

NATO: Turkey's membership not a question of debate

Hurriyet Daily News, 10.08.2016



NATO has responded to recent reports over Turkey's membership and the alliance's stance regarding the failed coup attempt of July 15 in the country, saying it was not a question of debate.

"Turkey's NATO membership is not in question. Our alliance is committed to collective defense and founded on the principles of democracy, individual liberty, human rights and the rule of law. NATO counts on the continued contributions of Turkey and Turkey can count on the solidarity and support of NATO," spokesperson Oana Lungescu said in a statement.

And note that Ankara was a valued ally with its substantial contributions and attendance in consensus-based decisions about security challenges. The alliance added that NATO Secretary-General Jens Stoltenberg spoke to Turkish President Recep Tayyip Erdoğan and Foreign Minister Mevlüt Çavuşoğlu on the night of the coup attempt.

"The NATO secretary general spoke to the Turkish foreign minister on the night of the attempted coup and later with President Erdoğan, strongly condemning the attempted coup and reiterating full support for Turkey's democratic institutions. He expressed support for the elected government of Turkey and respect for the courage of the Turkish people. He also conveyed his condolences for those who had lost their lives during the coup attempt," the statement read.

Meanwhile, NATO Assistant Secretary General for Public Diplomacy Tacan İdem noted Turkey's NATO membership could not be questioned by any means. "NATO stood by Turkey in its hard times. [The] July 15 [failed coup] was an attack on democratic institutions. NATO condemned the July 15 [failed coup] in the most powerful expressions and appreciated the Turkish people's stance.

Turkey's NATO membership is not in question. Turkey is a reliable ally of NATO. There has been no deficiency in Turkey's contributions to NATO. I hope that the statement would remove different comments. NATO's official statements should be relied [upon]. NATO attributes importance to [Turkey's current] dialogue with Russia," İdem told private broadcaster NTV.

Turkey, Russia build new mechanism, direct military line on Syria

Hurriyet Daily News, 10.08.2016



The St. Petersburg summit of leaders has yielded the establishment of a mechanism between two countries on Syria, as well as a direct military line to avoid incidents over Syrian airspace, senior Turkish officials have said.

The new mechanism composed of the intelligence services, foreign ministries and militaries of the two parties will hold its first meeting, as one of the immediate results of the lengthy meeting between President Erdoğan and Russian President Putin. “The first concrete step: Previously, there were different mechanisms between us on Syria, between militaries, foreign ministries and intelligence services.

Now, we [will] establish a threefold mechanism,” Foreign Minister Mevlüt Çavuşoğlu told state-run Anadolu Agency. This body will bring different extant mechanisms under one roof with the participation of both countries’ intelligence agencies, foreign ministries and militaries, he stated, informing that its first meeting would take place in St. Petersburg.

Turkish National Intelligence Organization (MIT) chief Hakan Fidan and representatives from the Foreign Ministry and Turkish Armed Forces (TSK) will depart for Russia for the meeting in St. Petersburg, he added. Apart from the mechanism, the Turkish and Russian chief of general staffs have also agreed to set a direct line of communication in order to avoid the repetition of unwanted incidents over Syria like the shooting down of a Russian warplane on Nov. 24, 2015.

“We have agreed to be in close contact in order to avoid such incidents. In this frame, our Chief of General Staff and the Russian chief of general staff have reestablished a direct line. They are in talks on this,” İbrahim Kalın, the spokesman for President Erdoğan, told the private broadcaster A Haber. “I don’t know whether this line is a red or a black line. They are in close contact on Syria, bilateral relations and regional issues as well as air space,” he stated.

Although Turkey and Russia had different views on Syria, they were on the same page regarding the declaration of a ceasefire, providing humanitarian aid and finding a political solution, Çavuşoğlu stated. “There could be other thoughts on how to reach a ceasefire. We are particularly refuting attacks against civilians. We also do not approve attacks on moderate opposition but on terror organizations. We also do not approve besieging Aleppo,” Çavuşoğlu said.

Recalling that Russia and the Syrian regime have carried out bombings on places where civilians and the moderate opposition were the majority, he explained, “We made our urgings to Russia on this. Especially, al-Nusra and moderate opposition should be distinguished in places where they are closely located.”

Turkey's top diplomat underlined the country regarded radicalization in Syria as dangerous, as it is in the rest of the world, recalling that talks with Russian authorities will focus on the need to distinguish moderate groups from terrorists.

Turkish authorities will inform their Russian counterparts about the locations of civilians and moderate opposition groups and will ask to first get focused on the fight against the Islamic State of Iraq and the Levant (ISIL) in Syria, he stated. The problem in Syria cannot be resolved solely by the efforts of Turkey and Russia, he added, calling for straight talks for the accomplishment of political transition period.

