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Chancellor Angela Merkel of Germany, seated next to President Nicolas Sarkozy of France, at the conservative European People's Party congress on Thursday in Marseille.

Bridging a chasm at E.U. meeting

BRUSSELS

As talks open, leaders divided on how to save the euro, and the bloc

BY STEPHEN CASTLE
AND STEVEN ERLANGER

With financial markets awaiting reassurance that the European Union would act decisively to support the euro, European leaders meeting here on Thursday were trying to bridge deep political differences, not just about how to save the common currency but about the future of the bloc.

Despite dire warnings about the prospect of failure, the leaders went into their summit meeting divided over how to change their governing treaty to enshrine tougher fiscal discipline demanded by the German government.

The two-day meeting is expected to reach a deal on closer integration of the euro zone, sufficient to allow the European Central Bank and the International Monetary Fund to play a greater role in supporting the euro.

Thursday was marked by stark warnings from both sides of the Atlantic about failure, with President Nicolas Sarkozy of France asserting that "if we don't have an agreement Friday, there won't be a second chance." Chancellor Angela Merkel of Germany promised an agreement at the summit meeting, but she warned that it would take years to overcome the crisis, as Europe built more centralized oversight and discipline.

"I am obviously very concerned about what's happening in Europe," President Barack Obama said from Washington, with a touch of asperity. "I've expressed those concerns repeatedly to President Sarkozy, Chancellor Merkel, all the key leaders involved. I think they now recognize the urgency of doing something serious and bold. The question is whether they can muster the political will to get it done."

Europe is, he said, wealthy enough to handle its own problems and act decisively to settle markets down, adding that what happens there "has a huge impact on what happens here in the United States."

The European Commission president, José Manuel Barroso, said simply: "The whole world is watching. We must do everything" to save the euro.

But the issues are complicated. While the markets want to be reassured that the money and commitment are there to defend vulnerable euro zone nations like Italy and Spain, national leaders seemed more absorbed by sovereign interests and institutional details.

The dinner Thursday of European leaders was expected to resolve whether such a deal to allow euro zone integration could be agreed to among all E.U. leaders. If not, France and Germany say they will press for an accord among the 17 euro zone nations alone, excluding Britain and other nations that have no intention of joining the bloc.

"A treaty of all 27 members is to be hoped for, but if there are countries that don't want to accompany us in our search for a better European architecture, then we'll go with a treaty of 17," Jean-Claude Juncker, the Luxembourg prime minister, said in an interview on France-Info radio.

"If I can't get what I want, I will have no hesitation in vetoing a treaty at 27," responded Prime Minister David Cameron of Britain before he left for the summit meeting, Reuters reported from London.

Britain was pressing for assurances that any new, more integrated, core of euro nations would not act as a caucus and undermine Europe's single market or skew rules against Britain's large financial services sector. But one diplomat warned of Britain's falling into a French "trap" by blocking a deal at 27 and forcing a treaty among the 17, something the government in Paris would welcome.

However they do it, the euro zone countries hope to agree on their "fiscal compact," which would introduce into their national legal systems a requirement that "general government budgets shall in principle be balanced."

A draft of the agreement says that "the rule will contain an automatic correction mechanism that can be triggered in case of deviation," something that would be verified by the European Court of Justice.

Under tightened procedures, sanctions recommended by the E.U. executive would be adopted "unless a qualified majority of the euro area member states decides otherwise."

The euro zone's permanent bailout fund, the European Stability Mechanism, would be brought into existence early, hopefully by July 2012, and, in a change from earlier plans, private investors would not automatically be forced to face losses. Instead, the draft says, the zone will "adhere to the well established I.M.F. principles and practices." The bailout fund will be able to make urgent decisions by a majority vote.

But one worry is that the existential discussion about Europe's future structures might divert attention from the more pressing need to erect sufficient fire walls to stabilize the beleaguered currency.

The two-day meeting is expected to reach a deal on closer integration of the euro zone.

"There is a dislocation between market and political expectations," said one European official who requested anonymity because of the sensitivity of the issue. "My worry is that there will be a focus on the treaty-change issue rather than the concrete efforts expected by the markets to leverage the euro zone bailout fund, and more precision on the role of the International Monetary Fund and the European Central Bank."

