

***"POLICY CHALLENGES FACING THE
EU: A PARLIAMENTARY VIEW"***

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A. INTRODUCTION

Good evening, Ladies and Gentlemen,

I am delighted to be with you this evening, a little over 10 years after I last made a speech at the University on "Europe and the International Economy: Is democracy still possible?". My subject tonight is of broader scope, looking at the policy challenges facing the EU, giving you a Parliamentary view in the run-up to the European elections on Thursday June 4th.

Some might well ask what qualifications I might have to speak on this subject as a MEP, other than being invited to speak by your eminent Monnet Professor Nigel Foster seeking a sacrificial lamb to talk about Europe in election year! Let me set out why I can talk on this subject with some authority.

Although not an academic, I have been involved with international affairs for over 30 years in my professional life. Leaving the accountancy profession in the mid-70s, I became an international trade negotiator for the EC in the Tokyo Round, proceeding to be the assistant of the DG running the agricultural markets in the early eighties.

I then became a MEP in 1984, with the Euro-constituency of Oxford and Buckinghamshire, just before the Single Market programme was launched. It seems as if I have been on a roller-coaster ever since, as the shape of Europe and its institutions have significantly altered over the past 25 years. Apart from being the longest-serving member

of the Budgets Committee of the EP, becoming the general rapporteur of the EC budget on two separate occasions, I have spent much of my time building ideas networks in differing contexts.

First, in 1992, I founded the Transatlantic Policy Network (TPN) of which I have just resumed the chairmanship. The purpose of TPN is to help build bridges between the US and EU involving business and policy-makers on both sides of the Atlantic, feeding in ideas, for example, to help create the new transatlantic agenda (NTA) in the mid 90s. More recently, the Network has put forward suggestions to strengthen transatlantic partnership through the completion of the transatlantic market by 2015. Today, the network has 41 business members, spread roughly equally between the EU and the US, the smallest one having a turnover of around £8 billion.

Next, in the year 2000, came the European Internet Foundation (EIF), of which I am a co-founder, arising from suggestions made by close friends who are members of the US Congress that they would like to work with a European counterpart to the US-based Internet Education Foundation. The EIF aims to help provide European political leadership for the development of European multilateral public policies responsive to the political, economic and social challenges of the worldwide digital revolution. The Foundation invites active cooperation with other political, academic and governmental institutions and networks, including notably the European Commission. Policy dialogue with the United States political community is assured through the Transatlantic Policy Network (TPN).

Lastly, in 2002, I founded the European Ideas Network (EIN). The European Ideas Network is an open pan-European think-tank process designed to promote new thinking on the key challenges facing the countries of the European Union. Sponsored by the EPP-ED Group, the largest political group in the European Parliament, the network has rapidly emerged as an important meeting-point and intellectual cross-roads for the centre-right in European politics. I stepped down from the Chairmanship in March last year. Chairing only one network at a time is a sound policy to pursue!

The basic credo underlying such networks comes from Victor Hugo who said....” You can resist the invasion of armies...but you cannot resist the invasion of ideas!”

This evening, I will speak on the major policy challenges that the European Union is likely to face in the years ahead, using the 2025 time frame. Although predicting accurately the future is fraught with difficulty, I believe that it is possible to identify major trends underway. Many of the long-term trends I spoke about at the University 10 years ago with regard to the development of the international economy and the importance of the information age are of relevance today.

I will set out my comments as follows.

- First, I will look at today's policy environment in the light of the current global financial and economic crises we face.
- Next, I will turn to the major challenges highlighted in the latest National Intelligence Council document Global Trends 2025, published in November 2008 and submitted to the incoming US President Barack Obama, looking at long-term trends in the global system.
- Third, I will then indicate 3 major policy implications which flow from these global challenges for the EU.
- Fourth, I will set out the rationale for a wider look of democratic accountability now becoming essential, concluding that voting at the upcoming European Elections is a necessity rather than a luxury for European voters.
- Finally, I will conclude with four major pointers for the future.

B. GENERAL CONSIDERATIONS

➤ Economic and Financial Crises...

Western leaders are faced increasingly by a set of circumstances that none of them have seen before in their lifetime. Not since the 1930s have we been confronted with such difficult financial and economic challenges to resolve.

The financial and economic crisis which has engulfed the world over recent months, which Ed Balls has described as even worse than the one which hit the world in the 1930s, is the number one priority issue for policy-makers today.

Apart from ensuring that the global financial system is consolidated, which is not yet done, the biggest issue facing us will now be to avoid the downward spiral towards economic protectionism. We must learn the lessons from the 1930s and not get drawn into tit-for-tat protectionist measures like the Smoot-Hawley Tariff Act (1930), which raised US tariffs on thousands of goods, exacerbating the Great Depression. There is a need for a steady arm on the tiller to guide us through a period of real difficulty, as well as vision of where we must head.

Ambrose Evans-Pritchard, writing recently in the Sunday Telegraph, indicated that we have no option but to support coordinated international action underway for a universal fiscal boost, leaving each government to decide how to do it. He noted that the lesson of the 1930s is that countries trying to reflate alone are punished by capital outflows, forcing

them to retrench. Then, the crisis ricocheted from state to state until all were reduced to the lowest denominator of destructive madness. As he said, "...we all hang together or hang separately once debt deflation has taken hold".

On the recommendation of the European Commission, the EU has responded with a proposed economic recovery plan worth £170bn, agreed on by all Member States in the European Council meeting of 11 December. But it looks as if there is insufficient coordination between this and the financial package put together for the banks. Commitments come largely out of national coffers but require coordination as recovery in one member state will be to the benefit of all other. "Measures that Member States are introducing should not be identical, but they need to be coordinated," said Commission President, Jose Manuel Barroso. I am not sure he knows how to do it...!

In essence, as the Head of the IMF Dominique Strauss Kahn indicated earlier this week, the banks have to provide stability for the global economy. But to me, the banks are incapable of both recapitalising their structures and continuing to lend in a normal way, given that they do not know what their total liabilities are. Temporary nationalisation of some banks would seem to be the only logical way out of our current dilemma.

➤ **The Car Industry as a Case Study...**

The car industry's current plight underlines the severity of the current crisis. As you will know, BMW, the German vehicle maker, on Monday announced the laying off of 850 weekend agency staff at its Mini factory in Cowley on the outskirts of Oxford. It is absolutely unacceptable that workers had only been given one hour's notice of the loss of their jobs. The BMW management will have been aware for a long-time that jobs would need to go due to the rapid slow-down in production of cars.