Çavuşoğlu also underlines that Turkey's reconciliation with Russia should not be read as a message to the West. "We are doing it for our interests, for regional interests. We are actually issuing our messages to the West in a clear way," he said.

"Many of them [European countries] have shown whether they are our true friends or not after the coup attempt. The future of our ties with the EU and Western countries will not have an effect on our future ties with Russia. Or vice versa," he said. Çavuşoğlu said Turkey has been facing political obstacles from the EU in the last 15 years, adding, "If the West loses Turkey one day, it will not be because of Turkey's good ties with Russia, China, Central Asian or Islamic countries but because of its mistakes."

Turkey's FM: Turkey to support Middle East peace process

Anadolu Agency, 12.08.2016



Turkey is eager to contribute to the Palestinian issue and Middle East peace process, Foreign Minister Mevlüt Çavuşoğlu said. Çavuşoğlu spoke at a joint news conference after meeting Palestinian Foreign Affairs Minister Riyad al-Maliki in Ankara.

The Turkish minister said Ankara had always advocated a two-state solution to the Israeli-Palestinian issue and was going to contribute to permanent peace in the region. "Now we have started a normalization process with Israel. According to our latest agreement, the two countries will appoint ambassadors to each county."

After this step, we will also support the Palestinian issue and the Middle East peace process," he said. Last month, Turkey and Israel agreed to normalize diplomatic relations following a six-year hiatus. Çavuşoğlu also thanked the Palestinian people and all their politicians for supporting Turkey after the July 15 failed coup attempt, believed to have been masterminded by the Fethullahist Terrorist Organization (FETÖ). "Our brotherhood ... is a unique example. We always share our sorrows and happiness," he said.

The minister also said Turkey would continue its efforts to help residents of the Gaza Strip. “We have promised to send 200 million dollars to Palestine by the end of 2017, and it appears that we will even surpass the amount.” Al-Maliki also supported Turkey’s reconciliation agreement with Israel. Turkish officials have said the deal is likely to be signed before parliament goes on recess next week.

“Turkey’s good relations with Israel are a factor which actually makes things easier,” al-Maliki said. The Palestinian minister also met Turkish Parliamentary Speaker Smail Kahraman at Turkey’s legislature. Kahraman said Turkey’s stability allowed it to play the role of a guarantor of peace in the Middle East.

“Palestine is our friend and our feelings are common,” Kahraman said. Ties between Ankara and Tel Aviv were severed in 2010 after Israeli commandos stormed a Gaza-bound Turkish aid vessel in international waters. The attack resulted in the death of nine Turkish activists and left another 30 injured, one of whom succumbed to his injuries nearly four years later.

In the aftermath of the attack, Turkey demanded an official apology from Israel, compensation for the families of those killed and the lifting of Israel’s Gaza blockade. In 2013, Israeli Prime Minister Benjamin Netanyahu voiced regret over the incident to Turkey’s then-prime minister, Recep Tayyip Erdoğan.

Under the terms of the agreement, Turkey and Israel will exchange ambassadors and Tel Aviv will pay 20 million dollars in compensation to the families of the 2010 flotilla attack victims. Israel has also agreed to Turkey’s request to maintain a humanitarian presence in the blockaded Gaza Strip.

US ‘welcomes’ Russian - Turkish cooperation against ISIL

AFP, 12.08.2016



The United States has tentatively welcomed possible Turkish-Russian cooperation against jihadists in Syria that has been made possible by recent rapprochement between Ankara and Moscow.

“We remain in close contact with our Turkish allies and our partners in the fight against Daesh,” State Department spokeswoman Elizabeth Trudeau said, using another name for the Islamic State of Iraq and the Levant (ISIL). Working against the jihadist group “is a priority for all of us,” she said. “If this is truly a step in that direction, we would welcome that.”

Pressed by reporters to confirm the U.S. reaction, Trudeau said, “We’ve been very clear that if Russia is interested in fighting against [ISIL],” then “we would welcome that.” How that cooperation would work is unclear. Moscow is allied with President Bashar al-Assad of Syria, while Ankara has supported his ouster.

Relations between Turkey and Russia have started to normalize, nine months after Turkey downed a Russian warplane along the Syrian border on Nov. 24, 2015. The incident was followed by a war of words from both sides harming diplomatic ties and economic sanctions.

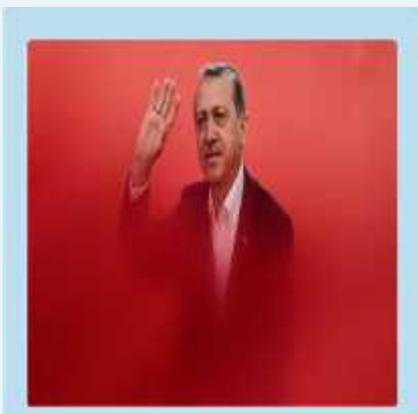
The period of icy relations began to thaw in late June when President Recep Tayyip Erdoğan wrote a letter to Russian President Vladimir Putin to express his deep sorrow over the jet incident. As another step toward mending ties between the countries, Russia recently officially removed all economic and touristic sanctions which had been imposed on Turkey. Erdoğan traveled to Moscow to meet with Putin.

