

Belgian Politics in 2006

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1. The 2006-2007 Plan of Action or the “10 Construction Sites” of Verhofstadt’s Government

The Action Plan was launched on January 13th. It indicated ten points of action to make Belgium “more competitive, more social, and safe”.

- A competitive economy to promote employment
- More jobs of quality in a creative labour market
- Excluding poverty
- More innovation, more enterprise
- The information highway: broadband for everyone
- Energy of the future
- A more efficient civil service
- Mobility and road safety
- Reinvestment of revenues from combating fraud
- Fair trade practices and balanced consumer relations

In the spring a number of topical ministerial councils were held on the Action Plan – in particular on enterprise competitiveness and consumer purchasing power. Points of action in other domains were often put off – e.g. on poverty, energy, and road safety.

A. Enterprise Competitiveness and Consumer Purchasing Power

After an OECD report had estimated Belgium’s market share loss at 20% since 2000, Prime Minister Verhofstadt had announced 2006 to be the year of “enterprise competitiveness”. On January 18th the Group of Ten – the leaders of the three major trade unions and four employers’ organisations – had a first meeting. Management called for moderation to reduce the wage gap vis-à-vis the neighbouring countries, while the unions firmly put innovation, education, and

training on the table. Over the following weeks ministers of all parties launched their pet ideas in the media.

On March 27th management and the unions issued a joint declaration "*A more competitive economy to promote employment*". Stating a Central Economic Council prognosis that labour costs would continue to increase in Belgium more rapidly than in three neighbouring countries, they agreed to a stricter implementation of the 1996 Act to preserve enterprise competitiveness. Industries were encouraged to include a correction mechanism in the 2007-2008 Inter-Professional Agreement by means of all-in agreements that lower wage increases when inflation exceeds expectations. In addition, education and training was to be made the focal point in the 2007-2008 sectorial negotiations. A conference was planned for September to research policies to encourage innovation. Management and the unions also agreed to raise awareness of the issue of diversity on the shop floor among the rank and file. While Verhofstadt qualified the declaration as "an important step forwards", further steps were slow to follow.

The ministerial council of April 28th was postponed after the death of Joe Van Holsbeeck (VI.C). In fact, an agreement was deemed unlikely among the coalition partners. Even by the end of June little progress was apparent. A number of cabinet meetings had only resulted in the establishment of three working groups to prepare the budget review. Agreement was reached on a school premium of € 75 to 125 per child (an idea that had been launched by Minister of Social Affairs Rudy Demotte (PS) in April), a reduction in the December advance tax payment, and an increase of the income warranty for the elderly. But a broader agreement never materialised, even if components of the Action Plan were implemented as part of the 2007 budget (II.C) and the 2007-2008 Inter-Professional Agreement (VII.A).

B. Trade Practices and Consumer Relations

Insurance Companies and Banks – Hospitalisation insurance policies were guaranteed to be for life. In addition, life and accident insurance policies were made to include terrorist attacks. Both measures still awaited parliament's endorsement by the end of 2006. A code of conduct was negotiated with banks and insurance companies that obliges them to disclose fairly and fully the prices and conditions of their financial products. It was effective January 1st 2007.

Consumer Protection – Consumer organisations and industries would be able to conclude agreements to protect consumers. Such agreements were binding, unless the government lodged an objection to them within 15 days.

A maximum fee of one month was fixed in case a consumer wanted to terminate a contract that was deemed to have been silently continued. Both measures hadn't been adopted in Parliament by the end of the year.

Real Estate – Following consultation with estate agents, a number of additional constraints were imposed. Verbal arrangements were prohibited. Exclusivity con-

tracts were restricted to six months and required a monthly progress report. Both estate agent and customer are entitled to the same indemnity in the case of breach of contract.

Sunday Trading – On March 17th the government agreed to three extra Sundays on which shops were allowed to open their doors. Municipalities could add another three Sundays. Both unions and shop-owners opposed the violation of their Sunday's rest. On March 30th 2.000 distribution workers demonstrated in Brussels and over 10.000 shop-owners signed a petition. Disagreement was also apparent among the coalition partners and a further increase of Sunday trading had to be postponed multiple times. As a result, the bill that Parliament adopted on July 6th reviewed a number of regulations, but did not ease Sunday trading restrictions.

C. More Innovation, More Enterprise

On March 22nd the government agreed to extend the corporate tax exemption to support received for research and development from the regions. The partial exemption from advance tax payments for PhD-students and civil engineers in private companies was expanded to all holders of a Master's degree. In addition, companies were exempted from paying social contributions for researchers in fundamental research. Revenues from the commercialisation of inventions were taxed at a favourable rate of 33%.