Last week, I attended a reception in Brussels hosted by the European Automobile Manufacturers' Association, whose President, Carlos Ghosn, CEO Nissan /Renault vividly outlined the scale of the challenge the car industry is facing in the current economic environment:

"Collectively, our industry accounts for 6.4% of the European Union GDP. Without a doubt, we are dealing with a severe downturn. A few key numbers describe the scope of the situation we are facing:

- In 2007, 69 million cars were sold globally. In 2008, 63 million cars were sold. This year, we expect that number to drop to 55 million.
- In the last quarter of 2008, European automotive sales dropped from -3% in the first half to -21%. In January alone, sales were down 43% in Spain, 31% in the U.K., 8% in France, 33% in Italy, and 16% in Germany.
- In the formerly growing markets in Brazil, Russia, India and China, sales declined an average 18% in the last quarter of 2008.

Mr Ghosn said that although European auto manufacturers have been taking exceptional measures to react to the current environment, these measures may prove insufficient. He said a coordinated, unified European policy would not only ensure more fairness and greater respect for EU competition rules, but – more importantly – greater economic efficiency in a single, European market.

The figures point to the urgent need for European leadership to co-ordinate the financial and economic packages so far approved in order to help save unnecessary loss of jobs in the months ahead.

Key pointers for a European Union recovery programme suggested by Mr Ghosn were:

- Financial support from the European Investment Bank providing the car industry with 14 billion euros for the years 2009 and 2010, enabling it, above all, to retain its inevitable need for innovation.
- Co-ordinated employment measures.
- A demand stimulus to provide financial incentives for the scrapping of old cars in favour of new vehicles.
- The need to avoid unnecessary regulations stifling industry at this time.

The EIB yesterday indicated willingness to lend €7bn in the first half of the year for environmentally friendly vehicles.

But not everyone is gloomy...

Although our minds are acutely focused on these huge economic and financial changes, we cannot afford to ignore the fundamentals of unremitting technological progress. Not all is gloom and doom.

Cash rich companies like Microsoft, IBM and Intel will be using the recession to restructure their companies, increasing investment in research and new technologies to be ready for when the upturn comes. Recently, I visited Intel's plant in Swindon. Learning about their optimism for the development of new products in the future, they still expect Moore's law to continue over the next decade - that is from one of the founders of Intel..."Every two years we are able to double the capacity on the microchip."

We should continue to look at all policies which will make our economy competitive in the global economy, by focusing on skills, education, innovation and the application of IT effectively to a whole range of services in our economies, such as health and transport.

C. TOMORROW'S WORLD 2025

Introduction

Identifying major trends underway in a rapidly changing world, enables policy-makers to make better decisions for the future. These long-term trends are relevant for the EU, the UK and Buckinghamshire.

Some trends are easier to spot than others. In 1998, forecasting a closer transatlantic partnership was obvious to many but the observation relating to the increasing power of networks was less easy to see. What was impossible to forecast was the phenomenal rise of the Internet.

In 1998, the omnipresence of PCs, the increasing availability of mobile phones - simply the ability to communicate with anyone, anywhere in the world was a relatively new phenomenon and the future impact on politics and voters who want the widest consumer choice, was possible to predict. However, the rapid impact it is having on our lives today, as illustrated by the election of the world's first 'internet' President, Barack Obama, is truly extraordinary.

Predicting the future, however, is risky because we cannot even sometimes predict what will happen in the months ahead....witness the last few months! And again, historically, for instance, Charles H. Duell, Commissioner, U.S. Office of Patents, said in 1899

"Everything that can be invented has been invented." while in 1962 Decca Recording Co. rejecting the Beatles, said "We don't like their sound, and guitar music is on the way out"!

The current challenges we face today are not just limited to the headlines which we have recently seen in the daily press such as the need for financial discipline or a solution for rising unemployment.

They also include the critical issues of demography and migration, energy and the environment, and the continuing maintenance of our security whether in energy or fighting terrorism.

NIC Global Trends 2025

Looking forward to the future, a substantial analysis recently published makes essential reading. The US National Intelligence Council's report, "Global Trends 2025: A transformed World", makes an important contribution by outlining some of the most likely threats to our way of life over the next 20 years, including increased competition for scarce resources, nuclear proliferation and terrorist threats, and an historic shift in wealth from West to East, to mention a few. Its broad analysis of major issues such as globalisation and the digital economy, energy and environment, demography and immigration, and terrorism and security, makes it an essential reference point.

It is the best document available in the Western World on long-term trends, providing US policymakers with a view of how world developments could evolve up to 2025, identifying opportunities and potentially negative developments that might warrant policy action. The latest report is the fourth unclassified report prepared by the NIC in advance of an incoming US Administration, building on the NIC's previous efforts - such as Mapping The Global Future 2020, published in 2004.

While the authors believe that the US will remain the biggest power in 2025, they are more pessimistic with regard to Europe's future. The report says that there is uncertainty whether Europe can overcome economic and social challenges caused or compounded by demography. The higher birth rates of Muslims and immigrants could create increased tensions, unless their economic and social aspirations are met. In addition, the inability to resolve "a perceived democracy gap dividing Brussels from European voter and move past the protracted debate about its institutional structures", will make unified actions ever more difficult. As a result, Europe, "distracted by internal bickering and competing national agendas", could end up "a hobbled giant".

The report says that although today's trends appear to be heading toward a potentially more fragmented and conflicted world over the next 15-20 years, bad outcomes are not inevitable. International leadership and cooperation will be necessary to solve the global challenges we face and to understand the complexities surrounding them. By looking long-term, this report helps us all understand better the challenges we could face, and assists policy-makers in making the right choices by analysing the trends underway.

On the European side, we have no equivalent long-term analysis system in place. The most important contribution to date has been done by the EU Institute for Security Studies (EUISS), which produced a report in 2006 "The New Global Puzzle: What World for the EU in 2025?"

This report forecasts many critical junctures over the decades to come, from energy supply shocks to environmental catastrophes, from renewed confrontation between large state powers to a systemic breakdown of the Middle East. The report says that the development of the European Union into a fully-fledged global actor requires a shared assessment of the future challenges, threats and opportunities with which it will be confronted, and of the best options to drive, as opposed to endure, change.