Turkish officials representing the army, intelligence agencies and the Foreign Ministry were in Russia for talks on Syria, according to Turkish Foreign Minister Mevlüt Çavuşoğlu. U.S. Secretary of State John Kerry met with Putin last month to discuss coordinating the two countries’ air strikes against ISIL militants and their allies.

Also, the United States expressed concern about mounting reports of alleged use of chemical weapons against civilians in Syria, including during an attack in Aleppo a day earlier. Washington is “very concerned about the increasing number of allegations of chemical weapons use over the last few weeks,” Trudeau said.

Turkey-EU migrant deal row deepens with fresh remarks

Hurriyet Daily News, 08.08.2016



The ongoing row between Turkey and European Union over the implementation of visa-liberalization for Turkish citizens has deepened with Turkish President Recep Tayyip Erdoğan calling on the EU to keep its side of the deal on visa waivers or otherwise prepare for the collapse of the migrant deal.

“The EU is not behaving in a sincere way with Turkey,” Erdoğan told. Erdoğan said the EU had suggested that Turkey accept the readmissions of migrants coming from Turkey into the bloc in exchange for visa liberalization for Turkish citizens. “The readmission agreement and the visa liberalization were to come into force simultaneously.



It is now August and the visa liberalization is still pending,” he said. “If our claims are not met, we will have to stop readmissions.” Relations between Ankara and the West have deteriorated over criticism against Erdoğan’s massive crackdown following a failed coup attempt on July 15. Erdoğan criticized the West for not strongly condemning the coup attempt and showing solidarity with Turkey, expressing instead more interest in the crackdown.

Ankara agreed in March to stop migrants from crossing into Greece in exchange for financial aid, the promise of visa-free travel to much of the EU and accelerated membership talks. However, the reciprocal visa-free access has been delayed due to a dispute over Turkish anti-terrorism legislation and concern in the West about the scale of Ankara’s crackdown following the failed coup.

European Commission chief Jean-Claude Juncker told Germany’s Tagesspiegel that Turkey had committed itself to meeting the 72 criteria for the visa-free travel and only after that could the EU lift the visa requirements for Turkish citizens. “If and when the visa liberalization is implemented largely depends on Turkey. We have our repeatedly signaled that we are ready to assist them with the necessary reforms,” Juncker said.

Criticizing the response of Washington and European leaders to the attempted coup, Erdoğan said the Turkish people had been abandoned by the West. “The whole world reacted to the attack against Charlie Hebdo.

Our prime minister joined a rally in the streets of Paris,” Erdoğan said, referring to the deadly militant attack on the office of the French satirical magazine in January 2015. “I would have hoped that the leaders of the Western world would have reacted [to the coup attempt] in the same way and not have contented themselves with a few clichés.”

Meanwhile, Germany’s center-left vice chancellor, Sigmar Gabriel, said Turkey’s accession to the EU remained “10, 20 years” away. Speaking to Germany’s ARD television, Gabriel said dropping talks with Turkey, currently Europe’s “difficult partner,” made little sense and that “every communications channel” to Turkey must be sought.

Gabriel dismissed Turkey’s accession bid – begun at talks in 2005 and centered on hopes for a visa-free entry to Europe – saying the EU was currently not in any shape to admit “even a small state” to its 28-nation ranks. “The illusion ... here comes someone to soon become a full member in the EU ... that’s complete nonsense ... that will not eventuate,” said Gabriel, who is also federal economy minister.

In Berlin, a spokeswoman for the German Foreign Ministry repeated that reinstatement of the death penalty in Turkey would end its bid to join the EU. Erdoğan, speaking to ARD last month after the coup attempt, said the Turkish people wanted the death penalty to be reinstated and that those governing the country should listen to them. Meanwhile, 52 percent of Germans think the EU should scrap the migrant deal with Turkey, while another 66 percent want the EU accession talks broken off, according to a poll published on Bild am Sonntag. The Emnid survey for mass-circulation Bild am Sonntag showed 52 percent were in favor of the migration deal being terminated, compared with 35 percent who wanted it to continue, Reuters reported. More than two thirds of the 502 people surveyed also wanted an immediate freeze of aid payments to Turkey and 66 percent wanted the EU accession talks to be broken off.

FM: Turkish parliament to ratify Israel deal before recess

Hurriyet Daily News, 11.08.2016



FM Çavuşoğlu has said the Turkish parliament will approve a deal to normalize ties with Israel before it goes into its summer recess. "I think we will finalize this work before the parliament goes into the summer recess," Çavuşoğlu said.