To conclude, the government reviewed the procedure for judicial composition (*concordat judiciaire*)¹ in order to render it "simpler, cheaper, and more flexible". The focus is firmly on the company rather than the creditors. But the unions opposed the idea that after take-over of a company in trouble the current labour conditions, rights, and employment protection would no longer apply.

D. Labour Market

On May 19th a topical ministerial council was held. A single decision, however, was the meagre result: in implementation of the Generation Pact a bonus was agreed upon for employers offering internships and young part-time students entering said internships or any other first employment. The government further proposed to consult with management and the unions over 21 policies that could be included in the Inter-Professional Agreement by the end of the year.

Among the most important are: the introduction of parental leave for foster parents, pooling companies that offer employees for seasonal employment (the

1. Judicial composition means a moratorium from making payments to creditors granted by the court, during which a recovery plan must be drawn-up that must be submitted to the creditors and the court and must lead to the recovery of the financial situation.

so-called Daikin-model), a better coordination of the legal regulations governing employment cells, the extension of the Experience Fund, the exemption of students performing a maximum of 400 labour hours per year (rather than two periods of 23 days) from paying social contributions, and the expansion of teleworking to include civil servants. The Christian Union (ACV) immediately denounced the series of measures as “incoherent, unbalanced, and ill-considered”.

Few of the measures actually came into effect over the following weeks. Moreover, the restriction of study leave, which proved chronically underfunded, led to a new confrontation with the unions after the budget review in July. A petition of 73.000 signatures was presented to Minister Van den Bossche on November 30th. In the meantime, the government had accepted to apply the previous regulations to all trainings in progress. (VII)

With the exception of so-called bottleneck industries, the government postponed the entry of immigrant workers from Central and Eastern Europe on February 24th – until more measures to prevent improper use were in effect (VII.A).

E. Broadband Connections for Everyone

Five consortiums of ICT-companies issued cheap kits including a pc, a broadband subscription and a training session of four hours minimum. The “Internet for Everyone” project was intended to bridge the digital divide. An extra tax reduction of 21% of the acquisition cost was offered to the participants of the project until April 18th 2007.

Providers were contacted over a social subscription rate, but the liberal parties feared that other customers would be charged the costs. To conclude, the Health Department established *be Health*, an agency charged with managing the electronic services platform for the exchange of health care data.

F. A More Efficient Civil Service

On June 23rd the government presented the “charter for a customer-friendly civil service”, including 13 measures. From 2007 on, every agency would be required to open at least one night per week, to answer inquiries within a month and applications within four months. Electronic payments would be enabled. The charter would take the form of a circular letter.

On July 20th the Federal Agency for Medicinal and Health Products was established. It would take over the licensing, registration, and control of medicines from the Directorate-General for Medicinal Products.

G. Road Safety

The topical ministerial council on June 7th decided to halt the proliferation of road signs. Speed limits to 70 km/h would be indicated over larger areas. A

driver would not forfeit his right of way by stopping. Lorries are not allowed to overtake on two-lane roads and in the event of rain. None of the measures entered into effect before the end of 2006.

II. The Budgetary and Fiscal Policy

A. Budgetary Results for 2005 and the Implementation of the 2006 Budget

Using the EDP-rules (Excessive Deficit Procedure), the government surplus for 2005 amounted to € 308.1 million or 0.1% of GDP. Under the ESR95-rules that were used previously, however, this would have resulted in a deficit of € 72.1 million. The federal government presented a deficit of € 577.3 million. Local authorities added another € 463.1 million to the deficit. This was partly offset by the surpluses realised by the community and regional governments worth € 809.4 million and the social security sector worth € 158.9 million. Public debt rose to € 269 billion, or 91.5% of GDP – an increase by € 3.6 billion, but a decrease relative to the growing GDP. The overall tax burden climbed to 44.8% of GDP – a small increase by 0.4% compared to the previous year.

Despite a disappointing economic growth rate of 1.5%, the government was able to announce a “balanced budget” for the sixth consecutive time. Budget Minister Freya Van den Bossche admitted that the small surplus of € 120 million was mostly due to non-recurrent measures and windfalls. These included the sale of hardly recoverable income tax arrears (€ 500 million), the recovery of VAT arrears from water treatment company Aquafin (€ 230 million), and the assumption of the NMBS holding and the Antwerp Port Authority pension funds (€ 295 million and € 236 million). In the final days of 2005, the hire purchase contract for the new Antwerp courthouse was converted into a hire contract. This prevented the € 249.8 million cost of the building to be added to the budget upon completion.

