more the sensation of urgency that is felt in Europe to shape a European energy policy capable of overcoming this three-pronged economic, geopolitical and environmental challenge—a challenge that is being exacerbated and made more difficult by the new rise in Asian demand, on the one hand, and the US's persistent preference for a policy that is not far from *laissez faire* (take this to mean: *business as usual*), on the other.

Europe advocates market principles and efficient economic competition as opposed to the traditional criteria of realism and geopolitical competition which are increasingly defining today's energy field, to the detriment of global economic integration. This attitude is not without its risks, as each of the various diverse energy policies possible only makes sense in the context of the international environment that emerges to dominate the future outlook. It will not be easy to make clinging to market principles work in the international energy sector if other significant players in the game –the major producer countries (for example Russia), the major consumer countries (China) and even the major member states with their major national champions– continue to play by the rules of national competition.

Even if energy nationalism proves incapable of truly achieving its aims –compared to the overall superiority of a well-designed and regulated market scenario– it will end up defining our world energy reality if there are enough players who espouse this idea, as there appear to be currently, posing risks to those who continue along the market path. If Europe attempts this anyway, one of its major challenges will be to carry on preserving its unity in the face of likely pressures and difficulties, seeking feasible formulas to share the burden of the inevitable adjustments.

But these dilemmas are always more acute in the case of a single small country, a typically run-of-the-mill player unable to shape the characteris-

tics of the global energy landscape as it evolves. For a major player with the potential to change the direction and profile of the international scene, acting as world leader, there is a credible possibility of success. However, in the energy issue it seems that the major actor who takes on the role of world leader is not going to be the US—it would have to be Europe.

Indeed, in the final analysis, if all remains the same, the fragmentation of the world economy that would result from national competition in the energy sector would threaten not only the future of the EU's single market but also the possibility of progressing further with world economic integration and, as witnessed at the end of the last stage of late 19th-century and early 20th-century globalisation, it is very likely that sooner or later this trend will lead to war. What choice, then, for Europe? What alternative, then, for Spain?

CHAPTER THREE

THE EUROPEAN UNION'S WEAKNESSES

THE EUROPEAN UNION'S WEAKNESSES (1)

By José M. de Areilza Carvajal

INTRODUCTION

The year 2007 is highly significant for Europe, as 25 March is the 50th anniversary of the Treaty of Rome. To judge by the activity of the Brussels offices, the European Union is by no means in decline. On the contrary, it is pressing ahead with new legislative initiatives and handling thousands of matters that affect citizens' daily lives. But it would be an error to think that the Union has recovered its pace and overcome its confidence crisis following the rejection of the European Constitution in the French and Dutch referendums. Indeed, it is experiencing a delicate situation of lack of leadership and strategic direction, even though economic indicators have improved, especially in Germany. Half a dozen countries would never approve the European Constitution in its current form. Social acceptance of the European Union has waned and the French and German governments no longer form the tandem that drives integration, nor do they share common ideas that are appealing to all and can be used to easily relaunch the project. Similarly, the economic reforms of the Lisbon Agenda are still pending and no clear headway has been made towards the achievement of European defence capabilities, nor is it known how to contribute from Brussels to addressing the challenge of immigration. The transatlantic relationship has improved, but its potential has not been developed.

(1) I would like to thank Professor Marie Jose Garot and Charlotte Elizabeth Leskinen of the legal department of the Instituto de Empresa for their valuable comments and suggestions.

In 2007, the German and French governments opted to give priority to salvaging parts of the failed European Constitution. Despite the lengthy period of pause and reflection ushered in by the «nos» of May and June 2005, nobody has clear ideas about how to unravel the constitutional tangle aside from waiting for the results of the work of the current German presidency and the outcome of the May elections in France. The underlying problem is not only the content and name of the Constitution but the EU's adaptation to its new composition of 27 States—a qualitative change in its political culture in a global context of greater economic competition and stability.

Enlargement has divided Europe into two halves—countries that wish to take advantage of and compete in globalisation and those that wish to withstand it and, if they can, govern it. The debate is further complicated by the fact that Europe's weight in the world is shrinking every year and current leaders are less inclined than the previous generation to agree on long-term projects for the Union and to transfer more powers and money to Brussels, even though there are good reasons for doing so in areas such as immigration, security, defence and economic and social cohesion and citizens are calling for the Europeanisation of these policies.

THE RENEWAL OF EUROPEAN LEADERS

A fact that adds further complexity to the current European scene is that both the French and UK governments are experiencing periods of transition, with Jacques Chirac repudiated following 12 years as president of the republic and Tony Blair burdened by his announcement that he will not stand in future elections and set to hand over the post of prime minister to Gordon Brown during 2007.

France has not held such a defensive stance with respect to Brussels or got on so badly with the Commission in the past 30 years. In September 2006 the minister delegate for European affairs, Catherine Colonna, openly contested the enlargement and blamed all France's ills on the destabilising ability of global market forces. She diagnosed the EU as suffering from «general fatigue and apathy», projecting her country's ills upwards. The two main candidates to the Elysée Palace have distanced themselves from the official denial of domestic problems and Nicolas Sarkozy in particular has an ambitious agenda of reforms. The Le Pen factor, in any event, will again distort the two rounds of the presidential elections in May.

After winning three consecutive elections, Tony Blair, whom some classify as a Christian democrat in disguise, wants to ensure that Labour fully assumes its centrist legacy. In addition to equalling Margaret Thatcher's election record, he has succeeded in being her ideological heir and in pushing an antiquated Labour towards the right, redefining New Labour as the party of the creation of wealth, stability, prosperity and enterprise. The least popular decision of his three mandates was his firm support for the USA in the Iraq war, which was consonant with Britain's Atlanticist tradition, but went against the wishes many of his voters. In Tony Blair's view, European political integration is fully compatible with a strong link with the United States, given the existence of a common Western civilisation on both sides of the Atlantic. However, his notable capacity for persuasion has failed to curb the excesses of the Washington hardliners.

The Labour congress in September 2006 proved that the ideological gap between Tony Blair and Gordon Brown is narrower than is claimed. Both politicians have worked in a splendid tandem for ten years and their only substantial clash has been over the thorny issue of the United Kingdom's adoption of the euro. The other tensions between them have been sparked by Tony Blair's refusal to back down earlier. Now Gordon Brown, an introverted Scot, is preparing to measure himself in the forthcoming elections against the Conservative David Cameron, an ambitious and telegenic candidate with an overwhelming popularity rate who has united his party and raised its hopes with a moderate and appealing language. Although nobody yet knows what he really thinks about most of the issues under public debate, if the elections were held today he would easily defeat any Labour candidate.

Tony Blair's exit will not only leave a considerable void in British politics. His absence will be especially noted in Europe owing to the worrying lack of leaders with weight of their own. Over the past decade Tony Blair has managed to boost and make the most of British influence in Brussels, even though his country's absence from the single currency could have relegated it to a second division. Indeed, he has led the eastward enlargement and even called the shots in the final stretch of the negotiations of the failed European Constitution. He also invented the very necessary economic reforms of the Lisbon Agenda and relaunched European defence, together with France, though these last two issues have ended up languishing on account of the aforementioned lack of leadership.

Only Angela Merkel is comparable to Tony Blair in clarity of ideas and ability to earn political capital at the European level, but the chancellor is

too tied down by her coalition government and has still to realise the need to forge alliances in order to lead the Union. So far, Chancellor Angela Merkel has restored Germany's traditional relationship with the USA, reaffirming her Atlanticism without failing to criticise to President Bush the situation of the Guantanamo inmates or to develop close cooperation with France in international affairs.

An added problem to the current transitions of the British and French governments is that Brussels has not witnessed a Commission with less political clout for a long time. Since being appointed as president of the Commission two years ago, José Manuel Durao Barroso has kept a low profile that is difficult to shake off at this stage in the game. Since landing in Brussels, Barroso has become an excessively prudent leader confident he will enjoy a second term beginning in 2009 in which to really leave his mark. His decision not to take leadership for the time being is largely justified by the constitutional crisis and the so-called «enlargement fatigue», as well as by the absence of a group of leaders in the EU Council capable of shaping a common, appealing vision.

At the end of 2006, the president of the European Commission appears to want to correct this low profile and has called for more steps towards a common energy policy with an external dimension to ensure supply and has proposed European regulations on a few aspects of the immigration phenomenon. He has also promoted measures for addressing climate change and the review of the international agreements developing the Kyoto protocol, as well as the creation of a European defence industry. His emphasis is on building a «Europe of results» capable of responding to the impact of economic globalisation on the 27 EU states and having Europe handle many of its challenges. In principle, Durao Barroso is delegating the job of unravelling the constitutional tangle to the national governments, though in autumn 2006 he at last recognised that the Commission also needs to tackle the issue, even it means a new minimum treaty, which some call Nice II.

THE WAY OUT OF THE CONSTITUTIONAL CRISIS

The failure of the ratification of the text approved in October 2004 by 25 European governments has led to a rather paradoxical situation. Instead of shelving the issue and devoting its energies to meeting substantial and urgent challenges, some European leaders believe that the

solution to the Union's problem lies in salvaging parts of the failed Constitution with an Intergovernmental Conference called in June 2007 lasting only six months in order to be able to ratify the new pact by the end of the current term in 2009. (2)

There are clear national interests behind this supposedly Europeanist vision that advocates a fast and highly selective constitutional «salvage». The French minister of home affairs has many possibilities of being a key to clearing up the constitutional mess, for which his country is largely responsible and without whose involvement no solution will be possible. His ideas are not particularly original, but since summer 2006 his advisors have been negotiating with the German government a common agenda for a new treaty that would not be called Constitution, would be much shorter, would not require referendums as far as possible, but would contain many of the elements of the failed agreement that are to the liking of France and Germany.

In this connection, Nicolas Sarkozy has dismissed the initial idea of approving a minimum treaty and will seek consensus on a «substantial» or «functional» treaty containing some 30 articles. His strategy is not to reopen unnecessary debates and to sidestep the reform of the common policies. Nicolas Sarkozy's shortlist of priorities includes the post of European Foreign Minister, a smaller Commission without one commissioner per Member State and the Council double-majority voting system, which grants control to the four most populated states. He likewise wants to bolster the power of the president of the Commission and a political pact between the most populated countries including Spain and Poland, to govern the EU. He proposes leaving Turkey out of the Union and would gradually take in the six Balkan candidates.

The part of Sarkozy's plan that is most at odds with the traditional way of thinking of the French elite is his call for boosting the power of the European Parliament, which would elect the president of the Commission and hold European elections with slates that were not necessarily national.

At any rate, it is very telling that although the main issue with which Nicolas Sarkozy will attempt to stand for the presidential elections of 2007 is the fight against illegal immigration, he has no solution for it in the new

(2) For a legal/political analysis of the Treaty establishing a Constitution for Europe, see the book publishing the papers of the symposium «Alteneuland: the EU Constitution in a Contextual Perspective», published in JMWP 05/04, New York University School of Law, 2004

treaty. The minister is a firm ally of Spain, and has demonstrated this in antiterrorist cooperation, but blames Mr Zapatero's government for worsening the situation with the mass-scale regularisation carried out in 2005 without consulting Spain's European partners. Mr Sarkozy's proposals have been backed by the Italian president of the Council of Ministers, Romano Prodi.

On beginning its six-month presidency of the Union, the German government has given shape to a few ideas that are not entirely different from those of Nicolas Sarkozy for overcoming the constitutional crisis and regaining European leadership. However, Germany's bid for more of a say in Brussels is compatible with the fact its governing coalition has in common a somewhat euro-sceptic attitude. In Berlin it is thought that the EU has not influenced Germany's current economic recovery –on the contrary, it is seen as an additional public expense without clear returns– and that Germany has had to undertake its re-industrialisation alone, as the EU's Lisbon strategy has failed to work.

Similarly, Angela Merkel is a realistic politician who expects neither miracles nor rapid solutions to problems. Furthermore, the French political outlook will not be clear until the German presidency ends in June 2007, and without the collaboration of the Paris government a solution will not be possible. (3)

In its six-month role of president of the EU Council of Ministers, the German government is preparing a solemn political declaration on European values for 25 March 2007 to mark the 50th anniversary of the Treaty of Rome and establishment of the EEC. Meanwhile, it has begun discreet talks with the different governments so that, after negotiating with the new tenant of the Elysée Palace, it can submit a report agreed by consensus to the June European Council, with the proposal of «salvaging», in a new, smaller Treaty, the basic rules of the Constitution on fundamental institutions and rights. (4)

The people close to Ms Merkel maintain that the rules of the European Constitution on institutions are non-negotiable, as they grant her country a privileged status in the EU Council of Ministers by weighting votes in accordance with size of population. These double-majority rules relegate

(3) Cf. Martin Koopman, «Fondements et objectifs de la Présidence allemande du Conseil de l'Union europeene», Cerfa, no. 39, (IFRI) December 2006, IFRI

(4) Cf. Katinka Barysch, «What to expect from the German Presidency», Centre for European Reform, January 2007

Spain to a secondary role in the Council of Ministers, and their adoption without compensation should be questioned by the Spanish government, which has not yet shown signs of active participation in the post-constitutional debate, for example by demanding the achievement of an area of freedom, security and justice or the formulation and funding of a European immigration policy. For the time being it has merely organised a low-profile conference on 26 January 2007 with the 18 states that ratified the Constitution—an initiative that was fiercely criticised by France and from which Germany has clearly disassociated itself, even ensuring that the second part of the meeting will not be held in Luxembourg.

The German chancellor has told the European Parliament that if the new reform were not achieved, the EU would suffer a «historic failure». This is an exaggerated statement that does not bear in mind sufficiently the complexity and diversity of the new 27-strong Union.

It would be good to approve an improvement on the current treaties, an essential legal requirement for continuing to take in more members, but bearing in mind the opinion of all the governments and citizens which in general are less in favour of European integration than before. On another note, the forthcoming accessions of the Balkan states are not urgent and Turkey's candidature will be a lengthy business at best. The legitimacy of the integration process is based on the acceptance by all the current Member States of any modification to the game rules, particularly if they involve new distributions of power in the institutions. Germany's attitude of salvaging the rules of functioning contained in the Constitution without the option of re-negotiating them is counterproductive to the achievement of this consensus.

Another criticisable aspect of Ms Merkel's ideas on the new treaty is that she has yielded to the pressure of the German regions that favour an EU with fewer powers and, implicitly, a low budget, precisely when citizens are calling for more Europe in areas such as security, energy, defence and employment. Furthermore, Ms Merkel has stated that general debates are no longer necessary and has refused to allow part of the reform to be entrusted again to a Convention with political representatives which would improve on the democratic credentials of a purely intergovernmental method that appeared to have been superseded. Nor is the chancellor in favour of referendums or a single European-scale vote.

In conclusion, the chancellor is willing to exercise European leadership forcefully but places too much emphasis on her German ideas, a strategy

that has all the ingredients for failure in the current Union of 27 States. In particular, countries like the Netherlands, the United Kingdom, the Czech Republic and Poland are obvious candidates for saying «no» to a new treaty inspired too closely by the European Constitution. (5)

FUTURE ENLARGEMENTS

The European Union has not managed to overcome its constitutional standstill, substantially improve its social legitimacy or adopt the economic reforms required to compete in the global economy. But it has continued to grow in terms of number of Member States. As occurred in 2004, the recent shift to a Europe of 27 has taken place without much debate. In ten years' time the EU could be formed by nearly 33 countries and nobody dares to affirm that no new candidates will follow.

On the one hand, this vertiginous growth attests to the Union's success: the Europeans who are outside are doing everything in their power to join a space that is synonymous with freedom and prosperity. As José I. Torreblanca has pointed out, the threats of burgeoning nationalism, ethnic tension and rivalries between states that were powerfully present following the disintegration of the USSR are now a thing of the past thanks to the EU's eastward enlargement and a very small price—0.5 percent of Europe's GDP. (6) But at the same time, this process of rapid enlargements in close succession highlights Brussels' weakness in objectively requiring candidates to meet political and economic standards. What is more, the enlargements have taken place amid a difficult and yet to be resolved debate on the political deepening of the European project, which is triggering attempts to bring enlargements to a standstill using arguments that have little to do with the European spirit, ranging from national egotism to xenophobia.

Bulgaria and Romania, despite their problems converting to the rule of law, joined the EU on 1 January 2007, subject to highly explicit safeguard clauses. However, any further enlargement, even to Croatia, is unthinkable until the end of the current European term in 2009. The terms «enlarge-

(5) See the analysis of different scenarios for a solution to the crisis in the report «El futuro de la Constitución Europea: opciones para España», coordinated by Gil Carlos Rodríguez Iglesias and José I. Torreblanca, Real Instituto Elcano, January 2007

(6) See José I. Torreblanca, «Ampliar o no ampliar la Unión: esa no es la cuestión», ARI, Real Instituto Elcano, 6 June 2006

ment fatigue» and «EU's absorption capacity» have made an impression on the European political debate. The Balkan candidates will have to wait for the negotiation and approval of a new treaty to replace the failed Constitution.

Owing perhaps to her Atlanticist connections, Angela Merkel has preferred not to oppose outright Turkey's possible EU accession in the long term, although her environment thinks it would be preferable to negotiate an agreement of «privileged cooperation» with Ankara, which would protect the original idea of the Treaty of Rome and leave the Turks out, but with a close relationship in economic and defence matters. The idea is to find a «third way» between membership and non-membership, with fewer cessions of sovereignty for Turkey and fewer political and cultural risks and institutional complications for the current 27 Member States. At any rate, the new Austrian government and most French politicians are less pacifying and openly advocate saying «no» to Turkey. France included in its constitutional reform of 2004 the submittal to referendum of any post-Croatian EU accession.

During 2006 the Ankara regime has handled its relations with the official government of Cyprus very clumsily and has furthermore been dragging its feet when it comes to implementing the legislative reforms on Human Rights. The December 2006 European Council backed the Commission's proposal to freeze eight chapters of the 35 of which the accession negotiations are comprised and to make the conclusion of any of these chapters conditional upon improvements in Turkey's relationship with Cyprus. The Union could therefore waste its strategic opportunity to take in Turkey. A «no» to Ankara could also close the door to Ukraine and Moldavia, which for the time being are only possible future candidates.

The candidates proper on the EU waiting list are Croatia, Serbia, Bosnia, Albania, Macedonia and, following its recent independence, Montenegro. Most of these states are very small and fragile. In Montenegro, the referendum of 21 May 2006 ended with 55.5 percent of voters in favour of secession from Serbia and, in accordance with the doctrine inspired by the EU, the figure of 55 percent required for independence was considered to be achieved, a precedent whose consequences are unpredictable. Kosovo has all the ingredients of an unfeasible future state, but in a few months this territory traumatised by ethnic cleansing will progress towards a supervised and protected independence, a scenario favoured by the USA and criticised by France.

The good news for the small Balkan states is that the current 27-strong EU appears confident that the candidate countries will be able to settle their problems of identity, coexistence and feasibility within the Union too and not only as a prerequisite for entry. The Balkan region has received from the EU 25 times more money and 50 times more troops than Afghanistan, yet its economic development is very slow, corruption is rife and citizens' confidence in their new institutions is very low. Only the prospect of EU accession in the medium term may stabilise the various members of this traumatised region, including Kosovo. Serbian nationalism will run out of steam as prospects of EU accession become more certain.

Those who study past enlargements assert that every time Europe has grown opportunities have arisen and headway has been made toward s integration. However, the current outlook contains elements that defy these conclusions, such as lack of European leadership and very striking diff e rences in political culture between old and new Member States. The theories in vogue since the mid 1990s of a multi-speed Europe have no practical validity save in areas such as the euro, defence and the few matters on which the EU has yet to legislate. (7) Therefore debates and reforms are necessary in the candidate countries and in the Union itself in order to manage with efficiency and social acceptance a Union with disparate agendas and very marked contrasts between its different members.

THE QUEST FOR AN ENERGY POLICY

Energy has become an issue of capital importance for Europe following the debates in 2006 on the security of the energy supply. The Russian government's decisions of last year to threaten this supply in order to put pressure on Ukraine (and Belarus a few weeks ago) have clearly shown Europe's vulnerability in this field. Europeans import nearly 50 percent of the energy they consume and this figure will have risen to 65 percent around 2030 unless another course is steered. (8) Any crisis in the supply of gas or oil may have very severe effects on industry and transport in Europe.

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(7) Cf. Alfonso Dastis and José M. de Areilza, «Flexibilidad y cooperación reforzada: ¿nuevos métodos para una Europa nueva?», Revista de Derecho Comunitario, 1, January-June 1997, 9

(8) Commission Communication to the European Council and European Parliament, «An energy policy for Europe», SEC (2007) 12, COM (2007) 1, 10-01-2007

The EU as such currently imports approximately 25 percent of its oil and gas from Russia, but countries like Poland, Finland, Austria and Slovakia are three times as dependent on this supplier. The situation is somewhat less dramatic in the case of oil than of gas, as a few Member States such as Germany possess larger oil reserves (Germany has 70 days' worth of gas reserves compared to Lithuania's five days). (9)

Owing to the uneven geographical distribution of energy resources, growing demand and the global shrinkage of these reserves, energy is an increasingly important instrument of foreign and security policy. For example, the OPEC countries play a significant role in supplying energy to Europe, as they account for 40 percent of imported oil. To reduce dependence on these countries, many of them in the unstable Middle East or equally volatile Persian Gulf, the construction of an oil pipeline from the Caspian Sea to the Mediterranean (from Azerbaijan to Turkey) was completed in May 2005. (10) At the same time, Russia has used its clout as an energy supplier to put pressure on its neighbouring countries. Companies in the energy sector, infrastructures and refineries have been purchased in the former states of the Soviet Union and in the new EU Member States, through Gazprom. If Russia were to achieve its aim of establishing a cartel with other gas exporters such as Algeria and Iran, it would have even more power over the global supply of energy. (11) To ensure supply and reduce dependence on countries with large energy reserves, it is crucial for Europe to devote effort to diversification and to the development of alternatives to oil and gas.