In June, Turkey and Israel signed a deal to restore their ties, which hit an all-time low after a 2010 raid by Israeli commandos on a Gaza-bound Turkish aid ship which left 10 Turks dead. Israel had already offered compensation and an apology over the raid but with an agreement it also eased the naval blockade on the Hamas-controlled Gaza, allowing Ankara to deliver humanitarian aid to Palestinians there.

Çavuşoğlu acknowledged parliament had so far not taken up the deal with Israel because of time pressure created by the July 15 coup attempt by rogue elements within the military seeking to unseat the government, which Turkey blames on U.S.-based Islamic preacher Fethullah Gülen.

But he insisted that it would appear on parliament's agenda before the recess, which is due to start at the end of next week before parliament returns in mid-September. "Israel has lived up to our conditions. We said, 'If the conditions are fulfilled, we'll normalize ties.' So we must implement it as soon as possible," he added. Only once the deal is ratified by parliament will Turkey and Israel begin the process of exchanging ambassadors to fully restore their diplomatic ties.

Obama turns up pressure on Putin over Syria

Hurriyet Daily News, 05.08.2016



U.S. President Barack Obama warned Russia faces fierce international rebuke if it continues to make common cause with Syria's brutal regime, signaling a renewed push to end the bloody five-year civil war.

Obama said Russia risked casting itself as an "irresponsible actor" on the world stage, after meeting with top aides at the Pentagon. Eying a looming humanitarian catastrophe in Aleppo - the besieged northwestern city that was once Syria's commercial hub - Obama said it was "time for Russia to show that it is serious" about bringing peace.

For five years Russian President Vladimir Putin has steadfastly supported the regime of Bashar al-Assad, offering international cover, military aid and in the last year carrying out its own strikes in anti-Assad areas. Putin has shown little sign of ending that support through multiple rounds of international talks.

"I'm not confident that we can trust the Russians or Vladimir Putin," Obama said. "Which is why we have to test whether or not we can get an actual cessation of hostilities." The United States hopes renewing a failed cease-fire would prevent a bloodbath in Aleppo, allow humanitarian aid missions to resume and open the door for negotiations that would end the civil war and turn the focus to defeating the Islamic State of Iraq and the Levant (ISIL).

Meanwhile, the prospects for the sides in the Syrian conflict to reach a diplomatic solution are currently bleak, Turkey's presidential spokesman brahim Kalin said. "At the current stage, we could not reach a point where one could say that there is hope for a political solution in Syria," Kalin said in an interview with Russian news agency Tass. "We want to ensure political transition in Syria in cooperation with Russia as soon as possible."

He said Turkey's main goal is to permanently end the crisis in Syria, in part because Turkey has "felt all negative effects of Syrian conflict directly." Some of those effects are seen in the massive influx of Syrian refugees – 2.7 million – to whom Turkey has opened its borders. At least 10 people, including seven children, were killed in air strikes on the rebel-held east of Aleppo, the Syrian Observatory for Human Rights monitor said. The Britain-based group said it was unclear if the raids on Aleppo's Marjeh district were carried out by aircraft belonging to the Syrian government or its ally Russia.

Russia declares three-hour daily ceasefire in Aleppo

AFP, 11.08.2016



Russia's defence ministry said it would hold fire around Syria's ravaged city of Aleppo for three hours each day to allow humanitarian aid in, an initiative the UN said is insufficient to meet the city's needs.

"To guarantee total security for the convoys to Aleppo there will be humanitarian windows established from 1000 to 1300 local time starting tomorrow during which all military hostilities, aviation strikes and artillery strikes will be halted," Lieutenant General Sergei Rudskoy told. The pause would take place daily from 0700 GMT to 1000 GMT, although Rudskoy did not specify how many days it would continue.

Shortly after Moscow's announcement, the United Nations' top aid official said that halting fire for three hours a day would not be enough to ensure that civilians' humanitarian needs are met. "To meet that capacity of need, you need two lanes and you need to have about 48 hours to get sufficient trucks in," Stephen O'Brien, UN under-secretary general for humanitarian affairs, told reporters.

"When we are offered three hours, you have to ask what can be achieved in that three hours." The United Nations has called for urgent aid access to Aleppo and 48-hour weekly pauses for the aid deliveries, warning that civilians are at grave risk from water shortages and disease as fighting has intensified. Up to two million people in Aleppo have gone without running water for the past four days, UN agencies said.

O'Brien said he had not been fully briefed on the Russian proposal but that there were complicated logistics to address, such as ensuring that truck drivers have enough time to safely make the trip to the city and back. The markets in opposition-held districts of Aleppo were the fullest they have been in weeks as food stalls and shops had been empty of customers after a government siege of the eastern districts led to rising prices and shortages.