On October 23 Eurostat published its 2005 report, belying the government’s claim of a balanced budget. Instead 2005 ended with a 2.3% deficit. Contrary to earlier communications, Eurostat felt that the take-over of the railroad infrastructure by FSI had to be entered into the books as a one-off expense. Charging FSI an annual fee of € 300 million for the use of the infrastructure could not alter this fact – as Eurostat considered FSI a government company. In response, FSI was transformed into a public limited company – retroactively to January 1st 2005. Eurostat, however, upheld its objection and the government filed for its annulment by the European Court.

A *first budget control* was held March 25th to 30th. With a growth rate of 2.2% and inflation at 1.8%, revenues were raised by € 338.6 million. Expenditure was decreased by € 385 million, as were the federal grants to the communities and regions by € 170 million. Measures to combat fraud would target the telecom, build-

ding, and transport sectors and online trading. They were estimated to yield an extra € 380 million. Controls against social fraud were equally stepped up. In May, the Social Information and Investigation Service (SIOD/SIRS) was established to coordinate the efforts of four separate inspectorates.

New policies included a job bonus for the lowest incomes among federal, regional, and local civil servants (i.e. a € 15 per month reduction in social contributions). In addition, the service cheque budget was increased by € 143 million. It was feared that the popularity of the service cheques would result in an even larger deficit, but the second budget control demonstrated further increases were unnecessary.

The *second budget control* in July raised the growth prognosis to 2.5%, but at the same time built up a € 100 million reserve in the event of a slower economic growth. New setbacks came to light: fiscal registration had yielded a mere € 1 million by June 30th and Electrabel's decision to sell off three idle power plants cut the special levy's estimated revenue in half (€ 70 million). The yields of the EU Savings Directive were equally disappointing (€ 50 million) and advance tax payments by the self-employed came in € 200 million short of the earlier estimates.

A number of policies that had been announced earlier were now fully costed: most importantly, a school premium and a job reduction. As a *premium*, child benefits were raised in the month of September by € 50 for kids between the ages of 6 and 12, and by € 70 for children up to 18 years old. From 2008, the € 87.6 million would be used to raise child benefits in a more structural manner. The *job reduction* took the form of an increase of tax-deductible occupational expenses by 1.1% to 26.1% for incomes up to € 4,790. The maximum fixed deduction was equally raised by 1.1% to € 3,200. Net annual wages would be up by € 25. In addition, the income guarantee for the elderly (i.e. the minimum income) was increased by € 60 for those living together and € 90 for singles. To pay for these policies extra levies were introduced on diesel power plants (€ 20 million) and on undeclared stocks in the diamond sector (€ 137 million). The minimum price for cigarettes was converted into a minimum excise duty, as a result of an EU directive.

A *third budget control* was triggered by a major mistake in the income tax collection, denounced by *Het Laatste Nieuws* on September 12th. A simple alarm to signal tax declarations that were not machine-readable had been switched off to speed up the process. As a result, a number of tax declarations were processed as reading € 99,999,999.99. Part of the € 883 million deficit would be offset by the increase in VAT and corporate tax revenues as a result of the higher economic growth rate. Other windfalls were the sale of the Tokyo embassy (€ 200-300 million),² Belgacom dividends worth € 50 million, and a € 70 million bonus from the

2. In the end, the Tokyo embassy grounds were sold for € 419.6 million. The construction of a new embassy was estimated to cost € 24 million.

closed-end property investment company (sicafi – comparable to the US Real Estate Investment Trusts). Expenditure in the departments was cut by € 133 million.

A mere two weeks after, legal issues arose regarding the closed-end property investment company. On September 15th, the contract was awarded to Cofinimmo. Cofinimmo would invest € 525 million, in addition to the government's € 58.3 million. The funds would be used to buy 67 government properties including WTC-III, Egmont I and II. Another 12 properties would be added later. On September 25th, however, Cofinimmo's competitors went to court, claiming that Cofinimmo had been allowed to increase its offer after the tenders had been submitted. On October 11th, the Council of State duly annulled the contract. As a last resort, a public limited company Fedimmo (a subsidiary to the Federal Participation and Investment Corporation – FPIM) was established and the 67 government properties were sold for € 576 million to real estate holding Befimmo through that route.

Fiscal Regularisation – On March 8th the Finance Department established a point of contact where companies and persons could declare non-recurrent revenues, which they had failed to pay taxes for. The revenues were initially estimated at € 400 million. Subsequent budget rounds adjusted the expected revenues to € 150 million, but for the declarations until June 30th the revenues reached only € 26.8 million. On declarations between July and December 2006 a fine of 5% was imposed, after that date the fine would be raised to 10%.