I will now look at the following three major policy challenges outlined in the NIC report commenting on what Europe could do to react to them:

- Globalisation and the International Economy
- Energy and the Environment
- Demography and Immigration

Globalisation and the International Economy

The NIC report is fundamentally based on the premise that the huge transfer of wealth and economic power - roughly from West to East - brought about by globalisation over the last twenty years is likely to endure. Its economic conclusions focus on four major trends:

Relative Certainties:

1. The emergence of new global actors led by China and India and the rise of a global multipolar world with gaps in national power continuing to narrow between developed and developing countries. Consequently, over the next two decades, the number of people considered to be in the « global middle class » is projected to swell from 440 million to 1.2 billion or from 7,6 per cent of the world's population to 16,1 percent.
2. The emergence of new globally competitive companies that will help to further solidify the position of the new powers in the global market place and increasingly challenge the Western Science and Technology leadership - Brazil in agribusiness and offshore energy explorations; Russia in energy and metals; India in IT services, pharmaceuticals and auto parts; China in steel, home appliances and telecommunication equipments.

3. Wealth will be moving not only from West to East but will also be concentrating more under state control. With some notable exceptions like India, the states that are beneficiaries of the massive shift of wealth – China, Russia and Gulf States – are non-democratic and their economic policies blur distinctions between public and private. These states are not following the Western liberal model for self-development but are using a different model - « state capitalism ». Others – like South Korean, Taiwan, and Singapore – also chose state capitalism as they initially developed their economies. However, the impact of Russia, and particularly China, following this path is potentially greater given their weight on the world stage.

4. The rise of a financial landscape for the first time genuinely global and multipolar. Such a new financial order will signal a relative decline for US power and a likely increase in market competition and complexity.

The report is careful to make a distinction between 'key certainties' and 'key uncertainties'.

One of the key uncertainties listed here is the following:

Key Uncertainty:

The report identifies the question of whether protectionism stages a comeback and global markets recede as a key uncertainty, predicting it could result in us descending into a world of resource nationalism which would increase the risk of great power confrontations.

What should Europe do?

For Europe to be prepared for the next round of global competition, to harness it and ride it with continuing prosperity, Europe will have to move to the forefront of the Information Age. It must successfully master the Knowledge Economy; for information technologies now permeate every policy area, including other key growth areas such as nano and bio technologies.

Reversing the trend, closing the gap is basically a matter of education, innovation and entrepreneurial spirit. These are the three fundamental options which Europe must choose if it wishes to remain among the top world economic and leading political powers of the next decades.

The task will not be easy, as may be shown by one example. Out of the three hundred corporations in the world with high R&D spending ratios, 130 are located in the US while about 90 are European companies. This does not look bad. However 53 of the American ones were created after 1960, whereas among European ones the number is only...two. This means that European companies which spend a lot on R&D belong mainly to older industries, not to the new IT economy. This is not in itself a mistake as these industries need to modernise and innovate too, not least to capitalise on the digital revolution; but this is not enough.

Simply increasing money poured into R&D projects (for example public investment) will never be sufficient since what is needed is not merely more invention, but better 'innovation' which is something very different. Too often in Europe the focus on 'research and development' becomes simply an interest in research. 'Development' requires the application of ideas to the real world, where research can lead to innovation - and innovation implies a culture that values entrepreneurs and risk taking individuals who know how to turn knowledge into money, and do not limit themselves to turning money into knowledge, which is not in itself sufficient to help the European economy.

To ensure the effective use of Information Technology underpinning the productivity improvements in manufacturing and services which are essential to sustain Europe's global competitiveness, top priority will be needed to ensure that Europeans have the management and workforce with the right skills to grasp the opportunities and to understand and apply the technology. Special care and attention will need to be given to skills and qualifications in IT, particularly in the SME sector, a key driver in the creation of new jobs.

If Europe wants to benefit from all the opportunities continued globalisation will offer over the next twenty years, increasing competition within national education systems and on a global scale is imperative. This should be Europe's main priority for 2025.

➤ Demography and Immigration

The five basic facts outlined in the NIC report are the following:

Relative certainties:

- World population is projected to grow by 1.2 billion between 2009 and 2025 – from 6.8 billion to around 8 billion people. Demographers project that Asia and Africa will account for most of the population growth to 2025 while less than 3 per cent of the growth will occur in the West. In 2025, roughly 16 per cent of humanity will live in the West, down from 18 per cent in 2009 and 24 per cent in 1980.
- Population aging has brought today's developed countries – with a few exceptions such as the US - to a demographic 'tipping point'. Today, nearly 7 out of 10 people in the developed world are in the traditional working years (ages 15 to 65) – a high-tide mark. This number has never been so high and, according to experts, in all likelihood will never be so high again.
- In almost every developed country, the period of most rapid growth in the ratio of seniors (aged 65 and older) to the working-age population will occur during the 2010s and 2020s, boosting the fiscal burden of old-age benefit programs. By 2010 there will be about one senior for every four working age people in the developed world. By 2025, this ratio will have climbed to one to three, and possible higher.

- Large and sustained increases in the fertility rate, even if they began now, would not reverse the aging trend for decades in Europe and Japan. If fertility rose immediately to the replacement level in Western Europe, the ratio of seniors to people in their working years would continue to rise steadily through the late 2030s. In Japan it would continue to rise through the late 2040s.
- The annual level of net immigration would have to double or triple to keep working-age population from shrinking in Western Europe. By 2025, non-European minority population could reach significant proportions – 15 per cent or more – in nearly all Western European countries.

Key Uncertainty:

The report says that there is uncertainty as to whether Europe can overcome the economic and social challenges caused or compounded by demography. The higher birth rates of Muslims and immigrants could create increased tensions, unless their economic and social aspirations are met.

What should Europe do?

To meet both the challenges and opportunities provided by demographic change, efforts will need to be made to increase labour-force participation rates, especially for women and younger workers. This can be achieved by encouraging part-time work, raising retirement and pensionable ages, discouraging early retirement, and combating workplace 'ageism'. This will need to coincide with financial provisions made by those in work towards their pensions, by encouraging more flexible savings and pension schemes.