At the same time, the task of defining an energy policy goes beyond the problem of security of supply. It must cover a broad range of issues, such as response to climate change, development of the internal energy market and the effect on economic growth and employment in the EU. It is not possible to implement a policy on security of supply without bearing in mind its economic and environmental impact. This makes it more difficult and complicated to draw up a community policy.

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(9) Cf. Renata Goldirova, «EU frets about gas risks after oil disruptions», EUObserver.com, 11.1.2007, available at http://euobserver.com/9/23238/?print=1

(10) Cf. «New Caspian pipeline to secure Western oil supply», EurActiv.com available at http://www.euractiv.com/en/energy/new-caspian-pipeline-secure-western-oil-supply/article-139924

(11) Cf. Frank Umbach, «Towards a European Energy Policy?» in «Dealing with Dependency. The EU Quest for a Common Energy Foreign Policy», Foreign Policy in Dialogue, vol. 8, Issue 20, p 7, available at http://www.deutsche-aussenpolitik.de

The major European novelty is the attempt to devise a common energy policy in the sphere of the EU's external relations. An obvious legal obstacle to defining an international strategy is the limited legal scope of community powers in this area. Capacity to act in this sphere continues to depend chiefly on the Member States, which currently have different priorities and their own energy policies.

Furthermore, energy policy has not even been a major national priority until only recently. Only a few Member States such as the United Kingdom and the Netherlands had adopted international strategies on energy security before the gas war between Russia and Ukraine, (12) which at least served to spur some governments to attach greater importance to this issue.

If we compare the energy policies of the EU's most heavily populated Member States, it is very striking to note that Germany has chosen a different path to the others. Germany appears to aspire to a strategic alliance with Russia. A few private players dominate the German energy debate and their financial interests prevail over political considerations. Germany's dependence on Russia is therefore high: 34 percent of its oil and 39 percent of its gas. For example, the largest German gas supplier, E.ON Ruhrgas, receives its gas mainly from Russia's Gazprom. E.ON is also Gazprom's largest foreign shareholder. Russian-German interdependence is only natural, but it is the Russian players who are laying down the conditions of this cooperation, which until only recently was untouched by conflict. (13)

Unlike Germany, Poland aspires to diversify its energy supply in order to reduce its dependence on Russia and is in favour of an external energy policy for the EU. Poland imports 98 percent of its oil and 61 percent of its gas from Russia and it is therefore very vulnerable to Russian decisions on supply. The Russian-German agreement to build the north European pipeline by 2010 linking the two countries via the Baltic Sea without crossing

(12) Cf. Frank Umbach, «Towards a European Energy Foreign Policy?» in «Dealing with Dependency. The European Union's Quest for a Common Energy Foreign Policy», Foreign Policy in Dialogue, Volume 8 – Issue 20, p. 11, available at http://www.deutsche-aussenpolitik.de

(13) Cf. Michael Sander, «A 'Strategic Relationship'? The German Policy of Energy Security within the EU and the Importance of Russia» in «Dealing with Dependency. The European Union's Quest for a Common Energy Foreign Policy», Foreign Policy in Dialogue, Volume 8 – Issue 20, pp. 16-23, available at http://www.deutsche-aussenpolitik.de»

the new EU Member States has weakened Poland's position as a transit country. (14) This is perhaps why the Polish government has demanded that Russia respect the European Energy Charter before negotiating a new Partnership and Cooperation agreement with the EU. The Charter allows other countries access to Russian oil and gas deposits and to its gas and oil pipelines. (15)

Unlike other Member States, France relies less heavily on third countries for its energy as it obtains most of its electricity from its own nuclear energy. Its energy policy is characterised by state intervention and the domination of two state companies, Gaz de France and Électricité de France. Nevertheless, France shares problems with the rest of the Member States such as security of supply and the need to diversify its energy sources. (16)

The United Kingdom differs radically from the other Member States as it is self-sufficient thanks to domestic production of oil, gas and coal. However, its external dependence will increase in the future, and the government has therefore begun to diversify and invest in renewable energies and is keeping the option of further nuclear energy development open. (17)

The nationalist and protectionist trends underpinning the energy policies of different Member States are making it very difficult for the EU to set in motion an external energy policy. At the same time, one Member State on its own frequently holds little negotiating power vis-à-vis Russia (even Germany) or other energy producers and may not achieve its aims. This may be why countries such as Poland, France and the United Kingdom are in favour of developing this new European policy and have even asked the six-month German presidency to press ahead with this initiative, which

(14) Cf. Ernest Wyciszkiewicz, «'One for All – All for One' – The Polish Perspective on External European Energy Policy» in «Dealing with Dependency. The European Union's Quest for a Common Energy Foreign Policy», Foreign Policy in Dialogue, Volume 8 – Issue 20, pp. 34-36, available at http://www.deutsche-aussenpolitik.de

(15) Cf. Izabela Barlinska, «¿Hay una política común de la UE hacia Rusia?», ARI, Real Instituto Elcano, 14.12.2006

(16) Cf. Sophie Meritet, «French Energy Policy in the European Context» in «Dealing with Dependency. The European Union's Quest for a Common Energy Foreign Policy», Foreign Policy in Dialogue, Volume 8 – Issue 20, p. 25, available at http://www.deutsche-aussenpolitik.de

(17) Cf. Oliver Geden, Clémence Marcelis and Andreas Maurer, «Perspectives for the European Union's External Policy: Discourse, Ideas and Interests in Germany, the UK, Poland and France», Working Paper FG 1, 2006/17 December 2006 SWP Berlin, pp. 2-7.

facilitates the Commission's task when it comes to making proposals. The first aspect highlighted by recent European reports is achievement of the goal of security of supply by diversifying energy sources, suppliers, routes and methods of transport, and solidarity between Member States in the event of an energy crisis. In addition to technical measures, they also call for including energy on the EU's external relations agenda and coordination between the EU and Member States in order to attempt to address these issues with a single voice in the world. (18)

Another essential aspect of European energy policy is the creation of an internal energy market. European competition in this field is clear, but there is as yet no well developed market owing to governments' attempts to maintain or create national «champions» and the slow and limited liberalisation of the gas and electricity markets. (19) According to the Commission communication of 10 January 2007, many steps need to be taken for this market to be competitive, such as gathering information on prices, more efficient regulation, improvements in infrastructures and modification of the dominant position of operators in generation and distribution and they will only be achieved through close collaboration between national regulators and the European regulator. (20)

Lastly, the European energy policy that is currently being defined includes measures to combat climate change, such as the use of non-fossil fuels and a 20 percent reduction in carbon dioxide emissions throughout the EU by 2020 with respect to 1990 standards and an increase in renewable energies, which should account for 20 percent of European energy sources by 2020. (21) These ideas have met with the scepticism of many companies, which fear that the measures will hinder their competitiveness and furthermore fail to achieve major benefits for the environment, and have been criticised by numerous NGOs, which consider them to be lacking in ambition in relation to the magnitude of the challenge of climate change. (22)

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(18) Communication from the Commission to the European Council and European Parliament, «An energy policy for Europe», SEC (2007) 12, COM (2007) 1, 10-01-2007

(19) Communication from the Commission analysing the gas and electricity sectors, SEC (2006) 1724, COM (2006) 851, 10-01-2007

(20) Communication from the Commission to the European Council and European Parliament, «An energy policy for Europe», SEC (2007) 12, COM (2007) 1, 10-01-2007

(21) Communication from the Commission to the European Council and European Parliament, «An energy policy for Europe», SEC (2007) 12, COM (2007) 1, 10-01-2007

(22) Cf. «EU energy revolution' does not convince», EurActiv.com, available at http://www.euractiv.com/en/energy/eu-energy-revolution-convince/article-160875

EUROPEAN FOREIGN AND DEFENCE POLICY

The development of the European foreign and defence policy has been limited by the non-approval of the European Constitution, which introduced clear improvements in decision making, allowing greater flexibility, broadened the so-called Petersberg Tasks and created the post of European Foreign Minister designed to generate synergies between the Commission and General Affairs Council.

But the chief impediment to the achievement of a European foreign and security policy and a defence policy for the Union is not an organisational problem but insufficient political will on the part of many Member States, which are against Europeanising this policy. A further hindrance is the divergence of national visions on Europe's place in the world.

As Emilio Lamo de Espinosa has aptly explained, in the Union as it stands today, it is reasonable to ask whether a European common foreign policy is realistic and possible considering the diverse economic and political interests, the weight of the colonising history of the European countries and their varying geographical extension. Similarly, this same author has questioned the idea of a Union as an alternative pole to America in security issues, on account of both practical requirements –it would need a much larger investment and for well over a decade– and ideological reasons. (23) What does seem appropriate is to have a force that underpins Europe's incipient foreign policy, even if the degree of consensus it achieves is limited, particularly in view of the new map resulting from the enlargements of 2004 and 2007.

The European Security Strategy (ESS), adopted in 2003, foresaw that the successive enlargements would bring the Union closer to an arc of instability and a considerable number of countries with delicate political situations as neighbours. These new borders have also forced it to reorient its foreign and security policy (which must necessarily include more trade, development and energy aspects in the future) towards an approach that is above all regional, while ensuring that the Union pays attention to what occurs in North Korea, Pakistan and South East Asia, and that its Member States involve themselves deeply in combating international terrorism and the proliferation of weapons of mass destruction.

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(23) See the essay by EMILIO LAMO DE ESPINOSA, «Europa, tres éxitos, un fracaso y cinco dilemas», in *El día de Europa: la Europa de los 25*, S. Tomás and M. E. Vaquero (coord.), Universidad Pontificia de Comillas, 2005

In this connection, the Union has continued to take small steps in foreign and defence policy and has centred its recent efforts on Africa, the Middle East and the Balkans. It has performed its own civilian and military crisis management operations in the Balkans (Bosnia and Macedonia) and in the Democratic Republic of the Congo. In the Middle East the European Union has included the Palestinian Authority and Israel in its neighbourhood policy. It continues to be the largest donor to Palestine and has helped train the Palestinian police, though this cooperation has been limited by the arrival in power of Hamas and its refusal to give up violence.

However, the EU's achievement of a certain autonomous defence capability that does not rely on NATO and the USA, an initiative promoted unanimously by the European governments in 1999 following the Kosovo war, (24) has been reinterpreted and converted into an increasingly modest objective. The initial idea was not to create a European army but to set up a reserve of national units that could be used, following a unanimous Council decision, to address an international crisis with light, mobile and flexible forces. (25)

In the end the European Rapid Reaction Force announced at the Helsinki European Council in 1999 has not been implemented and the initial goal of making 60,000 European soldiers available for crisis management, including peacemaking operations, has been discarded.

It was finally decided to re-examine this idea, propose new goals for 2010 and give priority to setting up much smaller Battlegroups. On 1 January 2007 the first two Battlegroups were declared fully operational. Each is formed by 1,500 troops who are prepared to manage crises anywhere in the world and are deployable in ten days once the European governments obtain authorisation, which will normally be based on a United Nations resolution.

The underlying problem is that following the disappearance of the Soviet threat, a pacifistic mentality has pervaded a good many European

(24) Cf. Maxime Lefevbre, «L'Europe, puissance par la défense?», Défense Nationale, Vol. 60, no. 5, 42-95, 2004 and José M. de Areilza, «Los pequeños pasos de la defensa europea», Gaceta de los Negocios, 16.03.2006

(25) In December 1998 Tony Blair and Jacques Chirac adopted the Saint Malo declaration proposing that the European countries take greater responsibility for their own defence within NATO and outside it; this Anglo-French plan was the basis of the European Security and Defence Policy (PESD) adopted in 1999.

societies and there is no widespread perception of a shared threat. (26) This is despite the fact that terrorist barbarity has taken centre stage since 11 September and other very real dangers to the survival of the European way of life have emerged, such as the proliferation of weapons of mass destruction, rogue states and regional conflicts. (27)

Even so, European's conformism in security and defence matters continues to be the most worrying factor, more so than the divergent French and British (or Atlanticist and multipolar) visions in this field. Indeed, at the end of summer 2006 most European leaders were satisfied with the commitment (on the part of the Member States, not the EU) to send 7,000 European soldiers to the United Nations mission in southern Lebanon to perform police functions and assist with reconstruction, even though it was not known who would disarm the Hezbollah militias in order to ensure security and peace in the area.

The fact is that the sum of the EU's 25 members with their 488 million inhabitants and 25 percent of world GDP does not have sufficient military capabilities to react should war break out again in Lebanon or anywhere else in the world. Not even if the United Kingdom and France, the most developed military powers in the continent, were to become jointly involved in the Middle East mission would the joint operational capability of European troops be guaranteed in the Middle East or in any other conflict scenario. The firm support of the USA would be essential in a war situation, as the European troops have yet to sort out basic issues such as logistics, interoperability and transport. However much we sing the praises of Europe's specialisation in these peacekeeping operations, without further military capabilities the EU's role as global actor is not credible and it will never convince the USA that it is a political partner of the first magnitude.

The view championed by France continues to be that the European Union should progressively take on greater responsibilities in the defence sphere. (28) The USA's successive blunders in justifying and handling the

(26) See the argument according to which the European Union is more efficient in getting its Member States to boost its defence budgets, considered by HANNA OJANNEN, «The EU and Nato: two competing models for a common defence policy», Journal of Common Market Studies, Volume 44, Number 1, 57-76, 73

(27) See the analysis on shared threats in the Member States made by ANTHONY KING at the end of his essay, «The Future of the European Security and Defence Policy», Contemporary Security Policy, Vol. 26, No. 1, (April 2005), 44-61

(28) See the analysis on the building of a European identity through defence policy by S. ANDERSON & T. SEITZ, «European Security and Defense Policy Demystified», Armed Forces and Society, Volume 33, Number 1, October 2006, 24-42

Iraq war sparked debates on Europe's autonomy in security matters in 2003. France took advantage of the Iraq crisis to propose, together with Germany and Belgium, the establishment of a European headquarters to reinforce the ESDP, though Washington regarded the proposal as contrary to the EU-NATO cooperation agreements. Since then the Atlantic relationship has recovered. Indeed, since Chancellor Angela Merkel came to power giving out clear signals of Atlanticism, France has been restored to its privileged position in European talks with the USA and French diplomacy has worked with Washington on the critical dialogue with Iran. (29)

The establishment of the European defence agency in June 2004 marked a step forward in the achievement of defence capabilities and closer cooperation in armaments and research and development. In December 2006 fresh impetus was given to the defence capabilities goal, despite the recent clash between France and Britain over the latter's refusal to increase the agency's budget for the next few years. The British prefer to foster transatlantic cooperation in this field, but France is reluctant for Europe to be the «junior» partner in alliances of this kind. The industrial companies in Germany, as Martin Trybus recently explained, might be seriously considering a third option, which would be to pull out of this sector. (30)

Member States such as the United States, the Netherlands and most of the former countries of the East consider NATO to be the cornerstone of their defence. In the view of these governments, in certain situations the EU is right to demand a measure of autonomy with respect to NATO, but without capabilities and coordination with the USA it is not credible. It should endeavour to prove to the USA that it is a partner that can be relied on. In this connection it is stressed that in joint NATO-EU operations there is a will to cooperate and that the partnership works. NATO itself needs to undergo transformation in order to meet new threats to freedom, including in particular international terrorism and the menace of nuclear proliferation. NATO's Secretary General, Jaap De Hoop Schefer, has warned several times that the NATO-EU coordination agreements, known as «Berlin Plus»,

(29) As TREVOR SALMON explains, in this dialogue with Iran, the EU has not taken part as such and the level of consultations and agreement with the other Member States has been minimal, as has the role of the High Representative for CFSP, T. Salmon, «The European Security and Defence Policy: Built on Rock or Sand?», European Foreign Affairs Review, 10: 259-379, 2005

(30) See the interesting essay by MARTIN TRYBUS, «The New European Defence Agency: a contribution to a common European Security and Defence Policy and a challenge to the Community acquis?», Common Market Law Review, 43, 667-703, 2006

are at a standstill and that it is preferable to seek informal mechanisms than to use procedures that hinder the capacity of action of both.

Donald Rumsfeld's dismissal from the Pentagon following the November 2006 elections should pave the way for a better understanding between Americans and Europeans, thanks also to the fact that the Secretary of State Condoleezza Rica has shown signs of pragmatism in her rapprochement with the various European leaders. The debate on Iraq is currently how to manage a regional situation of great concern both to the USA and to Europe. In Afghanistan the contribution of several Member States to NATO operations is proving decisive to the mission.

In Iran, following the Security Council's unanimous decision of December 2006 that the Teheran regime should suspend its uranium enrichment activities by 21 February 2007, though the Iranian government has refused to cooperate with the IAEA, Europeans and Americans seem to agree on staggering the United Nations' response.

EUROPEAN COMPETITIVENESS, IMMIGRATION AND DEMOGRAPHY

The powerful growth of the world economy over the past six years has paralleled a decline in Europe's weight in the world. The outlook of weak economic growth, political difficulties in reforming the EU's budget and promoting economic reforms, very low birth rates and the increasing difficulty of controlling and integrating the large number of immigrants who arrive in Europe every year does not inspire optimism.

Nevertheless, the economy of the euro area did at least perform well in 2006, with a recovery in consumer confidence and an eight percent fall in unemployment. The slight economic recovery of the euro countries is making it easier to comply with the rules on public deficits, which France, Italy and Germany have failed to meet in recent years. In 2007 Germany has announced that it will succeed in reducing its deficit by two percent of GDP and, after five years of non-compliance, will submit to the European discipline of the Stability and Growth Pact, which was reformed with realistic criteria in 2005. The coalition government has noted with satisfaction how economic results have improved within a short time, with an increase in productivity, a drop in real wage levels, a reduction in unemployment of between five and four million jobless, a growth of 2.5 percent and a 12.5 percent increase in exports.

The OECD has stressed that this outlook of greater European growth should allow the structural problems of the Member States' economies to be addressed, with reforms to make the labour markets more flexible, integrate the financial markets and open up the services sector to competition, as laid down in the Lisbon agenda of 2000. (31) The idea behind this approach is that just as European companies are adapting to global competition, so should governments adopt this perspective too.

The Spanish economy, as Rafael Pampillón has explained, (32) is burdened by problems of competitiveness and productivity and displays imbalances with respect to its inflation and external deficit figures and its scant capacity for innovation. (33) According to this analyst, the evolution of the Spanish economy in recent years is characterised by low productivity (below the average for the 25 European Union countries) and above all by the fact that it is the only OECD country with a negative productivity growth rate. By contrast, labour costs have progressively risen and are now in line with those of Europe. Furthermore, there are countries such as those of Eastern Europe and Asia whose labour costs are much lower than those of Spain, giving them a clear competitive advantage in labour-intensive, low value-added and low-technology sectors. This is why Spanish industry (textile, automobile) is currently turning to offshoring.

One of the EU's chief problems is the rapid ageing of its population, with very low birth rates and longer life expectancy. (34) The number of older citizens in European societies will double over the next 50 years, causing a powerful impact on the possibilities of continuing current public policies of redistribution. (35) Most of the Member States will experience a decline in population in coming decades, particularly Germany. The United Kingdom and France and Spain are an exception, as are Luxembourg,

(31) OECD Observer, Policy Briefs, 2006 & 2007

(32) Cf. The detailed analysis by the Professor of Economy RAFAEL PAMPILLÓN, «España pierde competitividad», in IE Economy weblog, available at http://economy.blogs.ie.edu/

(33) Spain continues to lag behind the OECD countries in R&D as a percentage of GDP, with 1.1 percent in 2005, considerably below the EU average of two percent. It is likewise among the countries that export scant high technology. Products incorporating cutting-edge technology account for a mere six percent of total expert sales, and Spain was therefore the most backward EU country before the 2004 enlargement, cf. RAFAEL PAMPILLLÓN, supra.

(34) See the pessimistic study of the European Commission Green Paper, «Confronting Demographic Change», COM (2005)

(35) Cf. DANIEL GROS, «Perspectives of the Lisbon Strategy: how to increase the competitiveness of the European economy?», Center for Social and Economic Research, WP 308, Warsaw 2005

Ireland, Malta, Cyprus and Sweden. These falling rates have been offset by the arrival of immigrants, who are having a positive effect on trends in the working population and, as many of them are young people, they are potential parents. (36)

In parallel with the foregoing, the labour market is currently witnessing a high unemployment rate among unskilled workers and a very strong demand for skilled workers. In a few countries like Spain many immigrants hold posts in mature sectors that are low in productivity. As Klaus Zimmermann has explained, the solution is a highly selective common European immigration policy inspired by economic criteria to attract skilled, flexible and mobile workers. (37) It is not easy to change models when there are nearly 60 million immigrants established in the EU and solutions to this challenge are adopted by national capitals and are normally inspired by short-term conditions.