Corporate Taxes – According to the State Audit Office, the corporate tax reform had ended up raising corporate taxes by 8.18% or € 585 million in 2004. The reform's stated goal had been to preserve the status quo, offsetting tax reductions with a limitation of deductible expenses. Verhofstadt retorted that the State Audit Office had failed to take into account the latest tax reductions on risk capital.

The Ageing Fund – In its report, the Study Committee on Population Ageing predicted health care expenditure to increase to 26.8% of GDP by 2030 and 28.8% by 2050. In 2005, health care expenditure amounted to 23.1% of GDP. In addition, the Generation Pact would cause total expenditure to rise by 0.11 of GDP in the short term – as a result of the indexation of pensions. In the long term, expenditure would fall by 0.28% by 2030 and by 0.16% by 2050.

In 2005 the reserves of the Ageing Fund had grown to € 13,504 billion. 2006 added another € 555 million to the tally.

B. Heating Oil and Natural Gas Reduction

In the fall of 2005 more than 1 million families had received a reduction of 17.53% on the purchase of fuel oil. On January 13th the government decided to extend the reduction to natural gas purchases (6.5% or € 44). An extra reduction up to

€ 80 was offered to those benefiting from the socially reduced rate. The policy was prepaid by the oil industry.

But controversy soon arose over the repayment of € 100 million. Rumours of a temporary levy on fuel and diesel were quickly contradicted. For a while Minister Van den Bossche appeared alone in her belief that repayment was not necessary, especially after *Le Soir* published an agreement with the oil industry, dated December 23rd 2005, arranging for repayment at an extra cost of € 3 million – it was leaked later – if repayment wasn't received by March 31st. Minister Van den Bossche failed to appear in Parliament to explain the issue, as a result of a car crash. Heated negotiations with the oil industry led it to agree to put € 12 million in a soon to be established Fund for Sustainable Energy Policy. That merely days after, the oil industry's obligation to hold on to a 90 days strategic stock of oil was relaxed to 15 days only added fuel to the flames.

In an attempt to encourage fuel dealers to offer customers the possibility to pay in instalments, the maximum initial payment was raised from 25% to 50%. Throughout 2005 not one fuel dealer had made use of the legal opportunity.

C. The 2007 Budget and the Federal Policy Declaration

In order to realise the planned surplus of 0.3% of GDP in 2007, it was estimated an extra € 4.5 billion was needed. Despite earlier promises, the outcry over the release on parole of Albanian mobster Victor Hoxha (V.I.B) and the October local elections pushed the budget negotiations back to mid October. Parties didn't relish the prospect of having to announce cuts in full campaign.

The 2007 budget estimated the revenues at € 45,926 billion (up 4.2%) and expenditure at € 46,243 billion. The total deficit amounted to € 2.610 billion. The primary balance (excl. interest charges) was down to 3.6% from 5.9% in 2000. The Ageing Fund was promised € 900 million. The communities and regions agreed not to spend the additional funds they would receive as a result of a higher economic growth rate. Public debt was predicted to decrease to 83.9% by the end of 2007.

Additional revenues were expected from four fiscal measures: the introduction of a waste packaging levy (€ 316 million), an increase of tobacco excise duties (€ 330 million), a reduced rate of corporate taxes upon reinvestment of tax-free reserves (€ 350 million), and raising fines for fraud was estimated to bring in an extra € 256 million. € 1.25 billion was expected from the sale of government properties, the take-over of public company pension funds, and the auction of tax arrears claims.

On the other hand, VAT rates for council houses and new estates in urban areas were lowered. Subsidiaries of foreign companies were exempted from advance tax payments on dividends if Belgium has a double tax agreement with the country of origin. Companies belonging to a single group would no longer charge one another VAT. The maximum deductible amount for energy-saving investments was raised to € 2,600. The total amount spent on "job reductions" was nearly

doubled to € 74 million. In the social security sector € 70 million was earmarked to index the longest-standing pensions. The minimum income would be increased by 2% on April 1st 2007. But extra revenues were sought in the same sector: in the case of dismissal, the previous employer would be required to pay social contributions on days of leave not taken (€ 233 million).

In the Federal Policy Declaration on October 17th, Prime Minister Verhofstadt was pleased that the economic growth was beginning to show: more new businesses and more jobs were created every day. 157.000 of the promised 200.000 jobs were already on the books, according to Eurostat. Verhofstadt further defended a waste packaging levy to help reduce the CO₂ emissions. Alongside the Ageing Fund, an Ageing Care Fund would be established to meet rising health care costs directly attributable to the ageing population. In his closing words, Verhofstadt appealed to Flemings and Walloons, to indigenes and immigrants, to old and new EU member states "to end the polarisation and accusations. They close off our society and turn it towards the past. That is not the society that befits our country."