Shoppers scurried through the vegetable markets, buying as quickly as possible in case a siege is reimposed or prices rise again, an AFP correspondent at the scene saw. Fighting between government forces and rebels in Aleppo has intensified in the past month, with both sides sending in reinforcements for an all-out battle that could mark a turning point in the five-year war.

Rudskoy said that "more than 1,000 were killed and about 2,000 wounded" in the rebel ranks over the past four days southwest of Aleppo. He added that a road had been built to an area on the northern outskirts of Aleppo through the Castello shopping centre to "ensure safety and organise round-the-clock delivery of food, water, fuel, medicine and other necessities to the city's west and east".

“We support the proposals by the UN to establish joint control over the delivery of humanitarian aid to the population of Aleppo along the Castello road,” he said. Doctors in opposition areas of the city warned that the situation remained dire, with a shortage of medical supplies forcing them to make impossible choices.

“Young children are sometimes brought into our emergency rooms so badly injured that we have to prioritise those with better chances, or simply don’t have the equipment to help them,” they wrote in a letter addressed to President Barack Obama, in which they lambasted the US for inaction.

The recent flare-up in fighting began in late June as government forces closed in on the Castello Road, the last route into rebel-held parts of the city. Aleppo has been divided between a rebel-held east and regime-controlled west since fighting erupted in mid-2012.

Russia’s Putin, Britain’s May agree to meet to try to thaw frosty ties

Reuters, 10.08.2016



Russian President Vladimir Putin and British Prime Minister Theresa May spoke by phone and agreed to meet “in the near future” to try to improve poor relations between Moscow and London, the Kremlin said in a statement.

Both leaders are due to attend a G20 summit in China early next month, giving them an opportunity to meet for the first time since May became prime minister in July. Relations between Russia and Britain are strained by differences over Ukraine and Syria as well as by what London says is a sharp increase in flights by long-range Russian bombers near British air space.

The Kremlin said Putin and May had agreed to try to work to ensure that the two countries’ intelligence services communicated with one another properly and to improve air safety, a reference to Russian military flights. Both leaders had expressed dissatisfaction about the current state of Russian-British relations, the Kremlin said, adding that the phone call had taken place at Britain’s initiative.

A spokeswoman for May said both leaders had agreed that British and Russian citizens faced common threats from terrorism, and that cooperation on aviation security was a vital part of the international counter-terrorism effort. “The Prime Minister noted the importance of the relationship between the U.K. and Russia, and expressed the hope that, despite differences on certain issues, they could communicate in an open and honest way about the issues that mattered most to them,” the spokeswoman said in a statement. “They looked forward to seeing each other at the G20 summit in China next month.”

Europe's future will be decided at a quaint Renaissance Italian bank

Foreign Policy, 03.08.2016



Italy's Banca Monte dei Paschi di Siena would seem to be the archetype of a good, non-exploitative financial institution. The oldest bank in the world, with headquarters located in the medieval palazzo of one of Italy's most beautiful cities, it was founded in 1472 as an answer to the problem of providing nonusurious credit to the deserving poor.

The American poet Ezra Pound took it as a model for how all banks should operate, explaining in the 1930s that there were two types of banks — the bank of the devils and Monte dei Paschi. Pound's homage to Dante in "Canto 42" also includes a tribute to the bank.

In short, it was a bank that really served people and, as Pound explained, gave hope that Italy was "the only possible foundation or anchor or whatever you want to call it for the good life in Europe." Remarkably little has changed at Monte dei Paschi since Pound offered that praise. But if the bank, Italy's third largest, serves as any sort of foundation today, it is the foundation of a financial crisis.

But if the bank, Italy's third largest, serves as any sort of foundation today, it is the foundation of a financial crisis — one that could determine the political future of not just Italy but the entire European Union.

Over the past 10 years, Monte dei Paschi has required recapitalization three times, receiving a total of 16 billion euros in capital from private sector investors, mostly Italian banks, though not from the Italian government. Last Friday, Italians learned it was the only bank to clearly flunk the most recent European stress tests on financial institutions. The question is what the Italian government will decide to do next — in Rome and in Brussels.

It's nothing new for Italian banking crises to be intertwined not just with general economic stress but fundamental political transformation. In 1893, a property price crash led to the revelation of fraudulence at the Banca Romana, one of the country's note-issuing banks, and the bank's subsequent failure led to the collapse of the country's center-left government and a reordering of politics.

There are fears that a 21st-century banking crisis could be analogous and destroy the present center-left government of Matteo Renzi. That would lead to a completely new political constellation in which the populist opposition party Five Star Movement, which has already taken over local governments in Rome and Turin, would form a government with the explicit task of having Italy abandon the euro. But the history of Italian banking crises is also old in the sense of being old-fashioned. Unlike most European banks that have struggled since the start of the 2008 financial crisis, Italian banks have never really been part of the global trend of hyper-financialization.