So far Brussels has not developed a common approach to the illegal immigration that is of such concert to countries like Spain, France, Italy and Malta. The EU is actually not fully competent to handle this matter and is heavily restricted by its meagre budget in this area, and by the requirement of unanimity for decisions on external borders. The non-approval of the European Constitution should have led to the use of «bridging clauses» in the current EU treaty to facilitate decision making, but there has been no political will to take such a step.

The technological gap between Europe and the USA has continued to grow. Although the Europeans have a combined R&D budget that is equivalent to two-thirds of America's, the gap has widened in indicators such as number of patents and private-sector R&D (only 55.4 percent of the total). Only in a small group of Member States –Sweden, Finland, Denmark and the Netherlands– are the results comparable to those of the USA. The eastward enlargement has dragged down Europe's level of technological development, though countries such as Hungary, the Czech Republic and Estonia display similar or better results than the Mediterranean countries of the EU. (38). The recently established European Institute of Technology,

(36) Cf. Rickard Sandell, «La demografía de Europa y sus implicaciones políticas», in *El día de Europa: la Europa de los 25*, S. Tomás and M. E. Vaquero (coord.), Universidad Pontificia de Comillas, 2005

(37) Cf. Klaus Zimmermann, «European Labour Mobility: challenges and potentials», De Economist (2005), 153, 425-450, 427

(38) Cf. D. Archiburgi & A. Coco, «Is Europe becoming the most dynamic knowledge economy in the world?», JCMS 2005, Volume 43, number 3, 433-459

which is intended to be a European «champion» in education, research and development, is expected to be up and running by 2007. (39)

CONCLUSIONS

The key to Europe's awakening lies in ensuring that the EU adds value to citizens through specific achievements, while consolidating its new makeup of 27 states and carrying out the necessary «running in». As J. Ignacio Torreblanca has argued, in order to achieve this goal of strengthening legitimacy through results, perhaps what is needed is a generation of politicians capable of taking a long-term view when making European decisions, as has occurred at various crucial moments in European integration.

Given Europe's weaknesses in areas such as energy, foreign policy and defence, competitiveness in the global economy, demography and immigration, and technological development, it is surprising to note how much effort and time are going to be devoted to the selective salvaging of the European Constitution in 2007, with the firm Franco-German proposal of not incorporating improvements to common policies. It would be more advisable to shelve this matter and embark on a low-profile reform of the treaties in a few years' time and establish different substantial reforms as Europe's priorities now. It is furthermore possible that in the constitutional renegotiation in 2007 the German and French governments will not manage to respect the balances that enabled the rest of the governments to approve the failed text in its day.

(39) Cf. The Commission Communication on its Legislative and Work Programme for 2007, COM (2006) 629 final.

CHAPTER FOUR

LATIN AMERICA: A YEAR OF TURMOIL

LATIN AMERICA: A YEAR OF TURMOIL

By Carlos Malamud Rikles

INTRODUCTION

The year 2006 has been very important for Latin America, beginning with the intense calendar of elections, which took place without incident, allowing us to speak of the consolidation of the democratic process. The string of elections also made it possible for the 'populist front' headed by Hugo Chávez's Venezuela with the enthusiastic backing of Castro's Cuba to gain a certain foothold following Evo Morales' win in Bolivia in December 2005 and the subsequent victories of Rafael Correa in Ecuador and Daniel Ortega in Nicaragua, both in the final stretch of 2006. In this connection, Correa has rapidly joined the Bolivarian chorus of voices calling for the need to build '21st-century socialism', though for the time being neither Correa nor Hugo Chávez –nor, indeed, any of the other panegyrists who subscribe to this proposal– has wished to define the concept or endow it with any coherent and homogenous doctrinarian content. From the political perspective, to these circumstances should be added the announcement of the serious deterioration of the health of Fidel Castro, which forced him to step down from power in Cuba 'temporarily'.

Similarly, if we review the year from an economic angle, we find that the Latin American situation has been marked by consistently high growth rates that are clearly linked to the upswing in demand for raw materials from certain Asian countries, beginning with China and India. In view of these issues and their unquestionable impact on the pace of regional

affairs, this paper will be structured as follows: (1) analysis of the elections in 2006, together with (2) an overview of the political situation on the continent from the angle of the so-called 'leftward turn'; (3) the outlook for Venezuela following Hugo Chávez's fresh victory and his announcements of deepening the revolution, starting with the effects of the new 'enabling' law that has granted Commander Chávez full legislative powers; (4) the situation in Cuba and the prospects of succession or transition that are opening up following Fidel Castro's 'temporary' absence from power; (5) the state of the regional integration processes after a year of fierce bilateral and subregional tension following the heavy impact of Venezuela's withdrawal from the Andean Community of Nations (CAN); and (6) economic trends, paying particular attention to the energy sector. The paper will likewise address a few issues relating to the state of Spanish interests in the region –political and cultural as well as economic– with special reference to Spanish investments in the main Latin American countries.

THE ELECTIONS

As stated earlier, 2006 was a year of intense electoral activity in much of Latin America, even more so if we also consider the two elections held in December 2005 (in Bolivia and Chile). To these two events should be added the presidential elections of 2006 in Brazil, Colombia, Costa Rica, Ecuador, Haiti, Mexico, Nicaragua, Peru and Venezuela. Voting thus took place in 11 countries: two in the Southern Cone (Brazil and Chile), the five Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), two in Central America (Costa Rica and Nicaragua), and also Mexico and Haiti. As Daniel Zovatto aptly points out in his electoral report for the *Latinobarómetro* 2006 (1), never before had so much voting taken place or so simultaneously in Latin America. The closest precedent would be 1989, when presidential elections were held in nine countries of the region: Argentina, Bolivia, Brazil, Chile, El Salvador, Honduras, Panama, Paraguay and Uruguay. Eight elections of this kind were held in 1994: Brazil, Colombia, Costa Rica, El Salvador, Mexico, Panama, Dominican Republic and Uruguay. However, in neither of the previous two cases were expectations as great as those of 2006. In general, the long string of elections held the length and breadth of Latin America over the past three decades is a clear sign of electoral normalisation in the region and,

(1) See 'Balance electoral 2005-2006', in Informe *Latinobarómetro 2006*, at *http://www.latinobarometro.org/uploads/media/2006_01.pdf*.

although in themselves the elections do not allow the nature and type of the Latin American democracies to be gauged, they are a factor of which we should by no means lose sight.

Altogether the electoral processes witnessed over the past year have enabled us to trace a new political map of Latin America marked by contradictions and qualifications and ups and downs, all of which prevent us from drawing easy and rapid conclusions on what is happening there. However, in view of the results achieved, a few general statements can be made, such as those found in the following pages, from which we will attempt to establish a series of patterns for a better understanding of what is going on in Latin America as a whole, despite the major difficulties of generalising.

The first observation is the normality of most of the elections held between December 2005 and the end of 2006, despite the fierce rivalry of some and the close results in a few specific cases. Although Costa Rica and Mexico witnessed the most dramatic results owing to the very narrow margin separating the two vying candidates, each case was resolved very differently. Whereas in Costa Rica the defeated candidates ended up lashing out against the election result and the legality of the institutions, in Mexico the predominant –and negative– note was the call for rebellion made by Andrés Manuel López Obrador from the very moment that news came of his defeat on election night. Indeed, this was the most destabilising of all the news linked to the intense election calendar of 2006.

Mention should also be made of the consolidation of the electoral processes in the region, which has implications for the continuation of the democratisation that is under way in Latin America. From this perspective, an interesting indicator is election turnout. As could not be otherwise, turnout figures rose in a few countries and fell in others. In four cases (Colombia, Costa Rica, Mexico by 5% and Nicaragua) election turnout dropped with respect to previous elections, while four others witnessed an increase (Brazil, Ecuador, Peru and Venezuela by 18.8%). A slight increase can therefore be seen in regional turnout, which rose from 69.94% for 1978-2004 to around 70.18% in 1978-2006.

The trend towards a clear predominance of second-round voting in presidential elections in Latin America has gained ground in recent years. This mechanism is currently in place in 13 out of the 18 Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador,

El Salvador, Guatemala, Nicaragua, Peru, the Dominican Republic and Uruguay). However, in 2006 in only three of the eight elections held under the two-round system (Brazil, Ecuador and Peru) was it necessary to resort to a runoff (or *ballotage*) as the majorities established by the various electoral laws were not achieved. However, in this as in many other features of the Latin American political systems, there is much variation between specific cases and it is not always necessary to obtain more than 50% of valid votes to prevent a second round, as the Nicaraguan and Costa Rican elections show. It should also be remembered that the candidates who finally won in Ecuador and Peru (Rafael Correa and Alán García) were those who came second in the first round. The runoff system tends to reinforce the presidentialist components of the Latin American political systems as it grants the presidents who triumph in the second round an added legitimacy they initially lack and weakens the position of parliaments controlled by the opposition. Perhaps Ecuador is one of the clearest examples. Although Rafael Correa failed to win in the first round, in which he only secured under 23% of the vote, the new President believes he has sufficient legitimacy and popular support to promote a deep process of re-launching the country, beginning with constitutional reform, with a view to giving impetus to building 21st-century socialism. The regrettable feature of this and other similar cases is that they turn a blind eye to the teachings of the Chilean experience following the electoral victory of Salvador Allende in the 1970s.

Another trend that is gaining momentum is the shift towards re-election of the presidential candidate who stood for election, as occurred with Lula da Silva in Brazil, Hugo Chávez in Venezuela and Álvaro Uribe in Colombia, although in the case of the latter it was necessary to amend the Constitution. The case of Chávez also confirms another recent Latin American political fashion, that of amending current constitutions to allow the exercising President to be re-elected; in some cases this goes hand in hand with a tendency to back constituent processes that aim to 're-found' the country (those under way in Bolivia and Ecuador display both trends, and the option of re-election is being discussed in Nicaragua). This tendency goes hand in hand with the triumph of a few former presidents, where this was possible, as occurred with Oscar Arias in Costa Rica, Alán García in Peru and Daniel Ortega in Nicaragua. This situation has curtailed the effects of alternation in power, which only materialised in a few countries (Ecuador with Alfredo Correa, Nicaragua with Daniel Ortega and Peru with Alán García), although with very dissimilar characteristics in each case.

THE POLITICAL SITUATION AND LEFTWARD TURN IN LATIN AMERICA

Despite the insistence of certain analyses, it cannot be categorically concluded that the overall outcome of the regional political process is the consolidation of a supposed leftward turn begun several years ago. First, the countries that are theoretically bundled together under the label of leftist governments are far from being totally on the same wavelength, as can be seen in the bilateral relationship between Argentina and Uruguay, two countries that are theoretically governed by the left but engaged in a serious quarrel over the construction of two cellulose pulp plants on Uruguayan soil. Proof of the existing tension is the blockading of the bridges on the Argentine side linking the two countries by land, and the unusual gesture of President Kirchner's government of resorting to the International Court of Justice in The Hague to settle a conflict that Mercosur has been incapable of resolving.

Secondly, there are different sensibilities among the governing left-wing parties, above and beyond the important fact that in some cases they govern in coalition with centre or centre-right parties (Chile and its Concertación between Socialists and Christian Democrats is the clearest, though not the only example), plus the fact that in a fair number of countries there is an absence of sufficient parliamentary majorities to back the representatives of the governing party. Lastly, there is the Brazilian government's growing dissatisfaction with some of the Venezuelan government's latest radical measures, such as the regime's nationalisation moves in some sectors of the economy like communications, energy and even the media. The leaks to the press of certain statements by Lula backing individual freedoms and democracy are therefore no mere coincidence.

Of the elections held between the end of 2005 and 2006, we might classify the following as left wing: Bolivia (Evo Morales), Brazil (Luiz Inácio 'Lula' da Silva), Chile (Michelle Bachelet), Costa Rica (Oscar Arias), Ecuador (Alfredo Correa), Nicaragua (Daniel Ortega), Peru (Alán García) and Venezuela (Hugo Chávez). On the contrary, in Colombia (Álvaro Uribe) and Mexico (Felipe Calderón) the elected presidents can be described as right wing or centre-right. These governments, together which those that already existed in the region (such as Argentina, Uruguay and Panama), are usually included in the concept of left wing. We might attempt to make some classification in this respect. Indeed, it is possible to distinguish an initial group of countries that are clearly characterised by their populist –or

neo-populist according to a few more recent definitions– policies; this group is headed by Venezuela and also comprises Bolivia and Ecuador. As for Nicaragua, despite a few declarations and actions of the current President, Daniel Ortega, such as his country's allegiance to the Bolivarian Alternative of the Americas (ALBA), it is still too soon to gauge the definite orientation of the new Sandinista government, which could be more inclined towards Central American integration, though most of his attitudes, his disdain for the institutions and the concentration of power in the hands of the President and his wife Rosario Murillo lead us to assume a greater alignment with Chávez and a markedly populist direction. All these countries command the enthusiastic support of Cuba, which views them as its great possibility of shattering the ostracism to which it found itself subjected for many years. However, Fidel Castro's main reason for backing Hugo Chávez's Bolivarian project is the delivery of nearly 100,000 barrels of oil daily at subsidised prices and in exchange for Cuban physicians and sports instructors. Nonetheless, in some circles of the Cuban Revolutionary Armed Forces, which are characterised by their staunch nationalism, this growing Venezuelan influence is not viewed favourably, though there are no public or categorical expressions of this.

We also find a group of countries, headed by Lula's Brazil, the Concertación's Chile and Tabaré Vázquez's Uruguay, with presidents who can be defined as social democrats or modernising and pro-market left-wingers, although in the case of Brazil and Chile the governing alliances are fairly broad. It is no coincidence that these three countries have the most stable and institutionalised party systems and political systems in the whole of the region. A few other countries are aligned with them, including Panama and Peru. The remaining countries are more difficult to classify, particularly Néstor Kirchner's Argentina and Nicanor Duarte Frutos' Colorado government in Paraguay. The most controversial case is Kirchner, whom many analysts define as a left-wing politician, though his government action has been most clearly characterised by powerful economic nationalism and growing state intervention in economic activity, as reflected, though not solely, by the fight against inflation and growing financial dependence on Venezuela. Therefore, if any adjective is applicable to Kirchner and his government it is Peronist.

However, above and beyond the digressions about the distinction between populist and neo-populist governments on the one hand, and between social democrats and modernising socialists on the other, what matters in the end is their degree of alignment with Hugo Chávez's

Bolivarian project. In this connection it can be said that the initial Caracas-Havana axis has been joined by three more allies since the Bolivian elections, with the triumph of Evo Morales, up until the polls in Ecuador and Nicaragua. Having dismissed Morales, whose compliance with Venezuelan guidelines is considerable, it remains to be seen what direction Ecuador and Nicaragua will follow. However, in view of what occurred during Daniel Ortega's swearing-in ceremony in Managua and the Iranian Prime Minister Mahmud Ahmadineyad's visit to Ecuador and Nicaragua –possibly organised by Venezuelan diplomacy– the leanings of the two new Latin American governments are fairly predictable.

An important question is whether Chávez's government can continue to earmark such a sizeable volume of funds to sustaining economically its most unconditional allies. Following the 100,000 barrels of oil that reach Cuba daily and the aid to Bolivia, the doubt is how much is left for Ecuador and Nicaragua. In this connection, the agreement between Venezuela and Iran to set up a US$2 billion fund for cooperation in third countries of Africa and Latin America appears to shed some light on the matter, though for the time being we find plenty of promises and few specific actions from Venezuelan diplomacy. Outside this Bolivarian sphere, whose hardcore is the TCP (People's Trade Treaty) signed by Bolivia, Cuba and Venezuela, there is the ALBA, which was recently joined by Nicaragua and Ecuador.

Therefore, it is important to observe the future moves made by the region's other left-wing governments that display a less confrontational attitude towards the US, beginning with Brazil but continuing with Chile, Uruguay, Peru, Costa Rica, Panama and, to a lesser extent, Argentina, which has lately been characterised by an ambiguous discourse with which it has attempted to juggle certain commitments to the US with its enthusiasm for and financial dependence on Bolivarian Venezuela. In view of what occurred in 2006, it will be necessary to keep a close eye on the state of bilateral relations between Brazil and Venezuela, since behind their pleasant words of mutual support the countries are waging an unspoken battle for regional leadership, which will undoubtedly intensify following Venezuela's membership of Mercosur. From this perspective, the idea developed two years ago that the regional integration processes would progress firmly on the basis of political and ideological convergence of a good part of the governments of the region, particularly in South America, has proved to be clearly mistaken.

Lastly, the ethnic component of the regional political struggle should not be forgotten. In this connection Evo Morales' Bolivarian government is

making a show of its indigenism and is even calling upon the *ponchos rojos* paramilitary group of Omasuyos to defend it. It will therefore be interesting to see what becomes of the proposal for a multinational and multiethnic state submitted by the governing party in Bolivia, the MAS (Movement for Socialism), to the Constituent Assembly, though the signals being sent out by the Bolivian government are not at all reassuring. Ecuador is also witnessing a growing mobilisation of the indigenist movement, although the results of the presidential election of 2006 were fairly mediocre for the latter's advocates. Whereas in Peru and Mexico the indigenist movements are weaker and the limits of the national political system are clearer, in Bolivia and Ecuador we find a strain that could end up espousing ideas that clash head-on with democratic freedoms and are a serious hazard to the values of political citizenship. A clear precedent in this direction is the Bolivian government's initiative to place community justice on a par with national justice a worrying fact bearing in mind that judges are not subject to any kind of institutional control, there are no written laws, the presumption of innocence does not exist and nor does the possibility of appeal, and corporal punishment is even envisaged. In Guatemala, the presentation of Rigoberta Menchú as a candidate for the forthcoming presidential election raises the major question of how the working-class sectors of the population, including the native Indians, will vote. It should not be forgotten that some indigenous groups and certain indigenous leaders categorically oppose her candidature.

VENEZUELA: THE BOLIVARIAN REVOLUTION DEEPENS

Since the magnitude of the electoral victory of the governing party in Venezuela became known the situation has reached hitherto unseen peaks of tension in recent months. According to the re-elected Hugo Chávez, his new period of government is going to be marked by a deepening of the revolutionary process that theoretically began with his arrival in power and should lead to the creation of the Unified Socialist Party of Venezuela (PSUV) and the shaping of 21st-century socialism. On the basis of the political capital accumulated over the past years, expressed categorically in the 63% of the vote secured in the presidential election of December 2006, Chávez intends to continue to make headway in the Bolivarian revolutionary process begun following his arrival in power in 1998. Despite the vagueness of the programme of the revolution in both theory and content, and the need to clarify certain pending issues, the programme outlined by

the Venezuelan President is nevertheless worrying and suggests a strong authoritarian leaning materialised in the 'enabling' law that grants him wide-ranging legislative powers for 18 months.

Particularly notable among the chief measures announced for the immediate future are those that allow indefinite re-election (which will require a related constitutional reform); the construction of the single Bolivarian party, the aforementioned PSUV, which for the time being will only affect the supporters of the ruling party, though one never knows if the country will eventually adopt the Cuban model which leaves no room for the expression of the opposition; and the nationalisation of a series of strategic sectors such as energy (including gas and electricity) and telecommunications, processes that began with the acquisition of the electricity and telephone companies Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV), privatised in 1991, and Compañía de Electricidad de Caracas. The state paid Verizon Communications over US$570 million for its 28.51% share in CANTV and US$739.26 million for 82.14% of Compañía de Electricidad de Caracas. Other initiatives are also envisaged, such as putting an end to the autonomy of the central bank, calling to order (nationalising) the international oil companies that hope to exploit extra heavy crude oil in the Orinoco belt and initiating an educational reform allowing Venezuelan children and young people to clearly distinguish the advantages of Boliviarian socialism from the deformations of neo-liberal imperialism. More recently, following the announcement that inflation had risen 2% in January and a further 1.4% in February –heralding a fairly gloomy outlook for the rest of the year if the upward trend continues (the increase over the past 12 months was 20.4%)– a major state offensive was launched to control prices, involving the nationalisation of food producing and selling companies, and the threat of imprisonment for those who corner any markets for staple goods.

In order to press ahead forcefully with this host of goals, President Chávez has reminded his followers of the need to have his hands free in order to be able to govern without interferences of any kind. Once again, as occurred in 1999, this requires an 'enabling' law that confers full powers on him. It is fairly symptomatic in this connection that a president with full control over his parliament, which displays practically no traces of opposition following the purge carried out earlier, should require almost dictatorial powers in order to be able to govern. It reveals either an almost absolute contempt for what parliament signifies, in line with his total rejection of representative democracy, or an unbridled wish to exercise

power, or both. However, it should not be forgotten that the project is due to be completed with a new constitutional reform, the second under Chávez's influence, in order to finish designing the framework of what is understood by people's power.