With acute problems in reaching a €1 trillion, or $1.3 trillion, target for the current euro zone bailout fund through leverage, there are hopes that the I.M.F. can be brought in to help. One theory is that European central banks may channel €150 billion through the I.M.F.

The main problem remains how to build a fire wall large enough to protect Italy and Spain, with trillions of euros of debt. The emergency bailout fund, the European Financial Stability Facility, is too small. France and Germany say they want to move forward its permanent €500 billion replacement, the European Stability Mechanism, leading many to suggest it could run in parallel to the stability fund. But Germany has ruled out that option, as well.

The issues of the treaty change and of the fire wall are interlinked because an agreement on how to achieve a "fiscal compact" for the euro zone is seen as a precondition of the E.C.B intervention.

At a meeting of officials from the member states late Wednesday, most wished to avoid a change of European treaties, as Mrs. Merkel insists must be done, according to two European officials not authorized to discuss the meeting.

That is because full treaty change could take two years and require approval by all 27 nations, several of which, including Ireland, might have to hold referendums. Yet that is precisely the course upon which Germany wishes to embark to assure its voters that tough rules will be enshrined.

Earlier this week Herman Van Rompuy, the president of the European Council, outlined one option that would allow a significant tightening of the rules but avert such a process by amending a protocol. To the dismay of several nations, that has been rejected by German officials even as an interim step.

Speaking in Frankfurt, the president of the E.C.B., Mario Draghi, played down the prospect of the bank's increasing its bond-buying drastically and said that, in his view, neither the E.C.B nor the national banks of the euro zone are legally able to lend money to the I.M.F. to bolster its role in building a fire wall.

Brian Knowlton contributed reporting from Washington.

No-win situation for Britain on euro

LONDON

As E.U. nations huddle, outcome likely to imperil U.K., or marginalize it

BY SARAH LYALL

No matter what happens at the European summit meeting on the euro in Brussels that began Thursday evening, Britain is sure to lose.

There is looming recognition at 10 Downing Street that if the euro falls, Britain will sink along with everyone else. But if Europe manages to pull itself together by forging closer unity among the 17 European Union countries that use the euro, then Britain faces being ever more marginalized in decisions on the Continent.

Many Europeans have been irritated by British Conservatives' quiet satisfaction throughout the crisis with the decision not to join the euro, particularly when juxtaposed with the panic over Britain's inability to have any significant impact on Europe's biggest crisis since the end of the Cold War.

Of particular concern here is the health of Britain's financial industry, a vital economic engine at a time of slowing growth and deep cuts in government spending, which is seen to be vulnerable to new European regulations that could hurt British competitiveness in global markets.

Despite all that is at stake, Prime Minister David Cameron's coalition government looks doomed to be cast in the role of impotent bystander, torn between anti-Europe forces and European leaders' moves toward greater fiscal integration on the Continent — with or without Britain.

On Wednesday, Mr. Cameron told a fractious Parliament that his main goal in Brussels was to "seek safeguards for Britain" and "protect our own national interest" by resisting measures like a proposed financial transaction tax. But such Britain-centric rhetoric has annoyed the brokers of Europe's future, Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France, who are trying to find a way to save the euro while imposing legally binding fiscal discipline on the Continent's floundering southern economies.

The European leaders have not been shy about expressing their frustration. Just six weeks ago, after Mr. Cameron tried to inject himself into talks about the euro, Mr. Sarkozy said bluntly, "You have lost a good opportunity to shut up." He later added: "We are sick of you criticizing us and telling us what to do. You say you hate the euro and now you want to interfere in our meetings."

Steven Fielding, director of the Center for British Politics at the University of Nottingham, said: "Cameron might sound off to look good to his backbenchers, but in Europe, he hasn't got much to negotiate with. It's been made clear that France and Germany can do whatever the hell they like and Britain can say yes or no, but it doesn't matter, since they'll do it anyway."