While banks in Germany were busy channeling funds into repackaged U.S. mortgage securities, Italian banks were much more locally focused. The loans on the balance sheets of Italy's local banks weren't made to consumers spending beyond their means, or speculative house purchasers, but mostly to local businesses.

Their customers were primarily the country's large number of small- and medium-sized enterprises, often family-run, with business models not that different from the very dynamic enterprises of southern Germany, Austria, or Switzerland, which concentrate on making niche products — specialized textile machinery, for instance — for international markets.

This throwback banking model insulated Italian banks from the fast-developing financial shocks of 2007 and 2008. At the beginning of the global crisis, as other European governments spent large sums bailing out their banking systems, it looked as if Italy had the most solid banks in Europe.

The European Central Bank's calculation of the fiscal cost of bank bailouts for the 2008-2013 period shows a cost for Germany of 8.8 percent of GDP and for Spain of 4.9 percent, with much higher amounts for European countries that required a bailout from the International Monetary Fund (Ireland, 37.3 percent; Greece, 24.8 percent; and Portugal, 10.4 percent). Italy, by contrast, spent less than 0.2 percent of GDP.

But this encouraged a dangerous complacency in Italy, as a slow-moving economic crisis gradually rotted the country's financial foundation. A long-standing failure to undertake structural reforms has condemned the country to exceptionally sluggish growth, even before the 2008 crisis. Italy's clothing and textiles sector has been hit by the move of production to Asia or to lower-cost producers in southeastern Europe; even luxury manufacturers are beginning to outsource production.

Eventually, the weaknesses of the Italian economy hit the country's banks with a massive volume of nonperforming loans — the current estimate is 360 billion euros. (It didn't help matters that the Italian government is often a hindrance; there are many stories of businesses that contract with the government only to find they are never paid.) Among the Italian financial institutions struggling with nonperforming loans are big international banks like UniCredit and Intesa Sanpaolo (in both cases around 15 percent of their total loans).

Both will need to retreat from some of their international exposures. It is likely, for instance, that UniCredit, which acquired a big central European portfolio when it merged with the German HypoVereinsbank that owned Bank Austria, will sell off its Polish bank holdings.

But the drama of this year's stress tests focused on Monte dei Paschi. It was the only bank in Europe to get a negative result in the tests, which indicated it would be insolvent in the event of a new European economic downturn.

The two larger Italian banks are clearly systemically important, but Monte dei Paschi is also very large, and a failure would destroy confidence not just in the economy but also in the Italian political system. As with the 19th-century Banca Romana, the failure of this bank would destroy the country's political system. The problem is that the Italian government can't really do much about this situation because its hands are tied by EU rules.



In response to the bank bailouts elsewhere in Europe, as well as to the political controversies they engendered, the EU reformulated its approach to bank rescues and insisted that some bank creditors, as well as the capital owners, should bear the price of the rescue so that the taxpayer would not be obliged to pay for the incompetence or fraudulence or bad judgment or excessive risk proclivity of bankers.

But these rules will have especially severe political consequences in Italy because of how its banks have funded themselves. For years, Italian banks have not just taken deposits; they have sold risky subordinate bonds to Italian retail investors with little financial knowledge while encouraging the investors to think of the bonds as very safe investments. As some of these banks ran into trouble in recent years, those investors lost large parts of their retirement savings, leading to widespread hardship.

After an elderly holder of subordinated bonds of Banca Etruria, Luigino D'Angelo, killed himself in 2015, the Italian finance minister commented that such bonds had been sold "to people with a risk profile which isn't compatible with the nature of these securities."

The EU commissioner for financial services, Jonathan Hill, echoed this critique with the now-familiar accusation that banks were "selling unsuitable products to people who maybe didn't know what they were buying." The Italian response was to set up a special fund to assist on a case-by-case basis those who lost large amounts in the course of any resolution of a failed bank.

For Monte dei Paschi, shareholders have already lost almost all of their investment. But the government does not want to see a repeat of the bank resolutions of 2015, even though some European policymakers argue that the bondholders who might lose are mostly quite wealthy people — and not the poor pensioners whose bailing in would be politically toxic.

The Italian government has argued that since its banking crisis originated in a different way than other European countries, those peculiar origins should be taken into account when it comes to designing a policy response.

But policymakers in northern Europe simply respond that Italy is facing the penalty for its delay in action on a central economic issue. The new rules came into effect at the beginning of this year and clearly mean that Italy cannot bail out its banking sector today. The Italian government's hands are firmly tied.

So all the government can do is organize an international rescue from private investors, backed by the promise of a breakout from Italy's low-growth trajectory. The first phase of this year's Monte dei Paschi rescue involves transferring about 9.2 billion euros of bad loans (whose nominal value is some 27 billion euros) to a rescue fund called Atlante, financed by Italian banks, insurance companies, and pension funds.