So far Chávez's project has progressed without substantial costs apart from the oil strike and Pedro Carmona's failed episode of fleeting government in 2002. We will have to wait and see, in the situation that is now unfolding, whether this backing will remain intact. It furthermore remains to be seen how two limiting factors will function and evolve in the immediate future: on the one hand the economic limit and the emergence of a few storm clouds such as inflation and the exchange rate; and, on the other, the government's management and the availability of the human capital required to deepen the revolutionary project. It should be remembered that prices rose 17% in 2006 and, as pointed out, 2% this past January, although foodstuffs climbed 4%. The most worrying fact is that serious problems of supply are emerging in a few staple products. As for exchange rates, although there is a fixed rate, which was established at 2,150 bolívares per US dollar in February 2005, the parallel market rate recently soared to over 5,000 bolívares. For the time being the economic situation can be interpreted as encouraging. GDP grew by 10.3% in 2006 and the reserves of the central bank increased to over US$35 billion. Other than oil, the activities that witnessed the highest increases in gross aggregate value were the financial and insurance institutions (37%); construction (29.5%); communications (23.5%); trade and repair services (18.6%); and community, social and personal services (14.8%).

The 'Bolivarian revolution' is presented as a necessary confluence between the people and their armed forces, together with the doctrine of asymmetrical warfare as a response to a potential invasion by the US, an issue that is constantly aired by the Venezuelan authorities. The corollary to both questions is a clear process of rearmament of the National Armed Force (FAN), with an expenditure of over US$2.2 billion in armament purchases in 2005.

Given the growing problems of acquiring armaments from his traditional sources of supply, beginning with the US, Commander Chávez decided to turn to Russia, China and other alternative suppliers. Impetus was given to armaments agreements with Russia after the Venezuelan President's trip to Moscow in November 2004, which bore fruit in March 2005 with the purchase of 100,000 Kalashnikov AK 103 and AK 104

assault rifles to replace the Belgian FALs that had been in service for over 50 years with the FAN. The agreement also included 15 helicopters: six transport MI-17s, eight assault MI-35s and one transport MI-26. In July 2006 Moscow and Caracas signed a fresh agreement on this matter following a further visit by Hugo Chávez to Russia. The new contract includes the provision of 24 Sukoi-30 MK2 fighters to replace the F-16s (acquired over 20 years ago by Venezuela), which will cost nearly US$1.5 billion. It also includes 54 new Mi-35s with combat capabilities, costing a further US$250 million. To these new materials should be added the future production in Venezuela of Kalashnikov rifles and their respective munitions, worth US$200 million, with the establishment of an industrial plant for manufacturing them in Maracay. This trend towards rearmament has been reinforced by the announcement of the acquisition of three fourth-generation non-nuclear submarines.(2)

The good news in Venezuela was the reappearance of the opposition after a period of hibernation following the defeat in the recall referendum of 2004, and particularly following its desperate call for abstention in the latest legislative elections. Manuel Rosales' campaign proved to be considerably firm and it remains to be seen whether experience is able to muster a significant organisational effort. However, the opposition needs to settle a few important questions in order to be able to stand as a genuine alternative: on the one hand, to put an end to the centrifugal tendencies in its midst by silencing or restraining the voices that are clamouring most loudly for dramatic solutions to the current Venezuelan political process; and also, to clearly define the question of the leadership of all the opposition forces, as Rosales does not appear to have met all the expectations pinned on him.

SUCCESSION IN CUBA

Fidel Castro's illness provided an unprecedented backdrop for transition in Cuba. Until then, all the hypotheses envisaged by analysts had been based on Castro's death and the form that succession could take on thenceforward. However, although the situation has been greatly clarified since the middle of 2006, we are dealing with a delicate situation that is

(2) Carlos Malamud and Carlota García Encina, '¿Rearme o renovación del equipamiento militar en América Latina?', DT 31/2006, Elcano Royal Institute, *http://www.realinstitutoelcano.org.*

tending to stifle, at least in the current environment, the movements in favour of a greater opening up of the regime. We thus have a Fidel Castro who, despite having stepped back from the centre stage of public and governmental life, handing over to his brother Raúl and other prominent revolutionary leaders, has nevertheless continued to exert influence on the everyday political struggle. The emergence of sectors that would be willing to back a greater opening up in other conditions has therefore been obstructed for the time being until the situation becomes clearer. This situation is reflected in the support that the ultraconservative sectors are commanding and was expressed in the reappearance of old censors and repressors in the pro-government television channel (the only one). However, it should not be forgotten that despite all its disadvantages, the current situation is the point of departure for Cuba's unavoidable opening up, which could be delayed to a greater or lesser degree depending on the resistance it comes up against and the outbreaks of uncontrolled violence that might erupt.

So far the system of collegiate government devised by Fidel Castro is functioning totally normally and no surges of protests of any kind have been witnessed. Power currently rests with Raúl Castro, who not for nothing was Defence Minister, and with the three Commanders of the Revolution: Ramiro Valdés, Juan Almeida and Guillermo García. Although Raúl is not Commander of the Revolution he functions as the *primus inter pares* with respect to the other commanders, but is not the supreme leader. At second-highest level in this group are Carlos Lage, Ricardo Alarcón, Felipe Pérez Roque and other high-ranking leaders who are considerably younger than the previous ones.

In this setup, all those directly or indirectly involved in the task of government, be they members of the Communist Party of Cuba or of the Revolutionary Armed Forces (FAR), are avoiding kicking over the traces. This means that while Castro is alive and keeping abreast of events and publicly influencing them via phone (either through Venezuela or directly), clashes between possible sides and stances will be kept under the table. This will not prevent each of the different conflicting factions –basically the proponents of Chinese-style economic reforms and the orthodox 'tropical Taliban'– from trying to gain ground and expand their power bases. According to the official discourse, the power is clearly concentrated in the Communist Party and FAR. However, according to some analysts, the real power lies with the Cuban army, which not only has the monopoly on violence but also significant financial resources through its control of

numerous companies, beginning with the tourist sector. While Castro remains alive, the regime will retain its significant popular support, the glue that cements the government and society together in pursuit of certain objectives. However, Castro's death will soon do away with all this and new mechanisms will need to be found in order for the authorities that control the power to continue to be recognised by the people. One of the issues that will be debated from that moment onwards will be preserving the achievements of the revolution and the achievements chalked up by the elite during their exercise of power. In addition to the party and the army, other significant players should be analysed, such as the church, internal opposition, the Miami exiles and the US.

There are a few question marks hanging over the situation that has arisen in Cuba, some of them closer to Spanish interests, such as the role Spain can play in an eventual transition on the island, which is well regarded by those responsible for this area in the State Department in Washington. It is evident that while Spanish interests in Cuba are less important than those in other countries, consideration should nonetheless be given to the firm links between the two nations, particularly given the many Cubans who have family ties with Spain. Therefore, Spanish diplomacy's potential for action should not be underestimated vis-à-vis other Latin American actors who will tend to radicalise the situation, such as Venezuela, and others whose influence has waned in recent years, such as Mexico. Some time ago Spain spawned a change in Europe's common position towards Cuba with the clear goal of establishing positions to prepare for an eventual transition. It is expected that this will pay off in due course and that Spain will be able to curb the excesses and radicalism of the most extreme stances both within the regime and in the exile community in Miami. In this connection Spanish diplomacy's efforts to strengthen contacts with the most important groups established there are to be appreciated. Although the experiences of the Spanish transition cannot be automatically transferred to Cuba, they can provide a reference point that should be taken into consideration.

The relationship between Cuba and Venezuela should be monitored closely on account of the economic importance of Venezuelan aid, which has given the Castro regime breathing space, but also owing to the leading role Chávez wants to take on after Fidel Castro dies, as he aspires to become the heir of the Cuban Revolution. Fidel Castro's participation by telephone in Hugo Chávez's radio programme *Aló Presidente* appears to be a clear sign of who he will decide to anoint as his heir in the 'Latin

American revolution'. However, in some sectors of the FAR, which have been characterised for years by their powerful nationalism, the prominent role of Chávez and his populist style do not go down well.

REGIONAL INTEGRATION

As stated earlier, it was a cliché among the majority of Latin American leaders that the existing political and ideological convergence –the famous leftward turn– should have given impetus to regional integration. However, this has not been the case and some processes, the chief exception to date being Central America, are in the throes of acute crises. The Andean Community of Nations (CAN) received a harsh blow in the first half of the year when Venezuela pulled out. And although in the end Bolivia decided to remain in the bloc and Chile joined as an observer, the situation has not fully returned to normal. At the same time as it withdrew from the CAN, Venezuela decided to join Mercosur, and although its membership was approved at top speed, bypassing all the regulations established by the organisation itself as to compulsory periods, things are not going at all well in the Common Market of the South, which needs to address the rebellion of the small states (Uruguay and Paraguay) against the big ones (Argentina and Brazil) and, above all, the fierce battle between Argentina and Uruguay over the paper mills. At the same time, with very little coordination between them, Brazil and Venezuela are promoting the launch of the South American Community of Nations, an ambiguous project that is taking priority over the ideas of enlarging Mercosur with the immediate incorporation of Bolivia and Ecuador, according to the wishes of some.

The integration process in Latin America faces a series of major problems, beginning with lack of leadership (neither Brazil nor Mexico is clearly taking on its role and Venezuela, the only country willing to assume the costs of leadership, displays a rather worrying shortage of clout in this respect), but also an excess of rhetoric and nationalism. The latter is preventing the Latin American countries from ceding the slightest amount of sovereignty to be able to build the necessary supranational organisations capable of fostering significant progress in the processes of regional and subregional integration. In this connection it is worth asking whether Venezuela's foreign policy, which is theoretically inspired by the Bolivarian discourse and by regional integration, is a stimulus to integration or, on the contrary, a further hindrance, as it is creating an increasingly deep divide between the countries of the region. There have

been some major events in this connection, such as Venezuela's withdrawal from the CAN and Commander Chávez's statements that if Mercosur failed to steer a new course towards greater social and political integration from a Bolivarian perspective, he would have no qualms about putting an end to it.

Nor should it be forgotten that the present time, when regional integration is most being discussed, has witnessed the eruption of a large number of bilateral conflicts stemming from the most diverse events. And although none of these conflicts will lead to an armed clash or major dispute between the countries in question, their existence attests to the serious shortcomings of the integration process and the failure to define clear objectives and appropriate mechanisms for making headway in this direction.

THE ECONOMY

From a macroeconomic perspective the situation is optimal and we are currently witnessing a number of elements that have been absent in the past 30 years. 2006, for which the ECLAC estimates an overall growth rate of 5.3%,(3) is the third year of consecutive growth at fairly remarkable rates, and, equally or more importantly, all the countries are growing simultaneously, albeit at different speeds. The leaders are Venezuela (10.3%) and Argentina (8.5%), although Costa Rica, Panama, Peru, the Dominican Republic and Uruguay are also growing at considerable rates of over 6%. A special case is Cuba, whose authorities are talking of growth rates of 12.5% a figure that raises many analysts' doubts given the peculiar calculation methods employed by the Cuban economic authorities. At the other end of the scale is Brazil, with a rate of less than 3%, higher only than that of Haiti, although its future prospects are encouraging, particularly after devising the PAC (plan for growth acceleration) presented by President Lula at the start of his second term. But that is not all. There are further important data that deserve to be considered, such as the fact that this growth is accompanied by economic and financial stability, an increase in foreign currency reserves held by the central banks, and greater social inclusion owing to some of the public policies implemented to aid the most underprivileged sectors, and greater

(3) Press release of the ECLAC (Economic Commission for Latin America and the Caribbean), 14/XII/2006, *http://www.eclac.cl/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/9/27579/P27579.xml&xsl=/prensa/tpl/p6f.xsl&base=/tpl/top-bottom.xsl*.

international integration of most of the regional economies. Even so, the most important factor is that all these processes are taking place in a context marked by a predominance of democratic regimes.

Despite such an optimistic outlook that stems basically from an upswing in foreign demand, mainly from Asia, it is advisable not to lose sight of Latin America's great historical vulnerability to external crises, particularly the feared monetary shocks. It is therefore important to ask what the region's various governments are currently doing to cushion the future impact of a fall in the price of raw materials, the worsening of the US' hefty budget deficit, or the unstoppable escalation of oil prices. In this respect it is worrying that very few countries in the region are clearly adopting anti-cyclical policies. Perhaps Chile is the chief exception and Venezuela the most blatant case of squandering its current growth.

As pointed out earlier, Latin America's growth is largely underpinned by its opening up to the outside and by its increased exports, which are tied to international economic growth and to the significant rise in Chinese and Indian demand, all of which has clearly pushed up the prices of raw materials –particularly minerals, beginning with oil– and foods. Such a favourable foreign outlook led to an 8.4% increase in the volume of exports and a 21% rise in their value, as well as a rise in the price of the main export products. This very positive circumstance was accompanied by a favourable development in real exchange rates (7% in 2006), allowing raw materials (energy and non-energy) to be sold for a higher price but also enabling all the products in demand in the Latin American economies (capital goods and consumer products) to be purchased more cheaply thanks to greater economic growth. However, as could not be otherwise, the impact of the positive trend in exchange rates has been unequal in the various Latin American regions. According to the ECLAC, between the 1990s and 2005 exchange rates rose by 32% in South America, but only by 10.3% if we fail to take into account Venezuela and Chile, the major producers and exporters of oil and copper. Mexico recorded a rise of 22%, while rates slumped by 11.8% in Central America.

Roughly speaking, this growth has been accompanied by low inflation, generally under two figures. Average regional inflation continued its downward trend and was probably 3.9% in 2006 according to ECLAC, compared with 6.1% in 2005, 7.7% in 2004, 8.5% in 2003 and 12.1% in 2002. The biggest exceptions in 2006 are Venezuela, with 17%, and Argentina, with 9.8% verging on the feared 10%, which led Néstor

Kirchner's government to excessive interventionism in his struggle against inflation. Together with this favourable trend in inflation, we are also witnessing the positive influence of a public deficit that is being kept in check and a reduction in the risk premium for sovereign debt to a historic low, all of which has pushed the country's risk figures down.

The rise in exports has also enabled debt-to-export and even debt-to-GDP ratios to begin to fall steadily throughout 2006. In parallel with this, most countries have bolstered their foreign currency reserves (both US dollars and euros). Unlike in other periods, tax revenues have increased more than expenditure and there is fiscal discipline, although in general the tax reforms necessary for the smooth running of the state, which in most cases lacks the resources to develop public policies to improve the population's conditions, have yet to be undertaken. Despite the major misgivings it aroused, it may be said that the teachings of the so-called Washington Consensus have largely borne their fruits. What is more, if there is anything that has distinguished the current neo-populist movements from the populism of the 1950s and 1960s it is greater concern for fiscal discipline and macroeconomic order. Therefore, as we shall see later on, we will have to keep an eye on microeconomics in order to detect some of Latin America's current problems.

As for debt, another important factor is the higher proportion of fixed-rate debt and debt in national currency, particularly following some debt restructuring operations carried out by a few countries in the region. This is the case of Argentina, which, like Brazil, has also cancelled its debt with the IMF as President Kirchner believed that his government's economic policy would thus be freed from the influence of the Fund. Instead Kirchner has chosen to run up debts with Venezuela (which has purchased nearly US$4 billion worth of bonds), despite having to pay higher interest rates than those charged by the IMF.

Investment, gross fixed capital formation, is growing at a steady pace, particularly in South America, although it is still clearly insufficient for the region's needs. Among other issues, it can be seen how Foreign Direct Investment (FDI) has become more selective and is in consonance with different national circumstances: political stability, but especially the business climate and certainty of law. Therefore, it is not surprising that the main recipients of FDI in Latin America are Brazil, Mexico and Chile, whereas Argentina, Bolivia and Venezuela have witnessed a major slowdown in the arrival of foreign investments. The growth rate of FDI for the whole of Latin

America in 2005 was only 3%, well below the figure recorded in 2004. It should also be borne in mind that the very high growth rates of FDI in the developing regions were recorded in western Asia (85%) and Africa (78%), where they reached unprecedented levels of US$34 billion and US$31 billion, respectively.

Although FDI increased overall in 2004, in 2005 it was much more selective and varied according to the situation of the countries and subregions. While inflows to South America increased by 20% (US$45 billion), in Central America and the Caribbean, apart from the tax havens, it remained at the same level (US$23 billion). In South America the biggest increases were recorded in Andean countries such as Colombia (227%), Venezuela (95%), Ecuador (65%) and Peru (61%), and also in Uruguay (81%). FDI in Argentina grew slightly (9%) and it fell in Brazil and Chile (by 16% and 17% respectively), although it continued to be substantial. In Central America and the Caribbean inflows diminished slightly in Mexico (-3%) and increased in other countries except for Cuba, Nicaragua and Honduras. Out of all the Latin American countries Brazil and Mexico were the main recipients of FDI, with 17% and 15%, respectively, of the total.

Another important fact in relation to the inflow of foreign currency into the different countries in the region is emigrants' remittances, which amounted to over US$60 billion in 2006, a figure comparable to the FDI received in the same period. In 2005 remittances totalled US$53.6 billion, accounting for 2.3% of GDP (10.4% of the GDP of Central America, 5.8% of that of the Caribbean and 2.7% of that of Mexico). The main issue, the million-dollar question, is how to convert part of these remittances into productive investments, although thanks to them poverty has diminished by 3% in recent years from 28% to 25%.

The sustained growth of recent years has made possible an increase in per capita GDP and a reduction in extreme poverty, although the pace of the variations depends greatly on the particular situation of each country. Nothing as conclusive can be said of inequality, which continues to be one of the most pressing problems of the entire region. Brazil, however, has witnessed a substantial improvement in the Gini index throughout Fernando Henrique Cardoso's two terms and Lula's first. However, some analysts estimate that the improvement seen in Brazil over the past four years is due more to a greater impoverishment of the middle classes than to a substantial improvement of the lowest income groups. In any event, it is undeniable that growth has notably influenced the labour market and led

to sizeable reductions in unemployment. In the specific case of Brazil, if the country manages to grow for several years at rates of over 4%, owing partly to the PAC, substantial improvements could be achieved in the fight against unemployment.

Although Latin America is growing at an encouraging pace compared to its immediate past, this rate is not so great if it is compared to the rest of the world. Therefore, the major question is whether, in the current situation and with the current prices of raw materials, Latin America could grow much more that it is presently. What we are witnessing for the time being is that the region is growing less than the developing countries as a whole. This is partly, but not solely, due to the lesser growth of the region's two biggest economies (Mexico and Brazil). Latin America is evidently growing less than China, India and the rest of South-East Asia, but also less than the emerging countries of Eastern Europe or even of Africa, for the first time in history. Therefore it is important to examine why Latin America is growing less than its most direct competitors and what it needs to do to grow more.

So far emphasis has been placed on the macroeconomic sphere where, as we have seen, figures and prospects are extremely favourable. However, we also need to analyse in greater detail everything that occurs at the microeconomic level, which would enable us to distinguish better between those economies with the best future prospects and those that are likely to face some tension in the medium term. As has been pointed out, there are some important issues such as all the factors that influence the smooth running of the institutions and certainty of law and the varying degrees of stimulus to market freedom and to foreign investment. All this is related to the question of state intervention in the national economy. It might be said that Venezuela, Argentina and Bolivia are the countries that fare the worst in this respect, and Chile and Brazil the best. From what we have seen so far it may be said that Ecuador and Nicaragua will end up joining the first group.

Another important matter in this area is the energy question, given its close relationship with the political situation. During the first half of 2006 the famous gas pipeline of the South, which in theory was to link the whole subcontinent, was one of the principal issues in this sphere, together with the nationalisation of hydrocarbons in Bolivia. This process gave rise to considerable friction, which has yet to be fully resolved, between Bolivia and Brazil over the tricky position of Petrobras, the Brazilian hydrocarbons

company. However, in view of the delicate situation into which threatening to plunge Bolivia's energy future, Evo Morales' government must have put things right –though not publicly– and developments followed a different course in the negotiations with the companies, particularly the small print of the contracts that were finally signed. However, the following is nevertheless striking: while the multinational companies present in Bolivia intend to invest US$200 million in gas and oil in Brazil over the next years, including a majority share in Petrobras, investment in the sector will total US$83.5 billion. It is evident that in this respect investors' confidence in the political system of the two countries, in stability and in business opportunities, counts for something, together with the important fact of the Brazilian government's clear commitment to stimulating foreign investment. Therefore, we must also closely follow investment in the hydrocarbons sector in Venezuela, which, if it does not grow exponentially over the next few years, may lead PdVsa (Petróleos de Venezuela S.A.) into a genuine bottleneck.

SPAIN AND LATIN AMERICA

Over the past years Spanish companies have consolidated their position as one of the leading foreign investors in Latin America. This situation, together with the traditional linguistic, cultural and historic ties between Spain and the region's countries as a whole, has made our country the main extra-regional actor. Despite its limitations, the building of the Ibero-American community has contributed to this end. Currently, with the celebrations of the bicentenaries of the independence of the Latin American countries (except Cuba) just around the corner, these ties should be rescued in order to boost Spain's presence in Latin America.