Another means of meeting labour market shortages would be to tap the full potential of the immigrant work force already present by fostering education for immigrant families and improving opportunities in education. Often, the parents of immigrant children undermine their chances unwittingly due to a lack of knowledge of local school systems. This is of course damaging to the ambitions and aspirations of the children themselves, but for society as a whole, it is foremost an economic problem. Because of the decrease of the working-age population, it is essential that each citizen is to be educated and employed as effectively as possible.

Finally, European policy-makers will need to encourage higher birth rates via financial incentives. For instance, measures can be introduced to make it easier for working women to raise children, enhance day-care provision, and ensure a stronger legal framework and the social status of families. Governments are looking at measures that might have a direct or indirect effect, although inevitably there will be a long lag before these would increase

the size of the workforce. "Family assistance" has become an increasingly important policy goal in many countries. Most obviously, taxation and social-security systems can be adjusted to reward larger families, rather than be neutral towards them - the fiscal incentives for, and actual provision of, day-care facilities can play an important role here too. The success of France and certain Scandinavian countries in halting their decline in fertility rates is potentially instructive.

➤ Energy and Environment

Relative Certainties:

The interrelated questions of energy, climate change and resource scarcity feature much more prominently in this report than was the case in the NIC 2004 *Mapping the Global Future 2020* document:

- First, the *Global Trends 2025* devotes much attention to the geopolitical implications of ever-growing demand for fossil fuels and of fluctuating oil and gas prices. The important point is made that energy resources will be increasingly concentrated in a handful of countries, notably in the Gulf and Russia, whose political influence and contractual power will consequently expand. Competition for energy resources, including among China and India as well as the Western powers, will produce new alignments in the Middle East, Central Asia and Africa, and may lead to dangerous tensions.
- The Report acknowledges that all current technologies are inadequate for replacing the traditional energy architecture on the scale needed, and that new energy technologies probably will not be commercially viable and widespread by 2025. It takes an average of 25 years for a new production technology to become widely spread. Thus, even with a favourable policy and funding environment for biofuels, clean coal, or hydrogen, the transition to new fuels will be slow.

However, it does not rule out the possibility of an energy transition by 2025 that would avoid the costs of an energy infrastructure overhaul. The greatest possibility for a relatively quick and inexpensive transition during the period comes from better renewable generation sources (photovoltaic and wind) and improvements in battery technology.

With many of these technologies, the infrastructure cost hurdle for individual projects would be lower, enabling many small economic actors to develop their own energy transformation projects that directly serve their interests – e.g., stationary fuel cells powering homes and offices, recharging plug-in hybrid autos, and selling energy back to the grid. Also, energy conversion schemes – such as plans to generate hydrogen for automotive cells from electricity in the homeowner's garage – could avoid the need to develop complex hydrogen transportation infrastructure.

- Third, climate change is expected to exacerbate resource scarcity, in particular when it comes to food and water:
 - The World Bank estimates that demand for food will rise by 50 per cent by 2030, as a result of growing world population, rising affluence, and the shift to Western dietary preferences by a larger middle class.
 - Lack of access to stable supplies of water is reaching critical proportions, particularly for agricultural purposes, and the problem will worsen because of rapid urbanization worldwide and the roughly 1.2 billion persons to be added over the next 20 years. Today, experts consider 21 countries, with a combined

population of 600 million, to be either cropland or freshwater scarce. Owing to population growth, 36 countries, with about 1.4 billion people, are projected to fall in this category by 2025.

The report concludes by stating that:

1. Over the next 20 years, worries about climate change effects may be more significant than any physical change linked to climate change;
2. Perceptions of a rapidly changing environment may cause nations to take unilateral actions to secure resources, territory, and other interests.

Key Uncertainties:

Energy

With regard to energy, the report lists as a key uncertainty whether an energy transition away from oil and gas—supported by improved energy storage, biofuels, and clean coal—is completed during the 2025 timeframe. With high oil and gas prices, cash-flush exporters such as Russia and Iran will substantially augment their levels of national power. A sustained plunge in prices, perhaps underpinned by a fundamental switch to new energy sources, could trigger a long-term decline for producers as global and regional players.

Climate Change

With regard to climate change, the report lists as a key uncertainty how quickly climate change occurs and the locations where its impact is most pronounced. Climate change is likely to exacerbate resource scarcities, particularly water scarcities.

What should Europe do?

Energy

In the medium term, the only proven energy technology which can make a significant impact on energy provision is nuclear power. Alternative solutions such as windmills or biofuels can only make a small contribution to increasing energy supply. They can only be local useful supplements. Bans on nuclear energy development will most likely have to be lifted. The fundamental challenge is to rebuild a popular consensus around nuclear energy.

In the longer term, the solution may lie with hydrogen fuel cell technology that will enable the transition to a fully renewable energy regime based on the ability of almost everyone to cater to their own energy needs and share their electricity production with many others. Hydrogen technology has the potential to end the world's reliance on imported oil, dramatically cut down on carbon dioxide emissions and mitigate the effects of global warming. The first major industrial region to harness its full potential will set the pace for economic development for the remainder of the century. However, despite recent important industrial breakthroughs, that technology is still far from being available at economic prices. Fusion power also still remains a long term possibility.

The dominant view shared by most experts, professionals and policy makers is that the market process left alone will be too slow at solving Europe's potential energy problems and ensuring a smooth transition to a future post oil era. Though market forces are

continuously pushing in the right direction, granted the urgency, it is generally thought that markets cannot do the job by themselves and that Government must step in so as to set the directions and send strong investment incentives to the industry. The danger of such an approach, however, is that government direct involvement ends up by locking European energy choices into technological dead ends (such as happened for example in France with the famous Minitel).

The great challenge for the EU over the next two decades will be to foster the kind of competitive spirit and deregulated environment, along with improved skills and education that will offer Europeans the best chance to be among the first ones to take full advantage of these new technological opportunities.

Climate change

There are two principal ways to respond to the challenge. The most radical one is to try to stop climate change altogether. This is fundamentally the approach adopted in Kyoto. Maximum emissions quotas on polluting activities are set so that CO₂ concentrations can be slowed, stopped and then reversed. Regulations are then imposed that induce industries and households to adopt new patterns of production and consumption allowing for greater use of clean energy technologies. Governments intervene in the market, through taxation, to set prices so as to displace fossil fuels and to encourage the development of renewable energy sources.