The waste packaging levy was quickly challenged by the employers' organisations. Full-page advertisements in the newspapers of October 21st supported their claim that the levy would cost families € 150 per year and would hardly contribute to reduce CO₂ emissions. The annulment of a beverage wrappings levy by the Court of Arbitration a few days earlier offered them another handle.

Local social services protested the reduction of employers' contributions to the service cheques by € 1. The measure, they felt, would impede the indexation of the wages involved and cost 30,000 jobs. On November 10th 4,000, mostly women, demonstrated in Brussels. The government promised to increase its own contribution by € 0.28 in 2007.

A circular letter on the 'anchor principle' caused further uproar. The 'anchor principle' compels departments to limit expenditure to 80% of the assigned funds – with the exception of wages and pensions. Employers' organisations claimed that the belated payments of bills had forced hundreds of companies into bankruptcy. The State Audit Office responded in its official report that the total amount of bills awaiting payments and delay interests was impossible to compound in the absence of a double-entry bookkeeping system. For 2007 the funds not used were estimated at € 830 million.

III. The Local and Provincial Elections

A. Electoral Decrees

On October 8th, the local and provincial elections were held. For the first time, the organisation fell to the regions who took the opportunity to reconsider the electoral laws.

The new electoral decree was adopted by the Flemish Parliament on February 1st, following an agreement signed by the five coalition partners. The impact of 'votes for the ticket as is' was removed, except for substitute candidates. Preferential votes alone would determine who is elected. In addition, candidate lists are to feature as many women as men and the top three candidates cannot be of the same gender. A Council for Election Disputes was established.

Following a complaint by the green party, the Court of Arbitration annulled the stipulations on the votes for the ticket as is on May 24th. The decree discriminated unfairly between candidates and substitute candidates. To restore legal certainty, the coalition partners agreed to reduce the impact of 'votes for the ticket as is' on the seat allocation among fellow party candidates – candidates and substitute candidates alike – to one-third. A similar complaint against the provincial second tier allocation (*apparentement*) in provincial elections was rejected.

The Walloon Parliament adopted its electoral decree on June 1st. Besides equal representation by men and women, it removed the impact of 'votes for the ticket as is' on the seat allocation among substitute candidates of the same party. But the most important new regulation dated from December 2005: the largest coalition partner's candidate with the highest number of preferential votes would become mayor.

B. The Electoral Campaign

Throughout the campaign rumours abounded that the 'cordon sanitaire' – the principled refusal of a coalition with the far-right Vlaams Belang by all parties – would not hold. N-VA suspended three of its committee members in Wetteren as a result of it. CD&V threatened to expel mayor of Schoten Harrie Hendrickx if he were to conclude an agreement with Vlaams Belang standard bearer Marie-Rose Morel.

SP.A's decision to offer its broadcasting time on public radio and television to "organisations that are committed to an open, warm, and solidary community" attracted a lot of media attention. Less positive was the reaction to Leterme's boast that his party was partial to a considerable number of pre-election coalition agreements. In a number of municipalities close to Brussels, controversy arose (again) after the municipalities sent out letters of summons for the elections in French. They were replaced by letters in Dutch sent out by the provincial governor.

In Wallonia, the campaign focused on the recent scandals in Charleroi and Namur. They were expected to cost the socialist party dearly. Tidings were equally bad for the Front National after it neglected to apply for the permission to use the abbreviation FN on ballots across the region and its president Daniel Féret was convicted for inciting to racial hatred. As a result of this conviction, Féret was ineligible.

C. The Electoral Results and Government Formation

On October 8th, 7,601,197 were eligible to vote. For the first time, foreign residents outside the EU could take part in the local elections but merely 17,065 or 15.7% did so. The number was considerably higher in Brussels (15.7%) and Wallonia (21.3%) than in Flanders (12.6%). In addition, 110,973 EU citizens took part. Due to the presence of local lists, local election results typically defy comparison to general elections. Even more so in 2006 – since the previous elections the *Volkspartij* had split in N-VA and Spirit. In Flanders, CD&V – N-VA obtained 32.5% of the votes in the municipalities where it stood for election. In 2000 CVP alone had received 30.1%. SP.A-Spirit obtained 22.3% compared to 18.5% in the previous elections. VLD and the green party suffered the largest losses: 19.4% (down from 24.2%) and 7.0% (down from 8.4%). *Vlaams Belang* added another victory to its tally: 17.2% compared to 13.4% in 2000. Local lists obtained a total of 19.6% of the votes.