The political price of Britain's self-proclaimed exceptionalism was made clear with a vengeance to Mr. Cameron when he was pounded from all sides in a raucous session in the House of Commons. Fractious Europe-hating Conservative backbenchers called for him to stand firm on Europe, to "show bulldog spirit," in a "resolute and uncompromising defense of British national interests," as one legislator, Andrew Rosindell, put it.

Trying to placate them, the prime minister pledged not to sign anything that did not contain "British safeguards."

Meanwhile, should the Europeans in the euro zone "go ahead with a separate treaty" that leaves out the non-euro countries, Mr. Cameron explained, "then clearly that is not a treaty that Britain would be signing or would be an[illegible]ing." Yet he would still retain "some leverage" over the process, he insisted.

"The more the euro zone countries ask for, the more we will ask for in return," he said. But France and Germany have already made it abundantly clear that they will go ahead with their plans for the euro zone without regard to the needs or interests of Britain.

The explosive debate in Britain, while never welcome, comes at an unusually inopportune time for Mr. Cameron. The so-called special relationship with the United States is not looking all that special right now, and enormous cuts in military spending are making it hard for the British to maintain their status as America's right hand in national security and foreign affairs.

The austerity budget is fraying at the edges, amid strikes and protests over layoffs and rising fees. Growth has been slowing, despite Mr. Cameron's ins[illegible]ence that businesses would pick u[illegible] pace when it became clear that the government's finances were sound. And now Britain looks to be in an unusually poor position to defend its interests in Europe.

Members of the Labour opposition lost no time exploiting what they saw as Mr. Cameron's weakness on the issue.

"Six weeks ago, he was promising his backbenchers a handbagging for Europe, and now he's just reduced to hand-wringing," the Labour leader, Ed Miliband, told Parliament, as his party members whooped their approval. "The problem for Britain is that at that most important European summit for a generation, that matters hugely for businesses up and down the country, the prime minister is simply left on the sidelines."

Even more worryingly for the government, several prominent Conservatives, including the cabinet minister in charge of Northern Ireland, Owen Paterson, broke ranks with the party line and said flatly that Mr. Cameron should make good on what they called his promise to hold a national referendum on any proposed European treaty changes. With much of Britain in the anti-Europe camp, the no side would surely prevail in such a vote.

Mrs. Merkel has said that she would like any treaty changes to be approved by the entire European Union, so in theory Britain could exercise a veto. But Germany and France have also said they would make changes in the way the euro zone alone operates if that was the only way to defend the common currency.

"We are sick of you criticizing us and telling us what to do. You say you hate the euro and now you want to interfere."

Mr. Cameron says he has pledged to call a referendum on any treaty that would transfer more power from Britain to Europe. None of the current possibilities features such a treaty, he said, so there is no cause for a referendum.

The other political pressure on Mr. Cameron, of course, comes from the unique challenge of a coalition government with partners who disagree on many issues, including Europe. This puts him and his deputy prime minister, Nick Clegg, a Liberal Democrat, in t[illegible]h spots for equal but opposing reason[illegible]

"Nick Clegg has party activists who don't like the idea of the coalition and don't like many of the things it has done, and they're the most Europhile of the three main parties," Mr. Fielding of the Center for British Politics said. "And David Cameron has on his back benches people who don't like the idea of the coalition and don't like many of the things it has done, and they're the most Euroskeptic. It's a tricky position for them all to be in."

Crisis makes strange bedfellows: Germany finds a staunch ally in Poland

POLAND, FROM PAGE 1

the euro currency. Poland occupies a special place as the leader among the nations that are not in the euro but have not officially opted out, and voluntarily joined the Euro Plus Pact to improve fiscal strength and competitiveness. They play a role as an implicit threat against Britain — that the axis of Paris, Berlin and Warsaw could eventually form the core of a more deeply integrated Europe, further isolating London.

Poland's suffering at German and Russian hands puts its leaders in a unique position to speak out against concerns of German dominance within Europe.

In an address last week in Berlin, Poland's foreign minister, Radek Sikorski, said that the greatest threat to Poland's security was not Russian missiles or the Taliban "and it's certainly not German tanks." Instead, Mr. Sikorski said, it is the collapse of the euro zone that poses the greatest danger to his country. He added that he demanded that Germany "as Europe's indispensable nation" take responsibility and lead.

