Franco-Italian summit calls for suspending European accords, closer corporate ties

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On Tuesday, French President Nicolas Sarkozy met with Italian Prime Minister Silvio Berlusconi in Rome for the yearly Franco-Italian annual summit. The summit highlighted the growing tensions inside Europe amid the continuing pursuit of war and social austerity.

Aiming to defuse Franco-Italian tensions over immigration, Paris and Rome agreed to call for European Commission to eviscerate the Schengen accord and allow for the re-establishment of national borders in Europe. The other agreements that emerged were mainly on military and financial policies to which the government of Germany, the largest economy in Europe, is broadly hostile.

Before the summit Paris and Rome had a public dispute over immigration, after Rome granted temporary residence permits to 20,000 immigrants, mainly Tunisians, who have arrived in Italy since the outbreak of mass protests in North Africa. Under the Schengen accord, people can freely travel inside the Schengen area, which covers most European Union countries except the United Kingdom and Ireland.

In line with French President Nicolas Sarkozy's policy of appealing to anti-immigrant sentiment and the neo-fascist *Front National*, Paris stoked fears that these immigrants, who are largely French-speaking and often have family ties in France, would travel to France. In recent weeks it has repeatedly reinstated border controls with Italy.

Paris and Rome jointly wrote a letter to European Commission President José Manuel Barroso calling for him to reform the Schengen accord to allow member states to re-impose internal border controls.

The letter says, "The immigration situation in the Mediterranean could rapidly become a true crisis, affecting the confidence our citizens have in the Schengen free-travel zone". It added, "We must examine the possibility of temporarily re-establishing internal border controls, in case there are exceptional difficulties in the common management of external borders, under conditions which are to be defined".

Sarkozy said, "We want Schengen to survive, but to survive, Schengen must be reformed. We believe in free circulation but we believe in a state of law and a certain number of rules".

Mr. Berlusconi said neither country wished to abandon the treaty, but that "in exceptional circumstances, we believe there must be changes".

Such a proposal essentially signifies eliminating the Schengen free-travel zone, as countries in Europe will be able to suspend it at will. The French daily *Le Monde* said, "Experts believe that putting the Schengen principles in question means the end of an essential part of the construction of Europe".

The summit also discussed the escalation of the war in Libya launched by France, the UK, and the US, which aims to install the Benghazi-based Transitional National Council (TNC) as a puppet regime in Libya. At the outset of the war in Libya, Italy, the former colonial power in Libya and the largest consumer of Libyan oil, avoided taking part.

However, on Monday, after talking to US President Barack Obama, Berlusconi announced that Italy was also joining the military assault on Libya. Along with France, Along with France, Italy also has recognised the TNC and recently sent military advisers to Benghazi.

Italy's decision to join the US-French-British war underscores its concern over its declining influence in Libya. The *Financial Times* commented, "The Franco-

Italian spat over immigration follows sharp differences over Libya, where Rome has been dragged into a war it would rather avoid, fearing a Paris-Benghazi nexus will freeze out its substantial interests in Libyan oil and gas".

As was the case last year (see: Franco-Italian summit makes strategic deals, calls for bailout of Greece), an important component of the Franco-Italian summit was uniting on economic policies broadly opposed by Berlin.

Sarkozy and Berlusconi endorsed Italian central banker Mario Draghi's bid to replace current European Central Bank (ECB) President Jean-Claude Trichet, whose term expires in the autumn. The decision on the next ECB president will be made by the EU Council in June.

France is backing the Italian candidate to lead the ECB amid rising tensions with Germany over economic policy. This included Germany's reluctance last year to fund bank bailouts in Greece that would have benefitted leading French banks more than German banks, as well as Germany's traditional preference for a low-inflation monetary policy. This policy causes tensions with France and Italy, however, whose exports cannot compete when the high value of the euro means their goods are more expensive on world markets.

Germany had previously backed the former head of Germany's Bundesbank, Axel Weber, who had been considered the top candidate for the ECB. However, Weber suddenly ruled out campaigning to head the ECB early this year. With Paris and Rome backing Draghi, Germany has not yet declared its preferred candidate. German Chancellor Angela Merkel's spokesman Steffen Seibert said that Germany would comment on a possible candidate "in due course".

Draghi is a former executive at Wall Street bank Goldman Sachs, which was deeply implicated in both the 2008 US mortgage collapse and the Greek debt crisis.

According to the *New York Times,*"Mr. Draghi seems to have managed to overcome reservations about his role as a managing director at Goldman Sachs from 2002 to 2005. The investment bank was the lead manager for a 2001 derivatives transaction that allowed Greece to dress up its books in a way that brought it into the euro club, but Mr. Draghi has made clear that he was not directly involved".

French media suggested that Merkel would hesitate to create further diplomatic tensions by blocking Draghi's candidacy, if it had Sarkozy's support. *Le Figaro* wrote, "Vetoing Draghi's ECB candidacy would threaten to provoke a new crisis in the Eurozone and create a harmful crisis with France, at a point when Franco-German relations have been severely affected by Germany's refusal to support the UN resolution [to allow military action] on Libya".

Draghi's candidacy is openly opposed by sections of the German right, however, who have criticised the Mediterranean countries for their debts. The right-wing *Bild* newspaper wrote that "inflation and Italians" go together "like tomato sauce and spaghetti".

Another item on the summit agenda was France's growing corporate interests in the Italian economy. On the day of summit, French dairy firm Lactalis launched a €3.4 billion takeover bid for Italian food giant Parmalat, which is facing financial difficulties. Lactalis already has a 29 percent stake at Parmalat and is hoping to get the rest of the 71 percent stake of Parmalat, becoming the world leader in the dairy sector.

Speaking at the press conference after the summit, Berlusconi said he hoped Italian firms would reach an accord with Lactalis. He said, "I do not consider the takeover bid a hostile takeover bid".

French corporations' takeover policies have provoked fears in Italy that they may take a commanding position in strategic sectors of the Italian economy. French luxury goods group LVMH has recently bought the Italian jewelry firm Bulgari. It is also reported that French utility Electricité de France (EDF) is poised to own a majority stake at Italian power generator Edison.