Provincial elections, however, are better suited for the comparison. Compared to the regional elections in 2004, CD&V – N-VA was up by 4% to 30.1%. Other parties suffered small losses: SP.A-Spirit was down 0.5% to 19.2% and VLD-Vivant 0.9% to 18.9%. The Green party maintained the status quo at 7.6%. But all eyes were on *Vlaams Belang* – in particular in Antwerp. Overall, the party was the second largest with 21.5% of the vote – a minor loss nevertheless compared to 2004. In Antwerp, *Vlaams Belang* gained 0.5% but failed to live up to the expectations. It was surpassed by SP.A as the largest party: 35.3% compared to *Vlaams Belang*'s 33.5%. The socialist gains were largely due to mayor Patrick Janssens' presidential campaign that hurt its liberal and green coalition partners dearly. With 71,289 preferential votes, Janssens was also the most popular politician in the city – dethroning Filip Dewinter for the first time. Dewinter admitted that his party's "time of unbridled growth" was over.

In Wallonia, contrary to expectations the socialist party held out in both the local and provincial elections. In the local elections, it suffered considerable losses in Charleroi (39%, down from 50%), Mons (51%, down from 62%), and Namur (28.5%, down from 35.9%). But only in the Namur was the PS ousted from the coalition. Minor gains were obtained by MR and CDH. Ecolo suffered losses across the region.

In Brussels, the comeback of CDH was most noted. Ecolo suffered further losses and was excluded from coalitions across the region after Isabelle Durant formed a coalition with the MR in Schaarbeek. That was the price for reneging on a pre-election agreement with PS and CDH that would have allowed Deputy Prime Minister Laurette Onkelinx (PS) to take office as mayor.

Across all three regions, the new regulations increased the presence of women in the local and provincial councils. For the first time, more than one in three local and provincial councillors is a woman.

IV. Home Policy

A. The Reform of the State

In anticipation of renewed negotiations after the 2007 elections, numerous declarations cast a cloud upon the relations between the communities.

In his New Year's address, King Albert II warned against "a separatism that would prove disastrous". As inter-regional differences and financial transfers occur in many European countries, neither sub-nationalism, nor separatism is the answer. CD&V president Jo Vandeurzen responded that precisely because of the inter-regional differences further steps are necessary in the reform of the state. N-VA and Vlaams Belang reacted even more disapprovingly. Questioned on the matter in Parliament, Verhofstadt explained that further steps do not equal separatism. In 2007, the reform of the Senate, the Flemish municipalities in the Brussels' rim, and additional competences for the regions would be on the table.

For his part, PS president Elio Di Rupo called for an expansion of the Brussels region. It was suggested that adding Sint-Genesius-Rode would create a corridor linking Brussels with Wallonia. Earlier, Brussels Prime Minister Charles Picqué (PS) had demanded additional funds for the region, following a report that put in evidence the economical benefits of the region to both Flanders and Wallonia. Flemish Prime Minister Leterme's plea for the reorganisation of the Brussels' region met with more protest. He had declared that the region did no longer meet the standards of decent government. In response, Onkelinx called him "a dangerous man" and a separatist. Later remarks that "the French-speaking population of the Flemish municipalities in the Brussels' rim lacked the intellectual capacities to learn the Dutch language" did little to endear Leterme to the French community. His bid to become prime minister was openly questioned.

In sum, on both sides parties rallied and met to present the other side with a unitary set of demands.

An IMF report warned against the negative consequences of further steps in the reform of the state that would continue to overburden the federal level and the social security sector, while the regions are not encouraged to build up reserves. A strengthened accountability of the regions and a more coordinated budgetary policy were deemed necessary.

An RTBF special news flash caused further commotion on December 13th. It featured the unilateral declaration of independence of Flanders and showed footage of the King preparing to leave the country and of trams being stopped at the linguistic border. Only after 30 minutes the message was added that this was fictitious. Politicians on both sides denounced the program. But while Leterme deplored that legitimate Flemish demands were being ridiculed, Di Rupo added that the program demonstrated "the scenarios that could play out – scenarios that are put forward by Vlaams Belang".

B. Communal Problems

Linguistic Courtesy Agreement – On March 16th, the Council of State once more annulled the circular letters sent out July 2002 to prolong the agreement. After the initial stay of execution, the Brussels government had resent the letters in 2004. These too were annulled on July 7th. The agreement allowed local authorities and social services in the region to disregard bilingual requirements when hiring contractual workers. In a 2005 report the share of said contractual workers who were unable to speak Dutch was estimated at 90% of all new employments. Of the appointments only seven were rescinded.. Only half of the police officers in the bilingual region were able to speak both languages.