As regards FDI, Spain continues to be one of the biggest investors in the region, with an aggregate stock of over ?115 billion, although the relative weight of Spanish investment in the countries of the region as a whole diminished in 2005. In recent years, particularly following the Argentine crisis of 2001, Spanish FDI has concentrated basically on three countries, Brazil, Mexico and Chile, while its behaviour has varied in the others as a result of political and economic trends. As for aggregate stock, the countries that account for the highest portions of Spanish investment are Argentina (€ 32.112 billion), Brazil (€ 25.985), Mexico (€ 14.892 billion), Chile (€ 10.606 billion), Peru (€ 3.141 billion) and Colombia (€ 3.080 billion). In 2005, the main recipients of Spanish investment were Argentina (€ 2.103

billion), Brazil (€ 1.094 billion) and Mexico (€ 360 billion). In Argentina, one of the problems that set Spanish investment back was the Argentine government's refusal to update tariffs in some of the privatised public utilities. Therefore, it should be borne in mind that the outlook for 2007, election year in Argentina, where the possible outcomes are either the re-election of Néstor Kirchner or the election of Cristina Fernández de Kirchner, is not much better than that of previous years.

The Ibero-American Summit held in Montevideo in 2006 marked the début of the Ibero-American General Secretariat (SEGIB) and its Secretary General, Enrique Iglesias. In general the outcome of the summit allows us to be moderately optimistic about the future of the system, which is currently bogged down by many of the problems that affect the region as a whole and are magnified by the disputes between the various countries. From this perspective, there are certain threats hovering over the future of the forthcoming summit, which will take place in Santiago de Chile, in view of the risks that the greater radicalism of Venezuelan diplomacy may pose to its running.

Finally, during 2006 Spanish diplomacy had to tackle a few hotspots in relation to Latin America, beginning with the US's interpretations of the bilateral policies with Cuba and Venezuela, which also sparked friction between the government and opposition, pointing to the end of the national consensus on Latin America and Ibero-American policy. Bolivia's nationalisation of hydrocarbons also had a negative effect on relations with Evo Morales' government, although the course mapped by the government, in tune with that of all democratic governments, is to maintain good relations with all the governments in the region, whatever their political colour. This is a controversial issue given the growing threats against democracy in some countries of the region.

CONCLUSIONS

The outcome of Latin America's intense electoral calendar in 2006 could not be more favourable. Despite some fears, the various elections were held peacefully and within the envisaged timeframe and, except for the Mexican scare, complications were minimal. This bears out the opinion of those who speak of a consolidation of democracy in the region, although there is growing concern over a few signals of increasing institutional deterioration and the emergence of certain governments such as

those of Ortega, Correa and Morales, which are joining Hugo Chávez's Bolivarian project with its populist, personalist, autocratic and authoritarian undertones.

Something similar is occurring on the economic front. It is undeniable that the international situation and substantial upswing in Asian demand have underpinned a four-year period of steady growth at high rates, reinforced by the favourable performance of other macroeconomic variables. However, a few alarm bells are beginning to be heard indicating that the region is not growing as much as it should be and, above all, that it is not making the most of the situation to build the necessary safeguards to protect the countries from the effects of further external shocks. The channelling of resources into the patronage system and the discretional utilisation of the budget surplus in some countries is a new warning about the region's future. A region which, despite the excessive rhetoric churned out daily in this respect, has been unable to take substantial steps forward in its regional integration processes.

CHAPTER FIVE

FROM THE MAGHREB TO THE MIDDLE EAST: INCREASED INSTABILITY

FROM THE MAGHREB TO THE MIDDLE EAST: INCREASED INSTABILITY

By Miguel Ángel Ballesteros Martín

INTRODUCTION

The year 2006 will go down in history as that of the war between Hezbollah and Israel. The capture of two Israeli soldiers and the death of a further six at the hands of Shia militias triggered the Israeli Defence Forces' (IDF) third invasion of southern Lebanon and the bombing of a good many infrastructures throughout the country, giving rise to a 33-day war that ended with UN Security Council Resolution 1701 and the sending of troops from various nations to reinforce the UNIFIL mission. With the sending of its troops, one of these nations, Spain, ushered in a new scenario of peace operations without a use-by date. The war has weakened the Israeli government internally, undermining its capacity to give impetus to the peace process.

All the conflicts in the region are part of an interconnected system whose central subsystem is the Palestinian-Israeli conflict, and although they each have their own dynamic, they require a joint solution to guarantee peace. All the neighbours –Syria, Lebanon, Jordan and Egypt– are experiencing the Palestinian problem as their own. But it also exerts considerable influence on countries that are slightly further away, such as Iraq, Iran and Saudi Arabia. The evolution of all the Middle East conflicts shows that use of violence as a solution is failing and driving the population to adopt more radical stances.

The crisis triggered by Iran's defiance of the National Security Council with its nuclear enrichment programme has continued to escalate under the government of the ultraconservative and nationalist President Ahmadinejad, who is convinced that the USA's weakness stemming from its failure in Iraq is the most favourable international environment for implementing a programme that will secure it nuclear power status as a means to leadership of the region and even of the Muslim world.

But without a doubt the most significant factor that influences the stability of the region, and indeed that of the whole planet, is the worsening of the situation in Iraq, which has witnessed a considerable increase in Sunni insurgency and al-Qaeda terrorism directed against the Coalition forces, but above all against the Shias, sparking a retaliation from the latter. The result of this violence, which escalated particularly in the second half of 2006, was 12,320 dead Iraqi civilians, many previously tortured, fuelling an interethnic hatred that placed a large area, whose epicentre is Baghdad, on the verge of civil war.

The Iraqi government chosen at the polls has not managed to secure full control of the country and nor has the US-led coalition, as President Bush recognised in his Address to the Nation on 9 January 2007: (1)

> *«Our past efforts to secure Baghdad failed for two principal reasons: there were not enough Iraqi and American troops to secure neighbourhoods that had been cleared of terrorists and insurgents.»*

Furthermore, the death toll among the US forces, which now stands at over 3,000, is beginning to weigh like a burden on Americans, 61 percent of whom, according to the Gallup Institute, oppose the policy of their president, who is caught up in his own antiterrorist strategy.

This review of the Middle East will include Afghanistan, which plays an essential role in world stability and is a reference in the fight against international terrorism. Nor have things gone well in Afghanistan in 2006. The Taliban insurgency is rearming and increasing its supporters and actions against all the deployed forces, hindering the progress of stabilisation.

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(1) The President's Address to the Nation, 10 January 2007. Press Secretary's Office. The White House.

THE SOUTHERN SHORE OF THE MEDITERRANEAN

If we take a quick glance at the southern shore of the Mediterranean, we find that the Maghreb continues to be marked by the Western Sahara conflict, on which agreement has still to be reached between the parties. Two factors should be borne in mind in this connection. The first is that the Polisario Front knows it has been militarily defeated by the system of walls that Morocco built along the Sahara to prevent armed incursions from Algeria, and this is forcing the Saharawis to seek political solutions. The Polisario Front accepted the ceasefire that came into force on 6 September 1991 at the proposal of the UN. Aside from diplomatic actions, all that remains is the possibility of triggering Intifada-type internal conflicts among the Saharan people in order to draw the attention of the international community and force a consensus; however, Morocco's iron-fisted control, the international press's scant interest in the area and the exile in Tindouf of Polisario's leaders are hindering the success of this strategy. The second point of departure is that Morocco does not envisage any possibility other than a Sahara under Moroccan sovereignty, and this prevents it budging from its stance, making it difficult to reach an agreement.

The situation continues as it was left by James Baker, who, having failed to reach an agreement between the Polisario Front and Morocco after seven years as the UN's Special Envoy, presented a peace plan based on the Framework Agreement for self-determination which consisted in granting the Western Sahara autonomy within Morocco with the commitment of holding UN-supervised elections and a referendum within five years. This proposal was backed by the Polisario Front and rejected by Morocco. A further two envoys have come and gone –the Peruvian Álvaro de Soto, the Dutchman Peter van Walsum– and since January 2007 the Briton Julian Harston has held the post, though the outlook has not changed. The international community views this conflict as an issue of minor interest and no country is willing to press Morocco to facilitate a solution to the conflict.

The UN Mission for the Referendum in Western Sahara (MINURSO), which was established by Security Council Resolution 690 in 1991, remains active following successive extensions, with 220 military and 123 civilian personnel.

The current situation is extremely costly in financial terms for Morocco, which is forced to maintain its military deployment and financial effort in

the area. But it is worse still for the Polisario Front and the Saharawis living in refugee camps in Tindouf in harsh conditions. Insufficient aid arrives from UNHCR. To give an idea, 30 percent of women suffer from anaemia due to malnutrition and as a result 45 percent of pregnancies end in miscarriage. This, together with the shortage of medicines, is contributing to frustration and a feeling of abandonment.

The Polisario Front has pinned its hopes on the idea that the United Nations' new Secretary General, Ban Ki-moon, will activate the process to seek a consensus solution. The fact that international concern is centred on more pressing issues in more problematic areas will foreseeably cause the situation to drag on unchanged.

Algeria is being steered by President Bouteflika out of a serious conflict that stems from different reasons: religious fundamentalism, terrorism, the crisis of the economic system with a high unemployment rate, a democratic explosion and the quest for a national identity. The rise in oil and gas prices is helping solve many of these problems by creating a productive system that allows wealth to be redistributed more effectively.

The Salafist Group for Preaching and Combat (GSPC) was established in 1997 as an offshoot of the Armed Islamic Group (GIA). Its leader, Abu Musab Abde l Wadud, swore allegiance to Bin Laden, and on 11 September 2006, his right-hand man Ayman al-Zawahiri announced the GSPC's adhesion to al-Qaeda in a video. Shortly afterwards the GSPC stated that it was changing its name to «al-Qaeda Organization in the Islamic Maghreb». If this integration materialises at an operational level, it will mark the establishment of a hardcore of this terrorist organisation in the Maghreb. This is one of the chief concerns of the Algerian government. Furthermore, the presence of al-Qaeda in the Maghreb is worrying to Spain. In October 2006 a group calling itself Nadim al-Magrebi issued a communiqué via the Internet calling for a jihad against Spain in order to «free» the cities of Ceuta and Melilla by means of terrorist actions. This threat, together with the recent arrests of jihadists in Ceuta and Melilla and the internationalisation of the terrorist activities of the GSPC, which may have training camps in Mali, is setting off alarm bells and requires a specific defence strategy.

The war between Hezbollah and Israel has converted the Shia leader Nasrallah and his militias into heroes of the Muslim world for standing up to the powerful Israeli army. This, in countries with modern and pro-Western governments such as Egypt and Jordan, has favoured the stance of the radi-

cal groups represented by the Muslim Brothers, to the detriment of governments such as that of Hosni Mubarak in Egypt, which failed to condemn the invasion of Lebanon and has witnessed a decline in support, while backing for the jihadist movement, which seeks to overthrow the current government, is growing. Iran's nuclearisation plans to secure regional-power status will oust Egypt from its present leadership; this is of great concern to President Mubarak, who stated in public on 5 January 2007 that:

> *«We don't want nuclear arms in the area but we are obligated to defend ourselves. We will have to have the appropriate weapons. It is irrational that we sit and watch from the sidelines when we might be attacked at any moment.»*

PALESTINIAN-ISRAELI CONFLICT

In Palestine the struggle continued between Palestinians and Israelis, with attacks by the former and military retaliations from the latter, including lethal selective attacks on leaders, which often kill Palestinian civilians who happen to be in the areas. Following Hamas' victory in the January 2006 elections, international aid to the Palestinians was made conditional upon Hamas' renouncing terrorism. As this did not occur, it led to the stoppage of much EU aid and the resulting economic problems for the Palestinian National Authority. Internal disputes thus emerged between President Mahmud Abbas (Abu Mazen) of the PLO and Prime Minister Haniyeh, who belongs to Hamas. The quarrels between the two political parties turned into violent clashes with armed attacks against leaders of their militias.

The result of the war between Hezbollah and Israel has favoured Hamas's stance among the Palestinian population, deepening the existing differences. A pre-civil war environment has arisen between the radicals of Hamas and the Fatah militia, which is expected to end in the establishment of a national unity government but for the time being is making it difficult for Mahmud Abbas to conduct the negotiation of the peace process.

The Palestinians: the power struggle.

For Palestinians 2006 began with the 25 January elections that were won by Hamas with 74 out of the 132 seats, even though it was reckoned that its supporters accounted for between 12 and 20 percent of Palestinians.

The USA and EU convinced Israel to agree to Hamas' participation in the elections, thinking that it would not win and that its involvement in the institutions would lead it to modify its strategy and discourse, shifting away from radical stances and the use of terrorism.

The votes secured by Hamas are largely the result of a protest vote against Fatah for its years of corrupt administration; but they are also due to Hamas's work in the social field, which has largely remedied the shortages that the administration was incapable of addressing, and, third, to the little progress made in the peace process, which has weighed heavily against President Abbas and Fatah. Lastly, we should consider the desire for change of the Palestinian population, which is subjected to harsh living conditions with 40 percent below the poverty line (less than two dollars per person per day) at the time of the elections. The Palestinians sought someone to take over from the political hegemony of Fatah, a moderate secular party which is now lacking in a leader with the charisma of Arafat. Under these circumstances Hamas, with a message that uses the Islam of solidarity and sacrifice, together with its radical policy, has succeeded in earning the sympathies of a good part of the Palestinian population.

Hamas has the support of Syria, where its leadership is based, Iran, much of the Lebanese population, Hezbollah in particular and Russia, not forgetting the sympathies it arouses in the Arab world. For the time being al-Qaeda, despite using the conflict as a reference in its strategy, has not intervened directly there, though a «victory» in Iraq and early withdrawal of the USA could prompt it to send its terrorists to Palestinian territories to combat Israel. Fatah commands the support of the Arab world, but above all that of the governments of Saudi Arabia, Egypt, Jordan and the EU, which was the biggest donor to the Palestinian area. Hezbollah's moral victory over Israel has reinforced the position of the more radical members. Hassan Nasrallah's militias have mapped out a strategy for Hamas to pursue.

Hamas' election victory and the appointment of Prime Minister Ismael Haniyeh placed the USA and the EU in an uncomfortable situation, as it is on their lists of terrorist organisations. The EU asked Hamas to renounce terrorist attacks, recognise the State of Israel and accept the agreements signed in order to be able to continue sending aid to the Palestinian people. Hamas has not responded satisfactorily to these requirements, forcing the EU to cut back its aid, which it attempts to channel exclusively through President Abbas. The shortage of financial resources, the confinement

that prevents working life and the failure to hand over border taxes –a ploy occasionally used by Israel as a means of exerting pressure– prevents capital from flowing into Palestine, leading the UN to classify the situation of Palestine as a humanitarian disaster, with as many as 68 percent of the population living below the poverty line in December 2006.

Hamas had maintained a truce since February 2005, avoiding attacking Israeli territory though not renouncing attacking Israeli forces in the Palestinian territories. However in June 2006 it resumed attacks on Israeli territory, launching Kassam rockets. On 25 June one of its commandos attacked the military base of Telem near Gaza and captured soldier Shalit with the intention of exchanging him for Palestinian prisoners in Israeli gaols. Israel did not hesitate to respond and occupied the Palestinian territories once again.

The discrepancies between President Abbas and Prime Minister Haniyeh over what policy to implement became increasingly obvious, eventually leading to an armed clash between Fatah and Hamas militias. As a result, on 6 January 2007 President Abbas dissolved the security force that had been set up by the Palestinian interior minister Said Siam with nearly 6,000 men recruited from among the Hamas militias. The measure, which was opposed by Mr Hanihey's government, was justified by the need to restructure all the security forces and avoid clashes with the security force of the Palestinian National Authority, whose members are mainly Fatah sympathisers and many of whom hail from the al-Aqsa Martyrs Brigades, Fatah's armed faction.

The clashes became so intense that European and American citizens and even the members of the UN agency for Palestinian refugees, UNRA, were advised to abandon the Gaza Strip for safety reasons. It is difficult to imagine civil war breaking out among a people with a common enemy as powerful as Israel, but given the circumstances of survival in which the Palestinians live as a result of the strategy pursued by Israel, it is not surprising that they should become more radical and divided. The solution was to form a Palestinian national unity government, as the other alternative was for President Abbas to dissolve Parliament and call new elections. It would have been a winner-takes-all bet with much at stake for Fatah, either if Hamas were to decide to stand for those elections, which it could win, or if, on the contrary, it were to decide not to participate, thereby questioning the legitimacy of the newly elected government.

On 8 February 2007 the Hamas leader in exile, Khaled Meshaal, and President Abbas signed the Mecca Accord on the formation of a

Palestinian unity government, keeping on Ismael Haniyeh as prime minister. The negotiations took place at a time of political weakness for Abbas and raise fears that the new government is closer to the hard line of Hamas than to the moderate position of Fatah. The key question is whether the requirements of the Madrid Quartet will be met: acknowledgement of the agreements signed so far between Israel and the PLO, renunciation of terrorism and recognition of the State of Israel.

The situation in Israel

Israel sees itself as a small country surrounded by historic enemies against whom it has waged numerous wars in its little over 50 years of existence. This feeling of insecurity that stems from being surrounded more or less closely by enemies, such as Syria and Iran, some of which even deny its existence as a state, has led it to develop response operations that are often perceived as disproportionate by the international community and are seriously damaging to its international image, and are spurring the Palestinian population to adopt more radical stances.

Ariel Sharon was not in favour of creating a Palestinian state but realised that such an attitude entailed a State of Israel with a Palestinian population in its midst who, although now a minority with respect to the Jews, would become a majority over time owing to the different birth rates of both communities and would undermine the feasibility of a democratic Jewish state, as the Jews would eventually lose the elections. The solution was to accept the existence of a Palestinian state. When Sharon won the elections with the Likud party he attempted to implement the project to create the Palestinian state but unilaterally, without negotiating procedures and details with the Palestinians. He ordered the unilateral withdrawal of his troops from the Gaza Strip and the West Bank, without coordinating the transfer of security and border limits with the Palestinian authorities. In August 2005 Ariel Sharon gave orders for the evacuation of a good number of Jewish settlements in the Gaza Strip, triggering an internal crisis in his party and within the government, which resulted in his pulling out of the Likud to set up a new party, Kadima, that was more centrist in ideology, to grant him the necessary support to implement his government programme.

Kadima won the elections with 29 seats but became leaderless after Sharon suffered a brain haemorrhage that left him in a coma. He was succeeded by Ehud Olmert, who lacks Sharon's charisma. The outcome of

Olmert's government since he took over has not been very promising. He gave orders for the invasion of southern Lebanon in response to Hezbollah's attacks and had to withdraw without achieving any of the goals pursued –indeed, quite the opposite– giving the impression that the victor was Hezbollah. To these problems should be added the cases of internal corruption of some high-ranking officials of the Israeli government.

Olmert has proven incapable of implementing the electoral programme designed by Sharon. The Israelis are witnessing how the territories from which they withdrew unilaterally, Lebanon and Gaza, are the launching pads for attacks against the Jewish people. This discredits Kadima's programme and Olmert's government, which has been left without a strategy to follow. The Israeli Defence Forces' reoccupation of Gaza and the West Bank marks a backward step in his programme.

The Israeli population has a sensation of frustration that is close to defeat, on seeing its forces return from Lebanon without the laurels of victory after facing not a powerful army but some militias in the longest war in its history. This has greatly discredited Olmert and his defence minister, while in Israel's armed forces, the most prestigious institution and one of the biggest elements of national cohesion, self-criticism is arising over how the operations have been conducted.

Looming on the horizon is an old enemy that appeared to be distant but is now one of the main concerns of the Israeli generals: a nuclearised Iran that could pose a threat to the existence of Israel as a state and people. It cannot be forgotten that Iraq's President Ahmadinejad has denied Israel the right to exist and predicted its imminent ruin, declaring itself a nuclear country.

While Iran announced its acquisition of a Russian air defence system as a deterrent against a possible air strike on its nuclear installations, the Israeli defence ministry expressed its interest in acquiring the American AEGIS air defence system with which the US ships and new Spanish frigates are equipped, as well as a ground-to-air missile defence system (THAAD) enabling it to ward off long-range missiles launched from Iran.

Given this landscape it is not surprising that 77 percent of the Israelis polled consider that Olmert has failed in making decisions as prime minister. This lack of leadership is not helping resume and push forward the peace process. The divide between Palestinians and their confinement –including the wall– which is exacerbating their radical position, and the

failure of the Kadima government's programme is rendering Palestinians and Israelis incapable of giving impetus to the peace process.

Israel is witnessing with concern the confrontation between Fatah and Hamas, fearing that it may result in the rise of Hamas, which would impede any peace process and increase instability in Israel. In this connection, Olmert is attempting to aid nr Abbas against Hamas and authorised the import of 2,000 Kalashnikov rifles from Egypt for the guard of the Palestinian National Authority, whose members belong to Fatah, to help them face up to the Hamas militias. But the assistance Olmert lends Abbas may be perceived by the Palestinian people as connivance with the enemy. It should furthermore be recalled that the only valid interlocutor for the international community is the president of the PNA.

During the past years the USA has had to deal with too many problems in conflicts of its own to devote the necessary attention to Arab-Israeli problems. However, if this conflict were solved it would help stabilise the region, specifically Iraq. The Baker-Hamilton Report, (2) seeking solutions to the Iraq conflict, recommends that the US government renew its commitment to achieving peace between Arabs and Israelis on all fronts –Lebanon, Syria and Palestine– and also President Bush's commitment of June 2002 to the creation of two states.