Once a substantial part of the bad-loan portfolio is no longer on the books, there will be a 5 billion euro capital increase underwritten by a consortium of banks led by JPMorgan Chase and Mediobanca and involving six other investment banks with pre-underwriting agreements: Goldman Sachs, Santander, Citi, Credit Suisse, Deutsche Bank, and Bank of America Merrill Lynch. In short, the international banking system is being brought in to rescue Monte dei Paschi.



What's remarkable is that throughout this budding crisis, Italian policymakers and regulators have maintained their consistently upbeat refrain, at least in public, about the prospects of Monte dei Paschi. Italian policymakers and regulators have maintained their consistently upbeat refrain, at least in public, about the prospects of Monte dei Paschi.

This was true even two years ago, when the bank's previous chairman, CEO, and chief financial officer were jailed for misleading regulators about the bank's condition. Alessandro Profumo, Italy's best-known international banker, who had negotiated UniCredit's merger with HypoVereinsbank, was chosen to replace Giuseppe Mussari as chairman and claimed in May 2014 that he had done his job.

"[Monte dei Paschi] is no longer a problem for this country. It has gone back to being a normal bank and is healed," he said. Just over a year later, Profumo stepped down. At the beginning of this year, Prime Minister Renzi said: "Today, the bank is healed, and investing in it is a bargain. [Monte dei Paschi] has been hit by speculation, but it is a good deal. It went through crazy vicissitudes, but today it is healed —it's a good brand. Perhaps this process of finding partners will last several months, because they must stand together with others."

These upbeat assessments by policymakers are the key element of Italy's rescue strategy. They clearly amount to some implicit political guarantee to private investors who might be wondering why they support an institution that has already burned through so much capital. A general economic recovery is just around the corner, the Italian government is saying, and when those conditions improve, the bank's profitability will return.

The upshot is that the only way to avoid dramatic political changes in Italy, which would have political fallout across Europe, is to preemptively make policy changes at the EU level. But in order for its rosy scenario to play out, the Italian government has no choice but to push for an end to the EU's commitment to fiscal austerity.

Renzi's government believes there is substantial support for such a shift in other European countries, above all in France, and it has recently been pushing for a much larger EU public spending initiative, directed primarily at infrastructure investment.

In Giuseppe Tomasi di Lampedusa's great novel *The Leopard*, Tancredi Falconeri states: "If we want things to stay as they are, things will have to change." If the government isn't allowed to help banks directly, it has to commit itself to a new growth dynamic for the entire continent. It remains quite uncertain that it can — or will be allowed to — follow up on that promise.

Japan summons Chinese envoy amid ship ‘incursions’

Reuters, 09.08.2016



Japan summoned China’s ambassador after the country’s ships were spotted near disputed East China Sea islands for a fifth straight day. Japanese Foreign Minister Fumio Kishida called in Cheng Yonghua, Beijing’s envoy to Tokyo, the foreign ministry said - the second such summons since Aug. 5.

The situation surrounding the Japan-China relationship is markedly deteriorating,” Fumio told Cheng, according to the ministry’s statement on its website, AFP reported. “We cannot accept that [China] is taking actions that unilaterally raise tensions.”

Cheng told reporters after the meeting he reiterated Beijing’s official stance that the islands belong to China and called it “only natural” that Chinese ships “operate in this region.” The two countries are locked in a long-running dispute over the uninhabited islets known as the Senkaku in Japan and the Diaoyu in China.

The move comes after repeated protests by Japanese foreign ministry officials over what Tokyo calls “intrusions” by Chinese ships in the territorial and contiguous waters of the rocky islands. Cheng was also summoned by Vice-Minister Shinsuke Sugiyama after two Chinese coast guard and fishing vessels entered Japan’s territorial waters.

The Japan Coast Guard said it spotted Chinese ships in the country’s territorial waters surrounding the islands and about a dozen others nearby. The Japanese coast guard a day before caught sight of 15 Chinese coast guard ships near the islands -- the highest number ever spotted.

Some 230 Chinese fishing vessels and seven coast guard ships, including four apparently carrying weapons, sailed into waters close to the disputed island. It is rare for so many Chinese fishing vessels to be seen in the disputed waters.

Meanwhile, the visit of the U.S. Navy guided missile destroyer USS Benfold to the northern Chinese port of Qingdao this week is the latest development in a long-term effort to build trust between the countries’ militaries amid tensions and a rivalry for dominance in Asia, the Associated Press reported.

Though China resents the highly visible presence of the U.S. armed forces in Asia, especially the South China Sea, it has gradually overcome its reluctance and shown a willingness to engage that the sides hope will help avoid conflicts. The Benfold’s visit is the first to China by an American warship since Beijing responded furiously to a Hague-based international arbitration tribunal’s ruling that its expansive South China Sea maritime claims had no basis in law.