The Flemish Housing Code – The French Community Parliament and Walloon Parliament invoked a conflict of interest vis-à-vis the Flemish housing code. That code demanded a commitment to learn Dutch from all applicants for council housing – in an attempt to help establish a sense of community among inhabitants. This, however, was feared to violate the linguistic facilities arrangement. The matter came to the Senate, but agreement proved elusive. Nevertheless, after the Senate failed to produce a reasoned advice by October 12th, all appeal procedures were exhausted and the code was approved by the Flemish Parliament on December 6th.

Electronic Communication and the Ether Police – On November 17th, the federal government concluded a cooperation agreement with the three communities regarding electronic communication networks, the exchange of data, and the establishment of the Belgian Institute for Postal Services and Telecommunication (BIPT) as “the ether police”. The agreement ended a longstanding conflict over the competence of the BIPT. The Flemish government had refused the sign the 2005 agreement as long as Francophone local radios kept jamming Flemish transmissions. This had rendered both the communities and the BIPT unable to monitor telecommunication networks.

C. Civil Defence

In her final report, the Civil Defence Reform Committee offered three basic principles for a future Civil Defence. First, the local and provincial organisation of the emergency services hindered the speedy and competent assistance that constitutes a civil right. Second, transparent criteria are needed to determine the municipalities’ contributions. Third, an increase in scale is inevitable as many of the 252 fire departments are deficient in men power, know-how, and experience. Additional funds would have to come from the federal government. The committee had been established after the Ghislenghien gas explosion in 2004.

V. Policy on Asylum and Foreign Residents

In 2006 11.857 foreign residents applied for asylum, i.e. the lowest number since years. 2.391 were successful and 6,629 were forcefully returned to their country, whereas 2,406 returned voluntarily. Home Minister Patrick Dewael accorded 10,207 individual regularisations for humanitarian reasons.

On April 21st, the cabinet approved the reform of the asylum procedure. To speed up the process, asylum applications would be dealt with by the Commissioner-General's Office for Refugees and Stateless Persons. Appeals could be lodged with the newly established Refugee Appeal Board. The intention was to protect the Council of State from an impossible number of complaints – with the exception of procedural issues. Extra protection was offered for persons who were refused political refugee status but who are likely to face torture or even death upon their return to their country of origin, or who are incapable of returning for medical reasons. The minister's discretion to accord individual regularisations for humanitarian reasons was maintained.

This discretion then became the main issue in the following weeks. The PS requested that the criteria for regularisation would be included in the law. In addition, numerous organisations pressed for the possibility of a collective regularisation. Even before the cabinet meeting, demonstrations in Antwerp and Brussels brought out up to 10,000 people. After the meeting, demonstrations were held in Brussels and Ghent. Even a number of churches were occupied by applicants to support their claim. But the coalition partners proved reluctant to reopen the negotiations and the bill was approved unchanged by parliament.

VI. Policy on Justice and the Police Forces

A. The Erdal Case

On February 28th, seven activists of the Turkish Revolutionary People's Liberation Party/Front were sentenced for terrorism to 4 to 6 years. They had been arrested in 1999. Since 2000, however, Fehriye Erdal – one of the seven convicted persons – had been under house arrest. The day after the judgement, Ministers Onkelinx and Dewael had to confirm that Erdal was on the run, after the news was reported by Turkish media. In a statement on March 2nd, both ministers claimed that Erdal had been innocent until the final verdict and therefore could not be taken in custody as a precautionary measure. Even though a motion of no confidence was rejected on March 9th, the events caused many to question the performance of the national security service, who claimed to be shadowing Erdal around the clock.

After investigating the case, the Committees I and P – who monitor the intelligence services and police forces, presented their report on April 18th. Government

and opposition, however, differed in their interpretation. CD&V retained that the government had been warned as many as eleven times of the risk of escape. VLD, on the other hand, felt that the reports demonstrated the adequate performance of the police and national security service. In Parliament, the ministers repeated their earlier declarations. The national security service reports, Dewael pointed out, had not assessed the risk of escape but had questioned their surveillance tasks.

B. The Hoxha Case

The decision to release Albanian mobster Victor Hoxha on parole further put Onkelinx' position in jeopardy and well nigh tripped the government. Earlier Onkelinx had been criticised for allowing Kaplan Murat penitentiary leave. Murat failed to return to prison on July 16th and was apprehended again only on July 28th. Further criticism followed the escape of 28 felons from a Dendermonde penitentiary on August 19th.