The future of the Roadmap

The Roadmap (3), an agreement signed in 2002 by Palestinians, Israelis and the Quartet (USA, EU, Russia and the UN) to settle the Palestinian-Israeli conflict, envisages three phases:

Phase I, which should have ended in June 2003

refers to «Ending terror and violence, normalising Palestinian life and building Palestinian institutions». The Quartet undertakes to support the Palestinian security organisation, restructuring and training the security forces, which will report to the Palestinian ministry of the interior. Nobody predicted that only a few years later the Palestinian minister of the interior was going to be a radical Islamist. In December 2006 Abbas dissolved

(2) The Iraq Study Group Report Dec. 2006 http://www.usip.org/isg/iraq_study_group_report
(3) A performance-Based Roadmap to a permanent two-state Solution to the Israeli-Palestinian Conflict, agreement between Palestinians, Israelis and the Quartet in 2002

these security forces, keeping his own security group recruited from Fatah. Another point establishes that *«All donors who provide support to the Palestinian budget will transfer those funds through the unified fund of the Palestinian Finance Ministry».* However, the EU, the main donor, channels its aid through the PNA, as it does not wish its funds to go to the government of Hamas, which is included on lists of terrorist organisations.

Phase II was to begin in June 2003 and be completed in December 2003: «*In the second phase efforts are focused on the option of creating an independent Palestinian state with provisional borders and attributes of sovereignty, based on the new constitution*». It was this clause on temporary borders and mistrust of Israel that led many Palestinians to fail to comply with Phase I. Furthermore, the Roadmap also states that a first international conference will be convened to settle the following issues: *«on the goal of a comprehensive Middle East peace (including between Israel and Syria […]) Arab states restore pre-intifada links to Israel (trade offices), and revival of multilateral engagement on issues including regional water resources, environment, economic development, refugees, and arms control issues*.» All these conditions hampered and continue to hamper the process as laid down in the Roadmap. The existence of the wall –whose construction was begun after the signing of this agreement, and whose demolition Israel can delay with the excuse that it is a key to providing protection against terrorism– alters the borders recognised in Resolution 242 and has spurred President Mahmud Abbas to make it known to Condoleezza Rice that he would not agree to the creation of a Palestinian state with temporary borders other than those established by Resolution 242.

Phase III was to begin in January 2004 and end in December 2005 and all aspects of the conflict were due to be resolved by convening a Second International Conference..

The time limits have greatly been exceeded, none of the envisaged phases has been completed and in view of all the difficulties that are observed, it is not expected to be possible to implement it in the short term. The Quartet is proving incapable of giving impetus to the Roadmap, as evidenced by the fact that it scarcely holds any meetings. The Roadmap may be considered a failure.

Olmert's government has failed to implement the political programme with which it won the elections and President Abbas is being questioned by the Palestinian government. This situation is rendering the two leading

players incapable of promoting a negotiated peace process that should not be unilateral like that which Sharon's government was developing. Under these circumstances, only the main powers and the international community can promote the beginning of the process to shake it out of its current lethargy.

On the initiative of Spain, during the Franco-Spanish Summit held in Gerona in 2006, President Rodríguez Zapatero and France's President Chirac agreed to propose to the European Council a peace plan for the Palestinian-Israeli conflict. The proposal was joined by the Italian government. The plan initially envisages short- and medium-term measures. The idea is for it to help get the European Council started on its own plan and convince the USA to lead and give impetus to it with the necessary modifications, as it is the only power capable of doing so. An initiative of this type from the EU is coherent with the effort it makes by contributing most of the troops that currently form UNIFIL, among which French, Italian and Spanish troops are particularly numerous.

The measures proposed in the short term are: a ceasefire from both sides, the formation of a Palestinian national unity government, resumption of Palestinian-Israeli contacts, establishment of confidence-building measures such as the release of prisoners under the supervision of the international community, and the beginning of a process of negotiation on key aspects (Jerusalem, borders and refugees).

In the long term an international peace conference would be convened in the multinational framework to find solutions with Syria, Lebanon and Iran for achieving a global regional agreement.

The European Council has adopted all the proposals without citing their origin, undoubtedly because it initially met with the rejection of the Israeli government, which claimed it had not been consulted, forgetting that these were internal EU talks and that it will be submitted by the latter for consideration.

LEBANON: THE WAR BETWEEN HEZBOLLAH AND ISRAEL

Background

During the 1970s Lebanon received a huge inflow of Palestinian refugees from Jordan and Syria. This, together with the internal divide between the country's social and religious groups (Palestinians, Christians,

Druzes, Maronites and Shia groups), triggered a civil war that lasted from 1975 to 1990. Syria took advantage of the war to intervene militarily as a peacemaking force. Not for nothing has Syria always regarded Lebanon as a territory split off from the Great Syria. This intervention soon degenerated into occupation and the Syrians reached an agreement with the Palestinian Liberation Organization (PLO) to divide their spheres of interest: Syria the north and the PLO the south. The Christian Phalangist groups then turned to Israel for support.

On 14 March 1978 Israel invaded Lebanon for the first time in response to an attack by a PLO commando based in southern Lebanon. Within five days Israel had occupied the strip of land stretching between the Litani River and the border except for the town of Tiro. This sparked the intervention of the UN, which created a United Nations Interim Force in Lebanon (UNIFIL) and the withdrawal of the Israeli forces, all pursuant to Resolution 425 which establishes UNIFIL's missions

a) To confirm Israeli withdrawal;
b) To restore international peace and security;
c) To assist the Lebanese government in restoring its effective authority in the area.

This mandate has been extended on numerous occasions, always at the request of Lebanon, and has been confirmed and bolstered with the forces sent in accordance with Resolution 1701 of August 2006.

In 1982 Syria attacked the Lebanese Christians and consequently expanded southwards, posing a direct threat to Israel's borders. When the Syrians installed air defence batteries in Bekaa Valley in the east of the country, Israel interpreted that Syria had arrived to stay in the area. Following an attempt to murder the Israeli ambassador in London, the IDF bombarded PLO positions in Lebanon, giving rise to new Palestinian bomb attacks. Despite the presence of UNIFIL, Israel again invaded southern Lebanon on 6 June 1982.

On this occasion the IDF reached Beirut, and the UNIFIL forces stood back, as if motionless, in a role that calling the UN's authority into question. In 1985 Israel withdrew its troops deployed in the Beirut area in southern Lebanon. On 17 April 2000 Israel notified the UN Secretary General of its unilateral decision to withdraw from Lebanon. On 7 June 2000 the UN cartographers identified a line separating Israel and Lebanon, the so-called Blue Line. The UNIFIL forces established a system of ground patrols and air surveillance of this line.

The Israeli invasion of 1982 was taken advantage of by a few radical Shia groups such as Islamic Jihad, the Organisation of the Oppressed on Earth and the Revolutionary Justice Organisation, with the support of Ayatollah Ruhollah Khomeini, to establish the Hezbollah organisation (the Party of God), which was founded with the dual aim of combating the Israeli troops and giving the Shia community a bigger say in Lebanese political life. Ayatollah Khomeini sent hundreds of Guardians of the Revolution to assist in training the militias of Hezbollah, which furthermore provides healthcare and social assistance to citizens. But above all, it exerts its influence through its militias, which provide security in the area. They have resorted to terrorism on occasions, as in the attacks committed against the Israeli embassy in Buenos Aires in 1992 and the Jewish community centre in that same city in 1994. Back in 1983 they were accused of perpetrating the Beirut attacks in which 63 people died in the US embassy and subsequent attacks on bases killing 241 marines and 58 French soldiers, leading to the withdrawal of these troops from Lebanon and leaving the way clear for the Syrians.

Although Hezbollah's constant harassment was not a decisive factor in Israel's decision to withdraw unilaterally from southern Lebanon in 2000, the Shia community considered this decision to be a victory of its militia.

The 33-day war

In July 2006, after the Hezbollah militia kidnapped two IDF soldiers and killed a further six, Israel crossed the Blue Line and unleashed war on Hezbollah, invading southern Lebanon. After 33 days of fighting, both parties ordered a ceasefire in compliance with Security Council Resolution 1701. The Israeli army lost part of its invincible aura in this war, especially to the eyes of the Arab world. Once again Hezbollah emerged as the victor. This is one of the most important consequences of this war, in which there are no official losers.

The aim, which Hezbollah publicised, was to free the Shebaa Farms and release Lebanese prisoners in Israeli gaols. There were also other more immediate goals, such as: to weaken the Israeli population's morale by showing the Arab world that Israel can be defeated, as well as pointing out to Hamas the path to follow. On another plane, it aimed to secure a prominent position on Lebanon's complex political map and capture international attention, easing pressure on the Iranian government, whose

deadline for putting a stop to its nuclear programme as required by UN Security Council Resolution 1696 was running out.

The Shebaa Farms is a small strip of Lebanese territory at the foot of the Golan Heights. This majority Sunni area has been under Israeli domination since 1982, although the UN considers it Syrian (though Damascus does not claim it, in order to maintain Lebanon at odds with Israel). All the Lebanese are unanimous in their claim and recognise the work of Hezbollah in regaining it. Nasrallah aims to negotiate the exchange of two IDF soldiers captured in July for Lebanese inmates of Israeli prisoners.

The Shias consider that given the impossibility of defeating the IDF, Israel's weakest spot is the Jewish population and they have therefore opted for an asymmetrical strategy aimed at bending the Israeli population's will through demoralisation. The procedure involved attacking Israeli cities within range of their missiles and, at the same time, withstanding the attacks of the Israeli Defence Forces using the surprise tactics of guerrilla warfare, particularly antitank missiles. The missile attacks created an atmosphere of fear and vulnerability, disturbing the civic and economic life of the towns and cities located in northern Israel. This guerrilla warfare prevented the IDF from gaining control of the area and drew out the conflict against Israel's interests, triggering logistic, operational and command problems, as recognised by General Dan Halutz, the Israeli Chief of Staff for defence.

Israel's goals at the start of this war were to free the two soldiers captured by Hezbollah during the attack of 12 July and, above all, achieve security along the northern border. For this purpose it aimed to disarm Hezbollah, the organisation that controlled southern Lebanon, which many analysts describe as a state within a state.

Israel considered that the key to defeating Hezbollah was to put an end to its supplies of armaments, particularly the rockets it acquired from Iran via Syria. If they managed to prevent rockets continuing to fall on Israeli cities, the IDF would regain the initiative and could carry out their actions wherever most convenient to Israel. To stem the supply of armaments, it imposed a sea and air blockade on Lebanon, which included bombing airports. Meanwhile, its aviation severed all the highway links to southern Lebanon. The IDF destroyed all the bridges over the Litani River and also attacked any trucks possibly used to transport rockets and missiles. Nor did they omit to bomb buildings and installations suspected of being used to store armaments or serving as a refuge for guerrilla fighters. Israeli aviation destroyed 2,000 targets in over 5,000 strikes.

But Israeli intelligence had miscalculated. It believed that Hezbollah had some 500 Iranian Fajr-3 and Fajr-5 missiles, with ranges of 45 and 75 km respectively, and several dozen Zelzal missiles, also Iranian, capable of reaching as far as 200 km. The fact is that the Shia militias launched some 4,000 rockets and at the first post-war rally Hassan Nasrallah said they had 20,000 rockets prepared. Although these figures appear to be an exaggeration for publicity purposes, nor can they be ignored.

Some of the rockets launched reached the outskirts of Tel Aviv over 100 km away from the border, although the worst hit city was Haifa, located some 40 or 50 km from the launch area. The rockets killed 43 Israeli civilians.

Hassan Nasrallah, with the help of others, laid a trap in the form of a provocation and Israel fell for it. Everything indicates that this war was perfectly planned by Hezbollah and by the countries that backed it, as Hezbollah's rocket arsenal is not improvised and requires suitable storage conditions that are limited in time. The ballistic characteristics of the rockets, which are equipped with long ranges, suggest that they were manufactured using technology that is only available to certain countries, but special care was taken during manufacture to ensure that their remains, which are scattered throughout Israeli territory, do not reveal the country that made them. The variety and quality of Hezbollah's armaments also point to the same conclusion. On 14 July Hezbollah launched two cruise-type, radar-guided C-802/YJ-2 missiles of Chinese origin, presumably manufactured by Iran, at the Israeli warship *Spear*, located off the coast of Beirut. It has also used Russian-made Kornet and Metis-M missiles which, according to Israel, hail from Syrian arsenals.

Armaments of this kind require training for their correct use and Hezbollah's tank destroyers have caused numerous losses to Israel's most prestigious forces, its armoured units equipped with Merkava MK-3 and MK-4 battle tanks equipped with substantial protection measures, which Hezbollah's tank destroyer militiamen rendered useless by taking advantage of their few weak points, killing 116 soldiers.

The internal situation in Lebanon

The Lebanese national unity government that emerged from the Cedar Revolution triggered by the assassination of former president Rafik Hariri in 2005 tried to ward off the Israeli attack using diplomacy, but avoiding a clash with Hezbollah, which had two ministers in the cabinet, in order to preserve

cohesion and avert civil strife in Lebanon, which was experiencing a tricky political and interethnic institutional balance. Its president made it clear that the scenario of a Lebanon bombed and invaded by Israel was bad, but that of a civil war was worse, and undoubtedly the memory of the Lebanese civil war (1975-1989) between Muslims and Christians may help understand the Lebanese government's behaviour. This is the main reason that suggests it will be difficult to disarm the Hezbollah militia in compliance with Resolutions 1559 and 1701. Hezbollah, which is regarded in Lebanon as the victor of the war, has deployed its volunteers to provide economic aid to all those who have suffered the consequences of the war, regardless of their religion, commanding more support than the other major Shia party, Amal. The Shias account for 33 percent of the population, followed by 23 percent Sunnis and 27 percent Christians of different denominations: Maronites, Protestants, Orthodox Christians and Catholics.

The war has reopened one of the main wounds owing to the social fracture that now exists in the country of cedars between those who want a Western-style Lebanon with good relations with the USA and France especially, and those who wish to follow an Iran-type Islamist model; the latter include Hezbollah and are backed by Syria. The second group can be classified as pro-Syrian. Syria, which withdrew its 15,000 soldiers stationed in Lebanon in April 2005 in compliance with Resolution 1559, is not adverse to exerting its influence in a country it historically considers its own.

At the end of the war Hezbollah wished to claim its reward, calling for a bigger political role in Lebanon, for which it has organised demonstrations and demanded the resignation of the prime minister, Fouad Siniora, on the grounds that he acts according to the dictates of the USA and France. Hezbollah aims for the one-third of the government ministers to be Shia, or at least for all the pro-Syrian parties to have enough votes to be able to block any decision of the Lebanese government. The law requires that the executive's decisions be approved by a two-thirds majority. The Lebanese government currently has 24 ministers, of whom five Shias belonging to Hezbollah and Amal and one Maronite resigned in December in protest against Prime Minister Siniora's pro-Western policy. Furthermore, the minister of industry, the Phalangist Pierre Gemayel, an anti-Syrian, was murdered in an attack. Nasrallah's supporters reckon that following the war with Israel they will be the major victors in elections to the Lebanese parliament.

Lebanon is currently a great chessboard on which the numerous parties representing the different Lebanese ethnic and religious groups are playing

their match, together with third countries such as Syria and Iran on the one hand, and the USA, Israel and France on the other. The main clashes do not therefore stem from religious reasons, even though the ethnic factor contributes to the alignment between pro-Syrian and pro-Western parties and ethnic groups.

THE IRAQ CONFLICT

During 2006 the Iraqi ministry of the interior has recorded a death toll of 12,320 Iraqi civilians (35,000 according to the UN), 1,231 police and 602 soldiers. Most of these deaths were caused by attacks by Sunni insurgents against Shias and, to a lesser extent, by the reprisals of the latter, in addition to the numerous attacks by al-Qaeda. For their part US troops suffered 112 losses in December, and the number of deaths has already risen above the 3,000 mark. The Iraqi government that emerged from the December 2005 elections is endeavouring to normalise the running of the state institutions and develop a plan to reconcile ethnic and religious groups in order to facilitate stabilisation. If the Iraqi government, with international assistance, fails to stem the attacks of the Sunni insurgent groups and control the Shias, civil war will be inevitable.

The United States government is torn between two conditioning factors: on the one hand its logic, which tells it that now is a particularly bad time to leave the Iraqi government to its own devices; and on the other, the growing chorus of voices calling for a calendar for the withdrawal of its troops. The feeling is that they stormed into Iraq like a bull in a china shop and now the least they can do is pick up the pieces. But the question is: what is the best way of withdrawing without abandoning the Iraqi people and without suffering defeat? On 9 January, President Bush announced a new strategy that attempts to juggle both factors on the basis of the lessons learned. It involves sending a further 21,500 troops to the area of operations in order to speed up the transfer of responsibilities to the Iraqi authorities, from whom they demand effective results that will enable the forces to be withdrawn, and whom they have reminded that the support of the US forces is limited.

Development of the conflict

The war against Saddam Hussein's regime in Iraq must be understood in the context of the US National Security Strategy approved by President Bush on 17 September 2002 in response to the attacks of 11 September.

Ulrich Beck, (4) a German sociologist of international repute, stated that *the Iraq war is the first war in history to be waged against a risk, against a global risk.* This in itself marked a major change in the increasingly globalised system of international stability, as any intervention in an area amounts to a regional and international disturbance whose consequences are difficult to predict.

The aforementioned strategy considers it appropriate to extend the Western-style democratic system to countries like Iraq, forgetting that, in order to introduce this system successfully, society must meet certain social, cultural, economic-development and wealth-distribution conditions to facilitate its establishment. But at the same time, this goal does not have to be shared as a way of life by societies that are greatly removed from Western culture. Any change in a country's basic political systems requires an adaptation process, which it is often not possible to complete within a short time, particularly if the population does not feel the need. Failure to bear this in mind may be one of the main reasons for a fiasco in the stabilisation processes.

The USA proved that its military operations were well planned up until the fall of the regime, and not or hardly at all thereafter. The constant changes in the stabilisation plans and management structure revealed a lack of planning. First of all it set up the Office of Reconstruction and Humanitarian Assistance (ORHA) in Iraq, (5) which was in charge of directing and supervising the whole post-war process; a month and a half later this agency was replaced by the Coalition Provisional Authority (CPA) divided into eight departments (oil policy, civilian affairs, economic policy, assistance, regional administration, internal security matters and spokesman's office). Only a month later this was again restructured, adding three new departments: governance, private-sector development and budget management. Shortly afterwards it had to improvise the Governorate Support Teams (GSTs) in each of the 18 provinces to supervise projects in the area and advise government officials on re-establishing the Iraqi system of government.

The war designed to put an end to Saddam's government was planned in detail and lasted merely three weeks. It was based on the new concept

(4) Ulrich Bech is a sociology lecturer at Munich University and at the London School of Economics. Author of *Risk Society*

(5) MEMORIA DEL COMISIONADO DEL GOBIERNO PARA LA PARTICIPACIÓN DE ESPAÑA EN LA RECONSTRUCCIÓN DE IRAK abril 2003 – abril 2004 Publicaciones Defensa. p. 33

of «Rapid Decisive Operations» aimed at achieving victory by paralysing the adversary physically and, particularly, psychologically. It cost the coalition 136 losses and 22 billion dollars, whereas it is difficult to calculate the losses suffered by Iraq, as the figures were not disclosed as part of Saddam's communication strategy. But as Sun Tzu said, military victory must not be confused with victory over the country. Military victory sometimes falls far short of achieving the desired final situation and this was the case of the Iraq war. Stabilisation and reconstruction of the country can be less predictable and less controllable than war.

One of the most serious mistakes was to dismantle the whole Iraqi state apparatus, particularly the army and police, the only bodies capable of establishing from the outset an effective security accepted by the Iraqi population throughout the territory. On 23 May 2003 the administrator of the CPA, Paul Bremen, dissolved the Iraqi armed forces (400,000 men), leaving the country without an essential security system. This was taken advantage of by the insurgency, which had time to reorganise itself and, above all, became aware of its power in the face of the chaos that was gripping Iraq. To remedy these shortcomings, on 7 August 2003 the CPA, in order no. 22, established the creation of a national self-defence force, which was to be the new Iraqi army. But the conditions required for belonging to this army were extremely restrictive. People who had held a post equivalent to or higher than lieutenant colonel in the previous army could not enrol, nor could anybody related to the intelligence or security organisations of Saddam's regime or of the Baath Party. Nearly a year later the Iraqi security forces had only 2,000 men, which delayed the transfer of responsibility in security matters to the Iraqi government.

The lack of a security system led to the surfacing of conflicts and revenges between Sunnis and Shias and the radicalisation of ethnic differences, which are reflected in public life in Iraq, for example: in the constitution which the majority of Sunnis reject, and in the organisation of the police, whose members are almost exclusively Shias, except in the Kurdish zone. This is a violent conflict with aspects of ethnic cleansing in the areas shared by Sunnis and Shias, especially to the south of Baghdad, and unless it is nipped in the bud it is set to develop into a civil war that would change the regional geopolitics with serious consequences to its stability, and would badly damage the prestige of the USA as the cause of disaster.