An alternative and potentially more productive policy over the long-term is to choose an ‘adaptation strategy’ based on the concept that the solution to the challenges of climate change will be technological. Research and investment are needed which will help to find new technologies that can improve the way we in the west, and our neighbours across the globe, live in and with our environment. In other words, a more promising strategy lies not in undermining the market sources of economic growth but in capitalising on the Knowledge Society to which globalisation is giving birth.

There is a danger here that any progress achieved in one country or continent, at potentially a high economic cost, would in any case be undone by the activities of others not pursuing a similar strategy. China, for example, is currently planning over 500 new

coal-driven power stations which would quickly cancel out any progress made in the European Union.

And yet there is a case for global leadership. By pioneering remedial action the European Union is in a stronger position to change the terms of the global debate and encourage others to follow its lead. A policy of constant monitoring and adaptation will be required as the data is refined and models improved. International cooperation is essential to coordinate the approach on a global level and to share information on emerging trends.

D: POLICY IMPLICATIONS FOR EU

The central question now posed is how should the EU respond to such an analysis.

Three issues stand out prominently.

➤ Priority for internal cohesion over enlargement?

The arguments deployed so far show that the challenges ahead are going to need the total focus of the EU institutions to contribute to their solution.

My comments illustrate that not only do we face major challenges to build up policies for issues such as Energy Security and Climate Change. But these could well conflict with the need for the rapid adaption of European economies in order to remain competitive in the global system as companies shift production from West to East. Not least is the dilemma of how to remain competitive with some of the fast growing Asian countries when the demand is for innovation but, our populations are ageing.

As to the speed of the global economic changes, it could be stated that Europe has lost time in the so-called constitutional process of the past 5 years, without paying sufficient attention to adapting faster to a world of fierce economic competition, vital strategic threats and sweeping technological and cultural changes.

In the case of the European Union and its definition of Europe's borders, the member states have a common interest that rests on shared European values based on common

history and traditions. These create a feeling of belonging together; one cannot act jointly if there is no mutual comprehension of common values. It is therefore possible that the power of a shared vision can actually determine where Europe starts and ends in geographical terms: it is certainly the case for the European Union.

In fulfilling these aims, it would certainly seem that the time is soon approaching when the Union's frontiers should be established to enable a real sense of identity to be felt for EU citizens. This would also allow for a concentrated effort to be made to resolving the challenges ahead, without continual distraction of enlarging the Union and potentially weakening its ability to be a valid global partner. Such a definition of the EU's frontiers would not mean the end of the enlargement process; but it would put more of the onus of the EU looking at its own interests first – its integration capacity – rather than allowing any state to join should it wish to do so.

The European Union has undergone five waves of enlargement since the UK joined in 1973, changing the structures beyond recognition. The two latest waves of enlargement were the largest in the Union's history, virtually doubling its membership. The European Union must be wary of over-reaching - constructing a Europe so wide it becomes incapable of delivering on its promises. In no way should the operations of the EU be sacrificed on the altar of enlargement.

The EU has often led the way in the past three decades for the principles of multilateralism. In essence, we now need to shape the EU to a more global view of our

future rather than focusing, as we have tended in the past, on our regional situation as the major priority. The Union faces testing problems with 500 million people, 27 countries and 23 languages. Enlargement is no longer the most important external policy for the EU.

➤ **Closer Transatlantic Partnership**

When speaking last to the University in 1998, I said that international events had underlined the need for closer European and American cooperation and I predicted that the Transatlantic relationship would be more, rather than less, vital in the future. This has been the case.

Although globalisation has opened huge possibilities and greater freedoms for the individual, we are obliged to recognise that this has come with a greater sense of unease and insecurity among the public. Faced with the threats of terrorism, climate change and nuclear proliferation, this is no wonder. Meeting these threats and defending our values and way of life can be most effectively achieved by means of cooperation with our closest ally, the United States.

There is a recognition on both sides of the Atlantic that Europe and the United States face similar challenges. Europeans and Americans, for instance, both continue to enjoy the benefits and see the opportunities offered by the process of globalisation. But they are equally uneasy about some of the 'dark sides' of this process. Americans and Europeans share the same concerns over the economic and social consequences of the ongoing changes on the global economy.

One often cited area of transatlantic divergence is that of global security challenges. But while differences over prioritisation and approach such as the legitimacy and utility of

armed force exist, both sides agree on the items on the security agenda: the need to curb the proliferation of weapons of mass destruction, to wage the fight against international terrorism more effectively, and to offer assistance to a number of weak or failing states around the globe.

The list of challenges that are recognised across the Atlantic is long and further includes common interests in dealing with increasing volatility in the Middle East and making progress in the peace process between Palestinians and Israelis, advancing the global development agenda and resolving the current impasse over trade liberalization negotiations, and promoting democratic values and governance.

When discussing the scope for strengthened transatlantic cooperation, one aspect of transatlantic relations is often neglected. The United States and Europe have experienced an unprecedented period of economic integration since the early 1990s that has effectively created one transatlantic economy. Despite the hype about the emergence of China and India, the United States and the European Union today remain each other's most important sources and destinations of foreign direct investment. The US – EU economic relationship accounts for \$3 trillion annually and both economies are bound together by foreign investment and foreign affiliate operations (the deepest forms of economic integration) rather than two-way trade (a shallow form of integration). In fact, cross-border trade accounts for only 20% of transatlantic commerce.

Mutual investment flows remain significantly higher than US or EU investment in China, India or elsewhere. So do turn-over and profits derived by US and EU companies from operations on the respective other side of the Atlantic. And the transatlantic economy directly supports 14 million jobs on both sides of the Atlantic.

As result of the high degree of transatlantic economic integration, policy and regulatory decisions on one side of the Atlantic increasingly have an impact on businesses and consumers on the other. However, while a transatlantic economy exists for business, policy-makers have yet to catch up. A framework a strengthened EU-US policy and regulatory cooperation, however, is only evolving.

As Joseph Quinlan has argued, transatlantic markets are leading the process of globalisation. As a result of the level of transatlantic economic integration, the United States and Europe - quite literally - simply cannot afford a transatlantic split – their respective economic prosperity and security is increasingly tied to each other. Neither side can therefore take the transatlantic economy for granted. In fact, both the US and the EU share an interest in advancing transatlantic economic integration which would not only serve to underpin economic growth and prosperity in the transatlantic area. It will also ensure both the US and the EU against greater trade imbalances with the emerging economic powers and volatility in the global economy which will accompany their ascendancy.