The fact the visit went ahead appears to show that Beijing now values the military-to-military relationship too much to allow it to be derailed by other events as was once the case. Qingdao is the base of China's northern fleet and is thus less sensitive than ports to the south closer to hotspots, such as Taiwan and the South China Sea.

Republican national security officials reject Trump

AFP, 09.08.2016



Fifty senior Republican national security officials have issued a stinging rejection of their party's White House nominee Donald Trump, warning if elected he would be "the most reckless president in American history."

The group, some of whom had already announced they would not vote for Trump, included former homeland security chiefs, intelligence directors, senior presidential advisors and a former U.S. trade representative. They served under Republican presidents. "We are convinced that he would be a dangerous president and would put at risk our country's national security and well-being," they wrote.

Their disavowal of the Republican presidential nominee was followed by another setback for Trump, when influential U.S. Senator Susan Collins said he was "unworthy" of America's highest elective office and will not receive her support.

"Donald Trump does not reflect historical Republican values nor the inclusive approach to governing that is critical to healing the divisions in our country," Collins wrote in an op-ed article appearing in the Washington Post. Trump has garnered disdain from a huge swath of America's political, defense and security establishment for his unorthodox - some say downright dangerous - views, such as his professed admiration for Russian President Vladimir Putin and suggestions he might be willing to accept Moscow's annexation of Crimea.

Trump has also raised concerns over his recent war of words with the family of a fallen Muslim American soldier, his scant knowledge about global defense and security architecture, and his readiness to scuttle America's central role in the NATO military alliance. Further to the shock and dismay of many in America's political class, he has even questioned why the nation has bothered to develop nuclear weapons if it has no intention of putting them to use.

While the U.S. security experts did not say they would vote for Democratic presidential nominee Hillary Clinton - indeed they expressed "doubts" about her - they were clear in stating that "none of us will vote for Donald Trump." They essentially declared the brash billionaire unfit for office, echoing Clinton's criticism by saying that Trump "lacks the character, values, and experience to be president" and displays "alarming ignorance of basic facts" of international politics.



The New York real estate mogul also has shown no willingness to learn about foreign affairs or national security threats, “acts impetuously” and lacks self-control, the experts’ statement said. “He is unable or unwilling to separate truth from falsehood,” the group wrote, saying Trump possesses a set of “dangerous qualities” that should disqualify him from the presidency. “We are convinced that in the Oval Office, he would be the most reckless president in American history.”



Announcements & Reports

What can The Eurozone Learn From US Monetary History?

Source : Bruegel
Weblink : <http://bruegel.org/2016/08/what-can-the-eurozone-learn-from-us-monetary-history/>

The Missile Defense Agency and the Color of Money

Source : CSIS
Weblink : <https://www.csis.org/analysis/missile-defense-agency-and-color-money>

Transatlantic Rifts: Averting a Turkey/Russia Conflict

Source : Chatham House
Weblink : <https://www.chathamhouse.org/publication/transatlantic-rifts-averting-turkey-russia-conflict>

Upcoming Events

Congo's Political Crisis: What is The Way Forward?

Date : 15 August 2016
Place : Washington DC, USA
Website : <https://www.brookings.edu/events/congos-political-crisis-what-is-the-way-forward/>

Competitive Gains in the Economic and Monetary Union

Date : 15 September 2016
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/534-competitive-gains-in-the-economic-and-monetary-union/>

The Future of Capitalist Democracy: UK-Japan Perspectives

Date : 16 September 2016
Place : London - UK
Website : <http://www.chathamhouse.org/event/future-capitalist-democracy-uk-japan-perspectives>

13th Asia Europe Economic Forum (AEEF)

Date : 21 – 22 September 2016
Place : Beijing - China
Website : <http://bruegel.org/events/13th-asia-europe-economic-forum/>



Emerging Markets and Europe: Time for Different Relationships?

Date : 23 September 2016
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/524-emerging-markets-and-europe-time-for-different-relationships/>

What future for Europe's Social Models?

Date : 25 September 2016
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/526-what-future-for-europes-social-models/>

Challenges for Growth in Europe

Date : 26 September 2016
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/521-challenges-for-growth-in-europe/>

Global Governance of Public Goods: Asian and European Perspectives

Date : 28 September 2016
Place : Paris - France
Website : <http://www.bruegel.org/nc/events/event-detail/event/529-global-governance-of-public-goods-asian-and-european-perspectives/>

The Future of the Welfare State

Date : 30 September 2016
Place : Berlin - Germany
Website : <http://www.bruegel.org/nc/events/event-detail/event/541-the-future-of-the-welfare-state/>

Vision Europe Summit 2016

Date : 21 – 22 November 2016
Place : Lisbon - Portugal
Website : <http://bruegel.org/events/vision-europe-summit-2016/>