To these errors were added erroneous intelligence reports claiming that Saddam's government had a programme for weapons of mass destruc-

tion. But the US intelligence services remain unsatisfactory bearing in mind that the Baker-Hamilton Report (6) indicates that the military authorities and intelligence services have systematically played down the violence in Iraq in order to meet the political goals of the Bush Administration. The report also advises that the director of National Intelligence and the Pentagon should devote many more resources to the task of assessing the threats and origins of violence in Iraq.

The cost of the operation for the USA amounted to some 400 billion dollars. According to an August 2006 report submitted by the Pentagon to Congress, the number of Iraqi victims caused by the insurgency and al-Qaeda amounted to 26,000 in the period from January 2004 to August 2006. The situation has progressively worsened, as in the past months, according to the Pentagon report of November 2006, the number of attacks has risen by 22 percent (7) with a two percent increase in civilian victims, though 68 percent of the attacks were aimed at Coalition troops, particularly Americans, deployed in the Sunni areas where the insurgency operates. The attacks occur above all in two of Iraq's 18 provinces, in Baghdad and in al-Anbar to the west of Baghdad near the border with Syria, so much so that outside the so-called Sunni triangle 90 percent of the Iraqi population claim to feel safe among their neighbours.

The increase in attacks throughout 2006 is evident from the figures of the Iraqi Ministry of the Interior. Most of the deaths are of civilians killed by sectarian violence, which was particularly intense following the attack on the Shia shrine of Samarri in February 2006. One thousand and eighty-nine Iraqis died during September, 1,289 in October, 1,850 in November and 1,930 in December. The UN data are even higher, reporting a death toll of 3,345 Iraqis in September. To these figures, which are more characteristic of a civil war, should be added the 1.6 million refugees and displaced people (according to the UN) as a result of interethnic strife.

To the US troops, who endure an average of 960 attacks per week, the environment is more characteristic of a war than of a post-war and is debilitating the forces, which are finding it increasingly difficult to recruit soldiers. Robert Gates summed up the situation very expressively when he took over from Rumsfeld: «*we are not winning this war*».

(6) The Iraq Study Group Report Dec. 2006 http://www.usip.org/isg/iraq_study_group_report
(7) Department of Defense Report to Congress November 2006 http://www.globalsecurity.org/military

Furthermore, according to the US National Intelligence Estimates (NIE) for 2006, the Iraq war has exacerbated the problem of terrorism. Al-Qaeda has found a field on which to wage a battle against the USA. A media-publicised success provided by a hasty withdrawal of the US troops would be exploited by al-Qaeda as a success of its own, and the consequences of the propagandistic effect in the Islamic world would be difficult to assess.

Waning support for the Bush government's policy in the USA has led to the Republicans' loss in the recent elections to Congress and the Senate and to the resignation as defence secretary of Donald Rumsfeld, undoubtedly one of the ideologists of the strategy pursued up until now.

In view of the discouraging developments in Iraq, a commission led by the Republican James Baker and the Democrat Hamilton was assigned the task of analysing the events and proposing solutions for steering a new course. The commission, whose conclusions were published in December, criticises the stabilisation process and makes 79 recommendations for putting things back on track.

The US strategy

The aim of the Coalition is to succeed in stabilising Iraq to ensure that the Iraqi government that is elected is capable of settling internal issues, particularly security problems that arise on Iraqi soil. This overall goal consists of eight objectives of the US president, according to the Department of Defense Report to Congress of August 2006 (8). These eight objectives are as follows:

- Defeat the terrorists and neutralise the insurgency
- Transition Iraq to security self-reliance
- Help Iraqis forge a national compact for democratic government
- Help Iraq build government capacity and provide essential services
- Help Iraq strengthen its economy
- Help Iraq strengthen the rule of law and promote civil rights
- Increase international support for Iraq
- Strengthen public understanding of Coalition efforts and public isolation of the insurgents

(8) Department of Defense Report to Congress August 2006 http://www.globalsecurity.org/military

According to this same report, the strategy is pursued along three tracks: political, helping the Iraqi people forge a broadly supported compact for democratic government; economic, assisting the government of Iraq in establishing the foundations for a sound economy with the capacity to deliver essential services (the Baker-Hamilton report recommends stepping up US economic assistance to at least 2.915 billion euros per year and not letting it decrease; on 10 January 2007 President Bush announced 1.2 billion dollars worth of assistance in his Address to the Nation); and lastly, security, contributing to an environment where Iraqis are capable of defeating terrorists and neutralising insurgents and illegal armed groups. For this purpose, by the end of 2006 the US forces had 140,000 troops in Iraq. In this aspect the Baker Report expresses its discrepancies as it advises the USA not to make indefinite commitments to maintaining a large number of troops deployed in Iraq, and likewise warns that military priorities in Iraq should change in order to devote more attention to training, equipment, advice and support so that it is the Iraqis who lead operations, including antiterrorist actions. However, the sending of 21,500 troops announced in the Address to the Nation partially disregards the recommendations of the aforementioned report.

Following a meeting with his national security team on 29 December, George Bush explained that the aim of the USA is to make the Iraqis capable of running their country: «*The key to success in Iraq is to have a government that's willing to deal with the elements there that are trying to prevent this young democracy from succeeding*», he stated, adding that «*success in Iraq is vital for our own security.*»

The centre of gravity that would enable the USA to achieve its goal is to ensure that the Sunni, Shia and Kurdish populations all support their government. If the Iraqi population, particularly the Sunnis, reject the insurgency, it will eventually be defeated.

A decisive point in attaining this is to ensure that the US and Iraqi government strategies fully coincide. There have been a number of clashes between them, as indicated by a memorandum drafted by the National Security Adviser Stephen Hadley after a meeting held in Baghdad on 30 October with the Iraqi prime minister, Nuri al Maliki, which was leaked to *The New York Times* in December. It appears to reveal a number of differences that would hinder the implementation of the US strategy. The memo states: "*We returned from Iraq convinced we need to determine if Prime Minister Maliki is both willing and able to rise above the sectarian*

agendas». Hadley asks, «*Do we and Prime Minister Maliki share the same vision for Iraq? If so, is he able to curb those who seek Shia hegemony or the reassertion of Sunni power*?», going on to state the need to put pressure on Maliki in order to pursue the same direction. The aim would be to overcome the supposed weakness of the Iraqi government.

The Baker-Hamilton Report advises:

> *«President Bush and his national security team should remain in close […] contact with the Iraqi leadership to convey a clear message: to make substantial progress toward the achievement of these milestones […] If the Iraqi government […] makes substantial progress toward […] national reconciliation […] the United States should make clear its willingness to continue training, assistance and support for Iraq's security forces […]».*

Statements like these and the Hadley report have bothered the government, particularly President Talabani, who even stated:

> *«They treat us like a […] colony they can treat as they wish. [The report] contains items that undermine the sovereignty of Iraq and its constitution.»*

For the same reason, he expressed his opposition to another of the recommendations, namely to increase the number of advisors in the Iraqi military units from the current 4,000 to 20,000. The Iraqi government is particularly sensitive when the Coalition command demands, for coordination purposes, that it report on the movements of its troops. The Iraqi president even complained during a visit to Teheran that «*the prime minister cannot move ten soldiers from one place to another without the USA's permission*».

Another decisive point is to achieve the greatest international support possible, for which it is necessary to act within the framework of legitimacy. UN Security Council Resolution 1500 of 14 August 2003 welcomed Iraq's new provisional government and authorised the sending of an assistance mission to Iraq for a 12-month period. On 8 June 2004, the Security Council, through Resolution 1546, agreed to transfer powers to the elected Iraqi government and authorised a multinational force to remain in Iraq.

The Baker–Hamilton Report recommends encouraging the international community to invest in the Iraqi oil sector as a form of support and to become involved in the area and, furthermore, to foster the holding of a conference in Baghdad with the participation of multilateral organisations

such as the Arab League and the Organization of the Islamic Conference. The Iraqi government needs the support of the religious leaders.

Time has shown that the media treatment of the conflict is harming the US strategy. The Pentagon is aware that American public opinion plays a decisive role, and a better communication policy is therefore required. So far news of deaths and destruction has been more frequent and more striking than that of the achievements in the reconstruction of Iraq. One of Rumsfeld's last decisions before resigning was to earmark a great deal of money to remedying this problem.

Two fundamental points need to be added to the foregoing decisive factors: to prevent al-Qaeda terrorists arriving on Iraqi soil and to combat all forms of terrorism. For this purpose it was attempted to seal the borders with Iran and, particularly, with Syria, albeit unsuccessfully.

The strategy of the Iraqi government

The Iraqi government aims to stabilise the country by creating an environment in which it can go about the task of governing in a normal manner without international support. The idea is to achieve the maximum national unity possible.

On 25 June the Iraqi prime minister, Nuri al-Maliki (a Shia), submitted to parliament his 24-point Iraqi National Reconciliation and Dialogue Plan for achieving reconciliation between Sunnis and Shias, with the sole exclusion of the members of al-Qaeda. The plan seeks to overcome the rejection of the two main Shia parties, allies of al-Maliki and the cleric Muqtada al-Sadr, and even that of many of the Sunnis. It is an attempt to put an end to the sectarian violence between religious groups. The proposal, which it was previously attempted to negotiate among the various religious, political, tribal groups and even with a few insurgent groups, involves an amnesty for those who have not committed blood crimes, including members of the Socialist Arab Party (Baath) which, in addition to being the mainstay of the previous regime, was deeply rooted in the armed forces, particularly the Special Republican Guard; it was outlawed in 2003 following the fall of Saddam and a commission was even set up to purge former leaders and high-ranking officials of the administration with links to the party. The plan envisages the possibility of reintegrating all the commanders and soldiers of the previous regime's armed forces under two conditions –that they be loyal to their country

and behave in a professional manner– and of paying a pension to those who are unable to do so.

The Sunnis claim that the dismantling of the armed forces on Bremer's orders drove many military to fight on the side of the insurgency. In this connection the Baker-Hamilton report states that:

> *«The United States must make active efforts to engage all parties in Iraq, with the exception of al-Qaeda. The United States must find a way to talk to Grand Ayatollah Sistani, Moqtada al-Sadr, and militia and insurgent leaders»*

The constitution, which was approved on 15 October 2005, does not inspire sufficient consensus among the ethnic groups to be the cornerstone of national reconstruction. It was rejected by 21 percent of voters — approximately the percentage of Sunnis that make up the population, despite the effort to involve them in its drafting. Although successive polls have recorded an increased turnout of Sunnis, the social divide between Sunnis and Shias is growing. The Baker-Hamilton Report advises reviewing the Iraq Constitution and allowing the members of the Baath party and Arab nationalists to be reintegrated into public life, with the exception of those who held high-ranking posts in Saddam Hussein's regime.

The Iraqi government is attempting to gain strength by providing the necessary security, justice-administration, legislative and economic structures and vital infrastructures needed for the normal running of the state.

The Iraqi economy is progressing at a steady pace owing to several factors: the progressive reconstruction of its productive fabric, foreign aid and rising oil prices. Crude oil production amounts to 2.3 million barrels daily, of which 1.6 million are exported; the country has stepped up its production by 7.5 percent and is aiming for approximately 2.5 million barrels per day in order to export 1.7 million. In this respect the Baker-Hamilton Report advises President Bush to stress that the USA does not seek control of Iraq oil.

While preserving the support of the international community, the Iraqi government is endeavouring to eliminate key elements of the former regime by bringing those chiefly responsible to public trial. Examples of the foregoing are the death sentence and execution of Saddam Hussein himself, his stepbrother Barzan al-Tikriti, chief of the secret services, and Awad al-Bandar, chief justice of the Revolutionary Court, all of whom were tried by an Iraqi court for crimes against humanity.

The police corps deployed across Iraqi territory are attempting to combat terrorism, whatever its provenance, and even the insurgency, with the help of the country's armed forces. Some of these police corps, far from acting with the law on their side, have taken advantage of their position to strike at the opposite ethnic group. The Baker-Hamilton Report denounces that members of the Shia Badr Brigade have joined the police and are using their posts to attack Sunni civilians. The report also recommends that the number of US officers embedded in the Iraqi police forces on training and teaching missions be increased and that the Iraqi National Police and Border Police be transferred to the Iraqi ministry of defence. A further example of the poor organisation of the police was the attack on a Basra police station that had to be carried out by British forces to free over 100 inmates who were being tortured and were about to be murdered by their wardens.

In order for the Iraqi government to be self-sufficient in security matters, it needs Iraqi security forces that are sufficient in number and capabilities. Over the past six months a further 45,000 personnel have joined, including military and police, with a total of 322,600 trained and equipped men. The total number of personnel, some 400,000, should be trained and equipped by the first quarter of 2008.

The Iraqi army currently has six division headquarters, 30 brigade headquarters and 91 battalions, which have enabled it to progressively strengthen its capacity to combat the insurgency.

The support of the Coalition forces is essential to the Iraqi government's strategy. Despite the increase in the number of attacks reported earlier, attacks on infrastructures are decreasing. The reason should be sought in the fact that as the Iraqi security forces grow larger, they will be able to provide greater protection, and also that the US Congress earmarks funds to ensuring the security of critical infrastructures. On 30 October 2006, during his meeting with George W. Bush in Amman, the Iraqi prime minister, Nuri al-Maliki, was assured that the US troops would remain in Iraq "*until the work is done*". After the meeting Bush stated that the US troops would remain in Iraq "*as long as the government wants us there*", pledging his support to the prime minister and his government. The Baker-Hamilton report proposes that as Iraq becomes more capable of governing and defending itself, the US troops and civilians should gradually decrease their presence, and a timeline for the withdrawal of the troops should be established as part of the process of «*iraqifying the war*». The withdrawal of the Coalition would be taken advantage of to reinforce the troops in Afghanistan.

The strategy of the Iraqi insurgency

The insurgency is basically Sunni in origin and linked to the Baath party, to which former members of the armed forces and, particularly, the Republican Guard also belong. It operates primarily in territories with a Sunni presence, and its actions are especially intense in Baghdad and the province of al-Anbar, where it takes advantage of the Syrian border.

The Sunni insurgents aim to regain power after provoking the withdrawal of the Coalition troops. For this purpose they are engaged in guerrilla warfare against the US forces and launch terrorist attacks against the Shias in the areas shared by both communities. Attacks are perpetrated almost on a daily basis, especially in Sunni areas such as Tikrit, al-Anbar, Salah ad- Din and the Sunni Triangle with cities such as Baquba, Balad, Hilla and Samarra. The interethnic attacks have sparked an atmosphere of civil war. The USA accuses Iran of backing the Shia militias by providing weapons and training, and Syria of supporting the Sunni insurgency. Saddam's death sentence and the subsequent dissemination on the Internet of footage of his execution spurred the Baath party to issue a communiqué stating:

> *«Our revenge […] is in defeating the occupation and causing it bigger losses […] Strike without mercy at the joint enemy in Iraq –United States and Iran– and spare no target […] but do not be drawn into a civil war».*

The rejection of the foreign presence, the revenge against the Sunni and, above all, the need to provide a response to the Sunni attacks on Shias triggered the emergence of a Shia insurgency tied to the Badr Brigade and the Mahdi Militia led by the cleric Muqtada al-Sadr, especially following the attack on the Shia shrine of Samarra on 12 February 2006.

The centre of gravity for achieving its aims lies in prompting the US president to decide to withdraw his troops from Iraq. A withdrawal announcement from any of the countries belonging to the multinational force could weaken the United States' position.

The decisive steps in achieving this are: the loss of control by the Coalition and Iraqi government of substantial areas of the territory; loss of the support of American public opinion; a progressive increase in the Coalition death toll; and the prolongation of the war leading to more losses and costs, greater military effort translating into increased difficulty in recruiting and loss of political and social backing.

However, the presence on Iraqi soil of troops from the United States and other allied countries has a dual effect: while on the one hand it may provide a stimulus to the insurgency and incentives for the recruitment of terrorists, it also guarantees the security that is required to prevent the country being plunged into a total chaos in which widespread civil war would be inevitable and a fracture in the country highly likely. A civil war between Shias and Sunnis, aided respectively by Iran and Syria with Saudi Arabia, would further destabilise the Middle East and its consequences are difficult to imagine. The flow of thousands of refugees to Iran and Syria would be an added destabilising factor in the region.

From an operational point of view, if the insurgency and even al-Qaeda were to receive portable anti-air missiles, the activity of the US helicopters, a key operational element, would be undermined, as occurred in the Afghanistan war against the Soviets.

Al-Qaeda's strategy in Iraq

Before the war began there was no evidence of the presence of members of al-Qaeda in Iraq. The current number of attacks and arrests suggests that the country is now their main theatre of operations, more so than Afghanistan. They are directed by the Egyptian Abu Ayyub al-Masri who, according to the Coalition command, has replaced the Jordanian Abu Musab al-Zarqaui, who was killed by US troops on 7 July 2006. Iraq has become the best training camp for jihadists from all over the world, including Europe.

The jihadists who are now carrying out attacks in Iraq and survive will eventually return to their countries of origin and may come to be regarded by radical Islamists as their new local leaders and by their followers in those countries as masters of the terrorist fight.

Furthermore, the Iraq war has become an «attractive Islamist cause» that appeals to a considerable number of radical Islamists keen to join the ranks of al-Qaeda. After all, al-Qaeda originally sprang up with the aim of enlisting Islamists to fight against the Soviet troops in Afghanistan and is now continuing its work, with greater publicity, in Iraq. The outbreak of a civil war between Muslims would curb al-Qaeda's ability to recruit jihadists to act in Iraq.

Al-Qaeda's goal is to achieve a radical Islamist government in Iraq that introduces the Sharia, following the expulsion of the Western troops. In

order to succeed, it is necessary to topple the current government by promoting instability across the country, forcing the US government through American public opinion to withdraw its troops from Iraq, leaving the Iraqi government to its own fate. Al-Qaeda's strategy in Iraq is based on the following decisive points:

- To create a situation of widespread insecurity throughout the country by carrying out attacks on the civilian population who attempt to collaborate in reconstructing the country from posts in the administration as policemen, military, etc.
- To hinder the actions of the new government, preventing it from gaining effective control of Iraq.
- To prevent Iraq's economic recovery.
- To increase Coalition losses as a means of influencing American public opinion to prompt the unilateral withdrawal of the US forces, making Iraq a second Vietnam.
- To use time as a weapon against the coalition, by drawing out the war.

Al-Qaeda largely employs the same strategy as the Sunni insurgency and regards Iraq as the fastest route for advancing in its overall strategy towards the creation of the great Islamist caliphate. In this scenario, the target of all the world's television channels that may eventually film the withdrawal of the Coalition troops –which is perceived in the Arab world as the defeat of the West in general and of the USA in particular– its members would be considered to be among the victors. Al-Qaeda would increase its supporters and the ability to recruit new followers to continue its fight.

Given this state of affairs, it is not surprising that President Bush considers that solving the Iraq war is currently vital to the USA's own security.

The role of the Kurds

The Hamilton-Baker Report proposes achieving a constitution on which there is greater consensus, but this is not to the liking of the Kurds (20 percent of Iraq's population), as Iraq's President Talabani, himself a Kurd, has stated. A new constitution would pose a risk to the implementation of article 140 of the current text, which envisages a controversial referendum on the future of Kirkut as a capital that is claimed by the Kurds but inhabited by Arabs and Turkmen. The Kurds are taking care to ensure

that the autonomy they have enjoyed in their region since 1991 does not decrease. The president of the autonomous region of Kurdistan, Barzani, has also expressed his opposition to the report for the same reasons. The Kurds are keeping a close eye on any changes to make sure they do not involve a loss of their autonomy, which they wish to broaden.

Iran, Syria and above all Turkey do not wish to see an independent Kurdish region in Iraq, and this could kindle aspirations of a sovereign and independent Kurdistan with 22 million inhabitants—implying a conflict, which is in the interests of very few.

The Kurds' strategy involves collaborating with the USA and the Iraqi government as long as this ensures protection of their interests. The Coalition forces are the guarantors of their security and their interests.

IRAN

The uranium enrichment programme that Iran had discreetly set in motion before 2002 sparked numerous international tensions during 2006. The International Atomic Energy Agency (IAEA) warned about this programme in 2004. The Teheran government confirmed its existence, stating that its purpose is to produce energy for civilian use, in order to preserve the country's oil reserves that are chiefly exported. However, logic indicates that this policy is underpinned by the desire to become a nuclear military power; the reasons for drawing such a conclusion are as follows:

1. In order to have a nuclear plant-based power supply there is no need to have plants that use enriched uranium as a fuel, as it is makes more economic sense to purchase it from nuclear countries with this technology. On 6 June 2006, France, Great Britain, Germany, the USA, Russia and China offered Iran the necessary technology to set up a nuclear power plant producing only electricity if it put a stop to its nuclear programme. Teheran turned the offer down.
2. The project makes electricity production more expensive instead of cheaper. The fuel used at nuclear plants producing energy for civilian use is uranium enriched to between three and five percent. However, the uranium used in a nuclear bomb is enriched to 90 or 95 percent. The cost of acquiring enrichment technology is very high, and not financially worthwhile if only utilised for civilian purposes of domestic consumption. Furthermore Iran, with its large reserves of 133.3 billion barrels of oil, has a guaranteed energy supply.