In order to maintain the primacy of the transatlantic economy and allow it to develop its full potential, strengthened transatlantic cooperation on economic and regulatory policy-making and the removal of remaining non-tariff barriers in trade and investment are required – completing the transatlantic market. The framework for advancing transatlantic economic integration which was adopted at the 2008 US-EU Summit represents an important step in that direction. However, for this long-term initiative to succeed, it will require sustained political leadership and oversight at the highest political level. This is of particular importance when the chances of concluding a successful Doha development round have receded into the distance.

Let us take a closer look at one initiative in which I am personally involved to strengthen transatlantic ties.

The Transatlantic Strategy Forum

"America has no better partner than Europe. Now is the time to build new bridges across the globe as strong as the one that bound us across the Atlantic. Now is the time to join together, through constant cooperation, strong institutions, shared sacrifice, and a global commitment to progress, to meet the challenges of the 21st century," said then US presidential candidate Barack Obama during his visit to Europe in July 2008.

We are in a new era for transatlantic relations with a new US President and several European Heads of State favourable to the US and the transatlantic relationship. This is very different to what was the case five years ago.

Equally different to five years ago is the current financial crisis and the major economic challenges we face which are on a scale that has not been seen in a generation. The crisis has the potential to divide the transatlantic partners if both sides slip into protectionism. New thinking and new leadership is needed which will be more capable to meet these challenges.

The New US President Barack Obama has expressed an openness to new ideas and dialogue on the major strategic challenges that will confront the United States and Europe in the coming years and this presents a real opportunity to form a strengthened transatlantic relationship. U.S. National Security Advisor General James Jones speaking at the Munich Security Conference a few days ago, confirmed the new US Administration's

interest in strategy, "President Obama is a pragmatist, and the focus is on strategy: We want to shape events, not react to them", he said.

The United States and Europe Union relate to each other through an increasing number of policy dialogues — covering such issues as financial regulation, regulatory policy, border security and transportation, climate change and international law. While detailed and sometimes effective in addressing specific issues, these dialogues have not yet contributed substantially to the construction of a shared transatlantic vision of the strategic challenges that will confront the United States and Europe in the coming years. Nor have they yet been effective in identifying potential transatlantic responses to these challenges.

Should such a situation be allowed to continue when the urgency of transatlantic co-operation becomes ever greater? Or is there a way in which there can be distinct improvements made without new formal institutions being set up immediately?

Fortunately, a real opportunity now presents itself to address this gap in strategic thinking with the publication of the NIC 'Global Trends 2025' report through shaping an in-depth discussion of the fundamental challenges facing the United States and the European Union.

The Atlantic Council and Transatlantic Policy Network (TPN), together with Chatham House, the Center for Strategic and International Studies (CSIS) and the Deutschen Gesellschaft für Auswärtige Politik (DGAP) have proposed to establish and develop a

Transatlantic Strategy Forum dedicated to in-depth discussion of the fundamental global challenges jointly facing the transatlantic partnership. The purpose of this initiative is to help build a transatlantic capacity to identify long-term trends in a number of key policy areas and to keep politicians, business leaders and academics informed on both sides of the Atlantic of the near and medium-term policy implications of these trends.

The new Transatlantic Strategy Forum will go some way to filling the current gap in strategic dialogue by helping think-tanks and policy-makers - whether in Washington, Brussels or other capitals - to look at these big-picture issues in a more ambitious and a more far-sighted way. It will help us all to identify the key long-term trends and to develop the best responses to them.

➤ **Better understanding of the Digital World**

Recently, at the IBM Business Leader's Forum in Istanbul which I attended, Sam Palmisano, Chairman and CEO, IBM, spoke of the need to "move into the future, not defend the past...We are living in a world which has become smaller and flatter, and is about to become a whole lot smarter," he said. Europe must move to the forefront of the Information Age for information technologies now permeate every policy area.

The dynamic growth of Information Technology (IT) makes it impossible to predict future directions, but the general trend is clear: processing speed, data storage and broadband connectivity will continue to develop at an unrelenting pace. It can be said that the digital economy is now becoming the economy.

For example, in 2005, experts predicted that the amount of digital information in the world was doubling every 1100 days. In 2007, that time has shortened to 11 months. A new study by IBM predicts that by 2010 the amount of information will double every 11 hours. Another report from analyst firm IDC suggests that by 2010 the amount of information created and copied will surge more than six-fold to 988 exabytes, which represents a compounded annual growth rate of 57%.

Even more impressive is the IPv6 Case, the next network layer protocol for packet-switched internetworks. IPv6 is the designated successor of IPv4, the current version of the Internet Protocol, for general use on the Internet . The sobering fact for both Europe

and the US is that Asia is moving much faster to IPv6 than we are. By 2025, the intellectual property rights of much of the technological innovation required to make this move is likely to be owned in Asia.

Furthermore, the Internet remains vulnerable to a concerted attack, as Estonia experienced during 2008. For the Internet's original designers never foresaw that the academic and military research network they created would one day bear the burden of carrying all the world's communications and commerce. There was no one central control point, and its designers wanted to make it possible for every network to exchange data with every other network. Little attention was given to security. Since then, there have been immense efforts to bolt on security, sometimes to little effect.

Let us look at again at an initiative with which I am personally involved to explore long-term trends for use of the internet.

EIF Project: Towards the Digital World in 2025

Policy planners are largely unaware of the huge changes occurring in this field and the challenges and opportunities they present. For that reason, the European Internet Foundation, which I co-founded in 2000, has recently set up a project to look at changes in the Digital World towards 2025 and the policy implications for Europe, using the NIC's example of looking long-term. The objective is to offer a high-level perspective of some of

the key macro technology trends, policy implications and governance issues in the age of digital communication.

Heading to an electoral year, and considering that the legislative agenda is winding down, the Foundation has decided to engage in a visionary exercise in 2009. The objective is to offer a high-level perspective of some of the key macro technology trends, economic and socio-political implications in the age of digital communication. At the same time, we aim at identifying areas for a common approach between Europe, the US and other key regions.

The EIF wants to convey the significance of these issues to the new Parliament, through an interesting, provocative and readable vision of the digital world in 2025. Initial ideas and conclusions emerging from the project will be released for public comment in mid 2009 prior to the European elections. The EIF contribution will also feed into to the debate of the European Council Reflection Group on the future of the EU.