"I will probably be the first Polish foreign minister in history to say so, but here it is," Mr. Sikorski said, in an oft-quoted line that still has government and foreign-policy circles in Berlin still buzzing. "I fear German power less than I am beginning to fear German inactivity."

Poland's enthusiastic support for European integration stands in stark contrast to Britain's constant demands for exceptions, carve-outs and caveats. "There is no plan B for Poland other than Europe: stronger Europe, more active Europe, economically but also politically," said Eugeniusz Smolar, a foreign-policy expert at the Polish Institute of International Affairs in Warsaw.

Many Polish politicians said that Mr. Sikorski had gone too far in calling for a federal Europe, offering to give up hard-won sovereignty. And few are clamoring to join the euro quickly, preferring to wait until some resolution to the present crisis has been found.

The greater concern among Poles is being left behind as countries integrate their economies more deeply. Mr. Tusk will be pushing for an agreement that involves all 27 members of the European Union, said Bartek Nowak, executive director of the Center for International Relations in Warsaw. But even if Germany and France lead the way to an agreement between euro zone countries, Poland may choose to participate, even though it does not use the euro.

"If the 17 decide to improve their economic governance, I think Poland will join voluntarily because Poland wants to join the euro zone," Mr. Nowak said.

A senior German official told reporters in Berlin on Wednesday that Germany and France would move ahead with the 17 members of the euro zone rather than the 27 members of the European Union if necessary to enact reforms that would make fiscal discipline mandatory. But the official, speaking on condition of anonymity, singled out Poland as an example of a country outside the euro zone that would be able to take part in the new system.

The convergence between Poland and Germany is the product of a generation of efforts on both sides. The German government made a commitment after the fall of communism to bring its eastern neighbors into the European fold.

Poland, with 38 million people the largest of the former Soviet-bloc states to join the European Union, is the only country in the group that has not fallen into recession since the financial crisis began. In the third quarter it grew 4.2 percent compared with the year before, making it one of the few countries growing at a fast clip in the generally anemic Continent. German exports to Poland have more than doubled since Poland joined the European Union in 2004. Total trade between the two nations reached €66.5 billion, or $89 billion, last year.

Poland emerged from Soviet domination in a vulnerable position. Its longtime enemy, Germany, had ended years of division and was again the most populous country west of Russia. Much of western Poland was once German territory, and fears that a resurgent Germany would try to reclaim it were commonplace.

Instead, Germany advocated for Poland and other Central and East European countries to be brought into western institutions like the NATO alliance and the European Union.

The path has not always been smooth. Under Chancellor Gerhard Schröder, Germany struck a deal with Russia to build a natural-gas pipeline that bypassed Poland, leading Poles to find uncomfortable parallels with the deal between Nazi Germany and Stalin's Soviet Union that led to the conquest and division of Poland. And during the tenure of Jaroslaw and Lech Kaczynski, the twin brothers who were prime minister and president, Poland was unpredictable and often difficult in the European Union, and German-bashing was a popular pastime.

GUILLAUME HORCAJUELO/AFP

Prime Minister Donald Tusk in Marseille on Thursday at a meeting of the European People's Party umbrella group.

When Mr. Tusk succeeded Jaroslaw Kaczynski as prime minister in 2007, he put an emphasis on repairing ties with European partners. "The Tusk government from the beginning came [illegible]e conclusion that the key to improvin[illegible]o-land's position in the European Union lies in Berlin," said Kai-Olaf Lang, an expert on Central and Eastern Europe at the German Institute for International and Security Affairs.

Under Mr. Tusk, Mr. Lang said, Poland has assumed Germany's former role as the "custodian of unity in the European Union."

A Polish politician, Jerzy Buzek, serves as the president of the European Parliament. And Poland assumed the rotating presidency of the European Union last summer at a critical juncture

Mr. Tusk gave a speech before the European Parliament at that time that, like Mr. Sikorski's recent address in Berlin, attracted significant attention and solidified Poland's reputation as a force for European integration. "I am convinced that the answer to the crisis is more Europe, more European integration and this calls for strong European institutions," Mr. Tusk said.