3. The start-up of Iran's uranium enrichment programme sets it at loggerheads with the international community, which may sanction it and could contribute to its isolation, something that is always undesirable.
4. Iran risks a military attack. Therefore the uranium enrichment plants have been conveniently dispersed and many of them are underground, which makes the programme even more expensive. All this is to protect them from a possible attack such as the one launched by Israel against the Iraqi reactor at Osirak in 1981. Iran is a signatory to the Non-Proliferation Treaty (NPT), though it has not ratified the annex committing countries to a stricter system of verifications than that laid down initially in the NPT. In February 2006 it refused to allow verifications to be carried out by the IAEA, of which Mohamed al-Baradei is president, when its case was brought before the Security Council.
5. According to the reports of the IAEA, Iran pursues two goals: uranium enrichment and production of another radioactive element, plutonium. For the purpose of the latter it is building a heavy-water reactor, in addition to a light-water reactor based on Russian technology at Bushehr.
6. In parallel to the development of its uranium enrichment programme, Teheran is running a programme to develop ballistic missiles, based on its Shahab 3 missiles, with the capacity to strike Israeli territory. The development of Shahab 4 and 5 missiles with a range of over 5,000 km would provide an ideal vehicle for launching a nuclear device.

What are the reasons that could be driving President Ahmadinejad's government to equip itself with nuclear weapons? Any country that joins the select nuclear club acquires an international prominence that it would otherwise lack. And in Iran's case this, together with its religious influence, would make it the leading regional power in the Middle East to the detriment of others such as Israel itself, Egypt and Saudi Arabia. Since the outbreak of Ayatollah Khomeini's Shiite revolution in 1979, Iran has shown great interest in exerting influence and spreading its revolution to other countries with Shia communities, such as Iraq and Lebanon. And we should not forget its interest in the Palestinian-Israeli conflict. To this should also be added the deterrent power it gives Iran vis-à-vis any adversary.

The international environment of the aftermath of the Iraq war of 2003 is ideally suited to Iran's aims. The USA is currently engaged in two

operations that require it to make a substantial effort –Iraqi Freedom and Enduring Freedom– and feels itself to be trapped in a quagmire in Baghdad. NATO is helping build peace in Afghanistan, where troops are expected to be needed for many years in order to maintain stability in a country that appears to be witnessing an intensification of the conflict. This environment was ideal for triggering the crisis without fear of reprisals from the international community. President Ahmadinejad stated this clearly during a visit to Venezuela and Nicaragua, in which he offered his support to Daniel Ortega because, so he claimed, (9) *«the two countries have common interests, challenges and enemies* […] *and fortunately the world conditions are prepared for it» .*

The escalation of the nuclear-enrichment crisis is of concern to the international community but particularly to Israel, whose prime minister Ehud Olmert implicitly recognised that the country has a nuclear arsenal during an interview to the German television channel N24 in December 2006 when he stated in a slip of the tongue –intentional or otherwise– that:

> *«Iran openly, explicitly and publicly threatens to wipe Israel off the map. Can you say that this is the same level, when they are aspiring to have nuclear weapons, as France, America, Russia and Israel?»*

Israel has never officially acknowledged that it possesses nuclear weapons, though others have on its behalf. The US Defense Secretary Robert Gates, appearing before the Senate, took it to be true. Israel has some 200 nuclear warheads, the Israeli scientist Mordechai Vanunu told the *Sunday Times* en 1986. These statements led him to be arrested by members of the Mossad in Rome and taken to Israel, where he was sentenced to 18 years' imprisonment. At any rate Israel, which has not signed the Nuclear Non-Proliferation Treaty, has always shown a calculated ambiguity, and when asked whether Israel has nuclear weapons the Israeli authorities generally reply along the lines of: «*Israel will never be the first to attack with an atomic bomb.»*

This makes Israel a country which, although not officially declaring itself to be a nuclear power, uses deterrence against neighbours such as Syria, which aspires to regain the Golan Heights.

(9) News published in *El País* on 15 January 2007.

Position of the international community

The international community has been divided and weakened as a result of the situation in Iraq. The USA has largely lost its capacity to exert military pressure. It is not feasible for the Americans to embark on a new military undertaking, particularly in a country of 1,648,000 sq km with 68,700,000 inhabitants of whom 90 percent are Shias who would face up to any aggressor country. International public opinion, including that of the United States, would not support military intervention in view of the results of that of Iraq. And lastly, the human and material assets available to the international community would not allow a new large-scale operation to be maintained.

The solution lies in applying limited diplomatic and economic pressure, as a general economic blockade would involve disrupting the supply of Iranian oil to an international market characterised by growing demand and limited supply—which has caused the price per barrel to soar to unprecedented figures over the past two years. Iran is the second biggest producer of the Organization of Petroleum Exporting Countries with an output of 2.5 million barrels per day, exporting especially to China and Japan. In addition, the experience of Iraq shows that economic blockades cause suffering to the population, which adversity ends up driving closer to its authorities, thereby diminishing the possibility of a solution emerging from within Iranian society.

Without the ability to put pressure on Iran, and having dismissed the options of economic pressure (blockade) and military intervention following the lessons learned in Iraq, new courses of action need to be found in international relations. Countries such as North Korea are taking advantage of this weakness and engaging in a wrestling match with the international community, even employing blackmail.

On 25 December the Security Council passed Resolution 1737 imposing sanctions on Iran by blocking the import and export of material and technology that can be used in nuclear and ballistic-missile programmes and on all type of financing for such purposes. This involves freezing the overseas financial assets of entities or persons related to nuclear or ballistic programmes.

The main virtue of this Resolution is that all five powers with right of veto managed to reach a minimum agreement to address Iran's failure to comply with Resolution 1696, which required it to suspend its nuclear pro-

gramme by 31 August 2006. It took the five countries with right of veto and Germany, which currently has a seat on the Security Council, two months of negotiations to arrive at Resolution 1737.

The main obstacle to pressuring Iran was the position of China, which opposes sanctions of any kind, and of Russia, which has economic interests in Iran. Therefore, the resolution excludes the building, with Russia's collaboration, of a light-water nuclear reactor on the shores of the Persian Gulf in Bushehr. Qatar, as a member of the Security Council, voted in favour of the Resolution so as not to break the consensus. These sanctions are unlikely to halt the nuclear programme.

For its part, early in December the USA sent the aircraft carrier *USS Eisenhower* to the area and the *USS John C. Stennis* in January to put pressure on Iran, but this presence is largely ineffective owing to the lack of credibility of a military intervention.

Iran initially reacted to the Resolution by describing it as illegal and speeding up the start-up of 3,000 centrifuges at Natanz power station south of Teheran to enrich uranium according to Ali Lariyani, the chief of the negotiations. Shortly afterwards, on 4 January, President Ahmadinejad stated:

> *«Today Iran is a nuclear state and will soon turn on the switch of industrial nuclear fuel production and will certainly not heed to the calls of Bush, the power-mongers and the corrupt powers»*

If the crisis is not resolved, the international community's credibility will be questioned and it will encourage other countries to follow in the footsteps of Iran and North Korea, with the danger that proliferation entails.

The future outlook

Ideally the solution should come from within Iran. A glimmer of progress of the reformists was witnessed in the recent elections as a criticism of the policy of President Ahmadinejad's radical and populist government. But the iron-fisted control exerted by the government, which encourages the denunciation of opponents to the regime, is dampening any hope of internal political renewal.

If Iran were to devote its facilities to highly-enriched uranium (HEU), it could be expected to have a nuclear weapon within one or two years. This means that the mere possession of these facilities and the technology

should lead us to consider it a country with nuclear weapons within a short period of time.

Furthermore, given its clashes with the USA and Israel, it is logical to think that it will acquire a nuclear arsenal, although it will not disclose this. This would require it to previously denounce the NPT on the basis of article 10, claiming to be in danger.

A hypothetical American or Israeli attack on Iran would have to be conducted by bombing strategic nuclear and military instillations with precision missiles. Geopolitical circumstances rule out a ground attack. Bombing would only delay the nuclear programme and provide Iran with an excuse to withdraw from the NPT, justifying its need for a nuclear arsenal as defence. It would weaken the United States' position in the Muslim world at a crucial moment in the fight against al-Qaeda and would be detrimental to the governments of pro-Western Arab countries such as Egypt and Saudi Arabia.

The region could witness the spread of the Shiite revolution to Iraq and Lebanon. Let us not forget that the Iranian ayatollahs exert considerable religious influence on the Shia world, beyond the Iranian borders. With a powerful Iran, Hezbollah will secure greater prominence in Lebanon and eventually displace other communities, particularly the Christians, and by extension will give Syria a very important role in Lebanon as guarantor of a majority Shia government. Iran's president, Mahmoud Ahmadinejad, has stated on various occasions his opposition to the existence of Israel, an idea shared by Hezbollah and Hamas.

In the Palestinian-Israeli conflict, Iran's new power will seek to bolster the role of Hamas, hindering the adoption of a more moderate stance and making it less inclined to negotiate with Israel. The situation makes it advisable to speed up the peace process in Palestine before Iran's leadership becomes consolidated.

Nuclear forces are classified as «weapons not for use». This concept could be in danger if their proliferation continues, as they risk falling into the hands of an international terrorist group. The nuclear deterrence system employed by the major powers such as the USA could lose its effectiveness in the face of nuclear players with radical religious ideologies, who could be tempted to give these nuclear weapons to terrorist groups which, as they have no territory of their own at which to direct a response, make retaliation impossible and render deterrence ineffective. Technology makes it possible

to identify the source of enrichment of the nuclear material used to manufacture a weapon and this could be employed to pinpoint the nation behind an attack. The nuclear powers continue to use deterrence against them. The French president Jacques Chirac stated in an address given during his visit to the air and strategic forces at Landivisiau /L'Ile Longue (Finistère):

> *«The Leaders of states that would use terrorist means against us, just like anyone who would envisage using, in one way or another, arms of mass destruction, must understand that they would expose themselves to a firm and fitting response from us. This response could be conventional. But it could also be of another nature.»*

SYRIA

Since he became president following the death of his father Hafed al-Assad in June 2000, President Bashir Assad's regime has been progressively isolated by the USA, accused of being a tyrannical regime (10) that harbours terrorism and considered a rogue state together with Iran. Its international prestige dipped to a low in April 2005 when the Syrian armed forces were forced to pull out of Lebanon in compliance with UN Security Council Resolution 1559 following the assassination of the former Lebanese prime minister Rafik Hariri, in which there is serious evidence to show that the Syrian secret services were implicated.

Throughout the entire post-Iraq-war period the US government has accused Syria of fuelling Iraqi insurgency across its border, particularly in the province of al-Anbar. It should be remembered that the Baath party, which governed Iraq's fate between 1963 and 2003 under Saddam's presidency, was established in 1947 as a nationalist, socialist and secular party with firm support in Iraq and Syria, where it also came to power in 1963. For many years both branches of the Baath party held distant stances but they now have a common enemy, the USA. Furthermore, they stand much to gain from teaming up: Syria's influence in the new Iraq and a large share of power for the Baath party in Iraq, particularly following Prime Minister al-Maliki's National Reconciliation and Dialogue Plan, which would put an end to the «deBaathing» process.

Syria's role in Lebanon has always been one of the key aspects of its foreign policy. Despite the withdrawal of its troops, its influence remains

(10) The National Security Strategy of the USA March 2006. Pp. 3, 9, 12 and 38

obvious—so much so that the main demonstrations of 2006 in Lebanon were led by pro-Syrians in favour of a mixed Syrian/Iranian model versus the advocates of a pro-Western model.

The political and material support it provides to the Hezbollah guerrilla, which it has supplied with armaments, such as Russian-built Konet and Metis-M antitank missiles, has placed it on the side of the virtual victors of Hezbollah's war against Israel in summer 2006.

Syria has repeatedly expressed its willingness to engage in negotiations, without starting conditions, to recover the Golan Heights. Israel, from a position of strength, imposes conditions: that Syria expel the leadership of Hamas from its territory; sever relations with Hezbollah; cease to collaborate with the insurgency in Iraq; break off its alliance with Iran; and, finally, withdraw its concentration of troops at the border with the Golan Heights. In view of the geostrategic changes that are taking place, Israel could find itself forced to negotiate without conditions.

Syria is the best placed country to play the role of mediator in negotiations between Fatah and Hamas for two reasons: first, because it is harbouring Khaled Meshaal, the chief of Hamas, and many high-ranking members of the party, who sought exile to avoid being arrested by the Israelis; and second, it would be the Palestinians' main ally against Israel.

The Baker-Hamilton Report (11) also considers it necessary to rely on Syria to settle the Iraq war. Its support for Hezbollah in the latter's fight against Israel has led many Lebanese to call for closer relations between Lebanon and Syria, giving rise to clashes in Lebanon..

AFGHANISTAN

Following the overthrow of the Taliban regime, in December 2001 the Bonn Agreements were signed defining the international community's strategy to stabilise Afghan. This strategy basically involves:

- The demobilisation and dissolution of the former Taliban army in order to create a new one.
- Training the Afghan army and police forces
- Judicial reform to guarantee human rights
- Combating drugs.

(11) The Iraq Study Group Report Dec. 2006 http://www.usip.org/isg/iraq_study_group_report

On the proposal of the United Kingdom and France, the Security Council subsequently passed Resolution 1386 for the deployment of the ISAF (International Support Assistance Force) in Afghanistan.

Any stabilisation process is highly complex and difficult, but more so in a country where the feeling of ethnic group, tribe or even clan prevails over that of nation. Afghanistan is a complex ethnic mosaic where 38 percent of the population is Pashtun, 25 percent Tajik, 22 percent Hazara, nine percent Uzbek, four percent Aimak, three percent Turkmen and two percent Baluch. The majority ethnic group, the Pashtun, is settled to the north and west of Pakistan; indeed, the Taliban movement sprang from the Koran schools in the Peshawar region in north Pakistan where the Taliban and remnants of al-Qaeda take refuge today.

The war of 2001 and the resulting power vacuum led to the resurgence of the warlords who were subjugated during the Taliban rule. Their influence, which undermines the action of the Kabul government, became evident when Hamid Karzai (Pashtun), who was elected president by the Loya Jirga (traditional grand council) on 13 June 2002, appointed his three vice-presidents from that same ethnic group.

The lack of control throughout the territory and the shortage of other means of subsistence have spurred a notable increase in opium growing. It is not in drug traffickers' interests to have a stabilised country under the authority of Karzai's government; in this respect they share the same goals as the Taliban, to whom they provide assistance by paying their combatants much higher wages than are received the soldiers of the Afghan army. All this has added to the difficulties and risks faced during 2006 by the NATO forces who are attempting to stabilise the country and those of the Coalition, who are fighting the remnants of al-Qaeda and the Taliban army.

The preferential nuclear power deal signed by the United States and India has triggered unease in Pakistan, which could have been placed in a position of inferiority in its own particular arms race with India. This clash could have consequences for the conflict in Afghanistan, where India backs Karzai's government, providing a large part of the Pakistani population, mainly the Pashtuns, with reasons for supporting the Taliban and al-Qaeda.

The ISAF, with its 32,500 troops from 37 different nations, is currently attempting to complete its deployment throughout Afghan territory and

has commenced the stabilisation phase in the areas under its control. NATO, which coordinates the Alliance's actions in the ISAF with those of Enduring Freedom and the Afghan government, seeks the necessary synergy. It is also responsible for training the Afghan security forces in order for them to facilitate the transfer of authority to the Afghan government in each area. The standard units are the kandak, battalion-type units of the Afghan National Army.

The stabilisation plan is based on the «Provincial Reconstruction Teams» (PRTs) and is due to be implemented in four stages in the following order: PRTs will initially be established in the northern provinces, followed by those in the west and south, and lastly in the eastern provinces.

The numerous attacks launched by Taliban and al-Qaeda, together with the characteristics of the terrain and, above all, the lack of a national sentiment, is hindering the action of the state and the government of Kabul, slowing down the plan for the establishment of the PRTs. To cite an example, in June 2006 the coalition that performed Enduring Freedom had to set up Operation Mountain Thrust with 11,000 American, Canadian and British troops to stem the Taliban offensive in the provinces of Helmand and Uuruzgan in the south

The Bush government has designed a strategy for the stabilisation of Afghanistan that is being implemented on three levels: conflict prevention, intervention to impose peace and stability working closely with NATO, and the so-called post-war reconstruction and stabilisation in order to ensure lasting peace and stability. But the strategy is running into serious difficulties as control has not been gained of the whole Afghan territory.

The position of the international community, particularly NATO, is encouraging, despite the setbacks and delays in the stabilisation process. Paragraph four of the Riga Summit Declaration (12) states:

> *«We stand with the Government of President Karzai and the people of Afghanistan who seek to build a stable, democratic and prosperous society, free from terrorism, narcotics and fear, providing for its own security and at peace with its neighbours […]» and paragraph five adds that «we […] pledge to ensure that ISAF has the forces, resources, and flexibility needed to ensure the mission's continued success.»*

(12) The Riga Summit of the North Atlantic Council was held on 29 November 2006.

NATO is aware of the role Pakistan plays in settling the conflict and wishes to establish closer cooperation in the framework of the Tripartite Commission (Afghanistan, Pakistan and NATO).

CONCLUSIONS

The situation of the Maghreb may be described as stable, although the Western Sahara conflict is hindering the establishment of a broad Maghrebi market in the horizontal sense that would contribute to the area's economic development. The most dangerous threat is the Islamist terrorism of al-Qaeda which, together with the Algerian group GSPC, is penetrating the region with strategic targets, which may include Ceuta and Melilla.

In the Middle East 2006 witnessed greater destabilisation owing to Israel's war against Hezbollah, the ongoing Palestinian-Israeli conflict and the political disputes between Fatah and Hamas, not to mention Iran and Syria's destabilising influence on Lebanon. All the foregoing leads us to conclude that the solution must be regional—and even global, bearing in mind the crucial role played by other actors such as the USA, the EU, Russia and China.

What is called for in Iraq appears to be negotiation with all the sides in the conflict, except al-Qaeda, including Syria and Iran in order to establish the bases for preventing the consolidation of a civil war—a process already under way considering the death toll of 2006. The Bush government is sending more troops to Iraq but everything indicates that it wants to get out of the imbroglio as soon as possible and urgently transfer responsibility for security to the Iraqi government, requiring it to curb the excesses of the Shias and Sunnis alike. Before the start of the final stretch of the presidential elections in the USA, Bush can be expected to announce a timeline for the withdrawal of troops and transfer of responsibilities to Maliki's government.

Nor has 2006 been a good year for the stabilisation of Afghanistan, where to the difficulties inherent in any process of this kind are added the lack of a state structure and national awareness, which it has never had. The lack of an economic structure and the increase in opium growing provides money for recruiting Taliban combatants, who are launching constant attacks on the forces deployed in the area. The economic development of the area and joint action of the international community are essential to preventing the country's security from deteriorating.

The post-war stabilisation processes are proving to be too long and very costly in terms of human and material resources, as well as involving the sacrifice of a considerable number of our soldiers' lives. It may therefore be concluded that it is necessary to redefine the stabilisation strategies seeking more comprehensive approaches that combine diplomatic, economic and civilian actions with military actions. The international community's early intervention in any conflict, with civilian and military assets, to prevent escalation could be the right formula, though its implementation is not without its difficulties.

COMPOSITION OF THE WORKING GROUP

D. EDUARDO SERRA REXACH
President of «Eduardo Serra y Asociados, Consultoría Estratégica».
State attorney.
Minister of Defence (1996-2000).
President of the Real Instituto Elcano (2001-2005).
Member of the Board of Trustees of the Real Instituto Elcano.

D. RAFAEL ESPINOSA GONZÁLEZ-LLANOS
Commander, Spanish Navy.
Holds a Diploma in Naval Warfare.
Instituto Español de Estudios Estratégicos.

D. JOSÉ MÁRÍA TERÁN ELICES
Admiral, Spanish Navy.
Holds a Diploma in Naval Warfare.
Chief of the Joint Defence Staff.

D. PAUL ISBELL
Senior analyst, International Economy, Trade and Foreign Investment and Director of the Energy Programme, Real Instituto Elcano
Holds a degree in International Economics from the Edmund G. Walsh School of Foreign Service, University of Georgetown and an MA from Dar es Salaam University, Tanzania.

D. JOSÉ M.ª DE AREILZA CARVAJAL
Instituto de Empresa: Deputy Dean and Director of the Legal Department.
President of the Advisory Council, Centro de Negociación.
Lecturer in European Union Law.

D. CARLOS MALAMUD RIKLES
Senior analyst, Latin America and the Ibero-American Community at the Real Instituto Elcano.
Lecturer in Latin American History at the Universidad Nacional de Educación a Distancia.
Lecturer at the Instituto Universitario General Gutiérrez Mellado.

D. MIGUEL ÁNGEL BALLESTEROS MARTÍN
Colonel, Artillery.
Holds a diploma in General Staff.
Head of the Department of Strategy and International Relations, Escuela Superior de las Fuerzas Armadas (ESFAS).

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