Interesting Contributions so far...

Contributions to the project so far, including one stimulating one from Microsoft, make the following points on the impact of technology with regard to three of the major challenges I have spoken about earlier:

- **GLOBALISATION:** Technology adoption in the developing world has not followed the path embraced by Europe and America. For instance, people in developing countries have tended to explore technological opportunities through early mobile phone adoption rather than through the use of PCs. Many emerging markets will move rapidly to leverage services on the Internet, or what is known as “cloud computing.”

“*The Cloud*,” say some, is an appropriate metaphor to describe a disembodied digital world in which we no longer need to acquire and carry around with us our own personal computing hardware and software tools, but rather can access them anytime, anywhere, through the internet – presumably from on-line providers whose location is irrelevant.

- **ENERGY AND ENVIRONMENT:** Smart energy management systems will enable us to dramatically reduce energy consumption in homes and buildings, which accounts for around 35% of global CO2 emissions.

- **DEMOGRAPHY AND IMMIGRATION:** Demographic changes are adding a further strain to already stretched healthcare systems. Software is transforming traditional medicine by creating a rich marketplace of resources and services that will help increase efficiency and cut costs across the healthcare system.

We are still in the infancy of the digital revolution according to the chief technical officer of Intel. The Law of Accelerating Returns cautions us that over the next 100 years we will see as much technological progress as we have seen in the last 20,000 years. And even over the next 15 years – the horizon of this exercise – we will undoubtedly see the emergence of technologies and capabilities which we have not yet imagined. The Internet is rapidly becoming the key communications infrastructure of the world and policy makers need to be aware of the huge implications this development will have both for democracy and global governance.

Barack Obama is clearly fully aware of this, and in concluding this section I will list four of the key points he lists on his website with regard to the importance of IT:

- We need to connect citizens with each other to engage them more fully and directly in solving the problems that face us.
- We must use all available technologies and methods to open up the federal government, creating a new level of transparency to change the way business is

conducted in Washington and giving Americans the chance to participate in government deliberations and decision-making in ways that were not possible only a few years ago.

- America risks being left behind in the global economy: Revolutionary advances in information technology, biotechnology, nanotechnology and other fields are reshaping the global economy.
- By maximizing the power of technology, we can strengthen the quality and affordability of our health care, advance climate-friendly energy development and deployment, improve education throughout the country, and ensure that America remains the world's leader in technology.

E: IMPLICATIONS FOR DEMOCRACY

➤ Global Economy needs Global Governance?

Global economics...national politics

Fareed Zakaria, the Editor of Newsweek, to whom I recently spoke about the NIC 2025 report at an IBM conference in Istanbul, recently wrote an article entitled "Wanted: A New U.S. Grand Strategy" which correctly makes the point that the changes outlined in the NIC report are taking place at every level and at great speed in the global system. Any strategy that is likely to succeed in today's world will have to have the active support and participation of many countries. However, although we currently have a global economy and a global system, our politics do not reflect that reality.

Citing the financial crisis, he notes that many Western governments initially tried to handle the crisis on their own, ignoring globalisation. Belatedly, recognising the reality, they held the G20 summit in Washington. Without a coordinated effort the system will fail, says Zakaria.

The real crisis, he says, is not of capitalism, or American decline, but of globalisation itself. As problems spill over borders, the demand for common action has gone up but the institutions and mechanisms to make it happen are in decline. He lists the United Nations, NATO and the European Union as international institutions functioning less effectively than they should be. He warns that unless we create institutions for global problem-solving, or mechanisms to coordinate policy, we should expect more crises and less success at solving them.

A world of networks

- According to the NIC Global Trends 2025 report, nation-states will no longer be the only – and often not the most important – actors on the world stage and the « international system » will have morphed to accommodate the new reality. But the transformation will be incomplete and uneven.
- States will not disappear from the international scene, but the relative power of various nonstate actors – including businesses, tribes, religious organizations, and even criminal networks – will grow as these groups influence decisions on a widening range of social, economic and political issues.
- In response to likely deficits in global governance, networks will form among states and nonstate actors focused on specific issues. These networks will operate to pursue convergent goals and interests, including a genuine intent to solve problems, business, self-interest, moral grounds...
- The number and types of NGOs may well explode by 2025. Low entry costs, low overhead and the capacity of individuals and groups to affiliate with each other using the Internet will facilitate such collectives.
- Further fragmenting the international system is the threat posed by growing transnational criminal networks in managing the world's resources – especially global energy, minerals and other strategic markets – in addition to their traditional involvement in traditional narcotics trafficking. Increased demand for energy worldwide provides opportunities for criminals to expand their activities through direct ties to energy suppliers and leaders of countries where supplies are located.

The Power of the Internet

The internet is of major importance in affecting the speed with which international change now takes place. No previous recession has the global reach of the current one underway. This is not surprising as the commercialisation of the internet is a very recent phenomenon, as are social networks such as YouTube and MySpace.

Who could have predicted 10 years ago that the world would have more than 100 million blogs, allowing individuals to express themselves to millions on a daily basis? Who could have predicted the rise of such companies as Google, Yahoo and Ebay?

A major revolution is underway, bringing huge changes in its wake, empowering individuals to have a much greater say in shaping the environments in which they live.

It is rightly said that everything is being internationalised except governments. No wonder that this development of the individual as the key unit of the new global age will lead to major changes in which public institutions at national and European level will function in the future.

➤ **Democratic Control...too many parliaments?**

The identification of the majority of the public with the nation-states of Europe remains strong and these will continue to be the main focus of the loyalty of their citizens and necessary for good government. There is, however, increasing acceptance of the idea that political power can be dispersed between different levels of government where necessary - for example, the European level for some policies, regional/local bodies for others - or moved beyond the reach of government altogether and left to private bodies, either commercial or charitable, or individuals. As a result, government of all kinds is in a competitive market for influence and power.

For example, you will be aware that David Cameron has recently come out with a major policy statement on the decentralisation of power down to local levels. It is a good idea giving power to local levels. But this point equally applies, however, the other way round for the European Union where those decisions have to be taken at the global level, e.g. the negotiation of a new Climate Change deal in Copenhagen at the end of the year.

Only at the level of the European Union can we deal with many of the global challenges I have spoken about today. This makes voting at the upcoming European Elections in June a necessity, as otherwise people have minimal influence over these issues.

The European political parties are currently shaping themselves for the elections and issuing manifestos, with the start-up of political foundations to help provide intellectual

input. It must be admitted that these documents still do not yet resonate with people at home. Political networks, such as the EIF or TSF, are also increasingly playing an important role in filling the gap that exists between national and European levels by providing a forum for businesses, academics and politicians to exchange views.

But politicians do not relate easily to networks. For example, the European Ideas Network which I set up in 2002, and which was developing long-term thinking with the help of contributions from the leading Centre Right think-tanks across Europe, was snuffed out by backward thinking in the Group Presidency who were scared about losing control of the ideas process, and of independent thinking. Rather like what one could imagine the attitude of the monks was at the time of Guttenberg's invention of the printing press in the 15th Century...! Similar networks will be formed in the years to come, however, as the current gap between citizens and politicians is unsustainable.

➤ **How to achieve more effective EU governance?**

The European Union needs to have the capabilities to function effectively, otherwise it scarcely matters whether it has the appropriate policies. The governance of the Union is therefore necessarily of critical importance.

Globalisation is coinciding with the rise of the individual, and this raises questions for the EU about a lack of accountability and transparency. If individuals are the key units of the new global age, then the statist habits and bureaucratic ethos of the European member states and the EU institutions, that were a response to the problems of the 19th and 20th centuries, need considerable change. The example of the innovative ways in which California and some southern states in the US have pursued different opportunities and built consensus within the US system, are worth considering when thinking through the European future.

For EU citizens, a respite from institutional changes would be welcome, not only so that they can understand what the EU is responsible for, but also what it is doing to meet the global challenges ahead. Thus, should the Lisbon Treaty be finally ratified, any changes made to the institutional machinery of the Union should be made only because they will improve the efficiency and transparency to carry out its allotted tasks.

The use of a more flexible form of “enhanced cooperation” could increase workability and acceptability when new policies are drawn up. Enhanced cooperation of the willing and

capable could allow countries to seek cooperation in those functions in which there is a real demand, not being forced into cooperation with respect to functions on which they want to stand alone.

The public is looking to use the new technologies to hold political leaders to account, to debate ideas, and to campaign for policy changes: blogs are increasingly used to spread ideas and recruit supporters; demonstrations are organised at short notice by means of email and text messages; 'virtual' pressure groups are replacing traditional associations as the main vehicles for political action.

The directly elected European Parliament is the most accessible forum for the European public to express their views on global challenges, playing an important role by providing oxygen for debate in a system which sometimes can be suffocating. The growth of power and influence of the European Parliament since the first directly elected elections in 1979 has reflected this process.

But more adequate means will have to be found to link the European Parliament with national parliaments on sectoral issues so that legislators who deal with specific issues not only get to hear each other, but can also cooperate together on major issues such as Climate Change.

F. CONCLUSIONS

It is sometimes said that fortuitously, people find themselves at the right place, at the right time equipped with the right ideas. We are fortunate not only to have EU leaders who are attuned to the scope of these challenges being transatlantic in reflex; but we also, of course, have President Barack Obama who comes to his new position not only as the first black president but also as the first "internet president," attuned to the importance of the maintenance of the international political and economic system.

What these challenges have in common is their global nature as well as their long-term dimension. Demography, environment, energy security, and economic adjustment toward Asia are all long term trends which will affect generations of Europeans to come.

This is why I welcome the launch of the Transatlantic Strategy Forum for offering to provide a framework to build on the latest National Intelligence Council (NIC) report in getting its appraisal of Global Trends 2025. It is to be hoped that such an informal and influential set of players, working with others, will be able to provide some well thought out ideas which will help shape the transatlantic policy formation. Furthermore, it will heed to the recognition not only that there needs to be a developing strategy dialogue between the EU and US in the years ahead, but also more particularly for the EU, that the EU needs to bolster its own thinking of long-term issues.

Returning to my initial theme, there could be many who think that our only matter of importance today would be to find solutions to our financial and economic crises, but I would argue that it is only by knowing clearly where we are going based on the information available to us on the long-term trends of major issues, that we will shape the most relevant issues for all European citizens to have a safe and stable future.

There are four final conclusions which, to my mind, are inescapable from the analysis I have given you this evening -

First, the main global challenges facing European nations today are hugely significant in breadth and depth, being long term in nature and not resolvable by short term fixes. They should be addressed with greater urgency.

Second, in the evolving global environment, no member state of the EU is capable of solving these challenges alone. Indeed, closer Transatlantic ties will be essential to respond to such challenges.

Third, insufficient attention has been paid in recent years by the EU to the changing nature of the global economy. Over the past 60 years, Europeans have been successful in finding ways to resolve their underlying differences and promote their common values and prosperity together. For the EU there now should be less focus on extending frontiers eastwards.

Fourth, the impact of technology is going to be the critical factor in the years ahead and will fundamentally change the way politics as we know it works. In a globalised world based on the digital economy, the main unit of importance will be that of the individual.

Now what is needed is a Europe-wide, if not transatlantic-wide, debate about the global challenges ahead, developing the understanding of European citizens about what they mean, encouraging them to look outwards with optimism and confidence.

While sometimes the current economic difficulties we face might seem to be insurmountable, one note of solace might be found in a quote from Thomas Babington Macaulay, writing for the "Edinburgh Review" in 1830 which reminds us that we should never think that because some catastrophic events occur, we should lose hope for the future....

"If any person had told the Parliament which met in terror and perplexity after the crash of 1720 that in 1830 the wealth of England would surpass all their wildest dreams, that the annual revenue would equal the principal of that debt which they considered an intolerable burden, that for one man of £10,000 then living there would be five men of £50,000, that London would be twice as large and twice as populous, and that nevertheless the rate of mortality would have diminished to one half of what it then was, that the post-office would bring more into the exchequer than the excise and customs had brought in together under Charles II, that stage coaches would run from London to York in 24 hours, that men would be in the habit of sailing without wind, and would be beginning to ride without horses, our ancestors would have given as much credit to the prediction as they gave to Gulliver's Travels."

As Winston Churchill nicely put it in his Lord Mayor's speech on 9th November 1954

"For myself, I am an optimist - it does not seem to be much use being anything else."

Based on our values and our determination to succeed, I am convinced that we can indeed rise to the challenges ahead!