On September 13th, a number of newspapers reported the presence of Hoxha in Antwerp. He had been released on parole in December 2005 on the condition that he would leave the country for Kosovo. The public prosecutors in Antwerp and Brussels at the time had offered contradicting recommendations on his release. In a response to the press, Home Minister Dewael admitted to feel "bewildered". Onkelinx was infuriated and after an animated conversation with the Prime Minister attributed the commotion to the upcoming elections and the ascendance of the far-right in Flanders.

Following consultation with PS president Di Rupo, the coalition partners agreed that in the case of contradictory recommendations the dossier would be returned to the public prosecution. In addition, the Court of Cassation would be asked for advice on the entire procedure. In the meantime, no new releases would be ordered. In Parliament, however, Onkelinx failed to mention the latter. She only stated that she would demand an investigation into the "manifest dysfunctions" of the Antwerp public prosecutor's office. In response, VLD threatened to revoke its confidence in the minister.

Onkelinx, for her part, again attributed the commotion to the elections. PS party president Di Rupo accused the VLD of putting the government at risk. Further budget meetings were postponed. Several conversations with Onkelinx failed to bring a solution and statements by all parties only continued to add fuel to the flames. Di Rupo's denouncement of VLD's "demagoguery and irresponsibility" was widely interpreted to foreshadow the imminent fall of the cabinet. Prime Minister Verhofstadt, then, called for calmer heads to prevail and promised an overall proposition by the next morning. On September 27th, an agreement was finally concluded. Release on parole would be subject to the recommendation of the victims or their families, as would penitentiary leave. In addition, the expansion and modernisation of penitentiary facilities would be accelerated and extra funds made available for electronic monitoring and alternative punishments. Foreign felons would be encouraged to serve their sentence in their country of origin.

C. 'Senseless' Violence and the New Firearms Bill

In the spring, a number of senseless killings deeply affected public opinion. On April 12th, 17 years old Joe Van Holsbeek was stabbed in Brussels Central Station for his MP3 player. In his commemoration, 80.000 held a silent march in Brussels on April 23rd. His Polish assailants were apprehended on the basis of the security camera footage. One was extradited after having fled to Poland. In the early days after the event, the media had maintained the perpetrators were of North-African origin.

On May 11th, Hans Van Temsche shot a woman of Turkish origin and killed Luna Drowart and her Malian nanny Oulemate Niangadou in broad daylight. The 18 year old had procured the weapon only hours before. The public prosecutor's office suspected racist motives. Vlaams Belang was blamed by many, in particular as Van Temsche's aunt is an MP for that party. On May 26th another silent march was held in Antwerp.

In response, parliamentary consideration of the new firearms bill was accelerated. It was duly approved on May 18th. It subjected the purchase of hunting and sporting guns to a permit, handed out by the provincial governor – following the recommendations of the local police. In addition, all firearms in Belgium are required to be registered. Up until June 30th, illegal weapons could be surrendered to the local police with impunity.

On June 24th, a number of youngsters severely beat 54 year old Guido De Moor on a bus, after he had intervened in a fight. He died on the premises.

D. Miscellanea

Juvenile Courts – On February 7th, Onkelinx introduced two amendments to the 2005 law on juvenile courts. They reflected the agreement concluded by the community governments. Criminal courts would be established as part of the juvenile court, comprising two juvenile court judges and one magistrates' court judge. Protective measures were prolonged up to the age of 23 (rather than 20).

Criminal Code – The Chamber Justice Committee interrupted consideration of the Franchimont bill to reform the criminal code mid October. It was feared that criminal investigations would be even more delayed. But the media attributed the decision to diverging opinions among the coalition partners.

The Reform of the Judiciary – On March 10th, the cabinet approved the revised Themis Plan on the management of court premises. Compared to earlier drafts, separate direction committees per judicial district would be established for the court and the public prosecution, to emphasise their mutual independence. Both would share a budget manager.

Terrorism – The Coordinating Centre for Analysis of the Threat (OCAD) was established on July 10th. It is charged with the continuous investigation of all forms

of terrorism and extremism that threaten national security and Belgian residents abroad. Moreover, Onkelinx offered thirteen additional examining magistrates, specialised in terrorism: four in Brussels, three in Liège, two in Antwerp, Ghent, and Mons.

National Security Service – Koen Dassen, Ministers Onkelinx and Dewael announced on January 30th, resigned from his position as administrator-general of the national security service. Earlier, the media had suggested he was compelled to resign over his opposition to the OCAD. He feared that foreign intelligence services would no longer volunteer information if that information was to be passed on to OCAD. Following the Erdal case, Dassen had attempted to revoke his resignation. But his resignation appeared in the Bulletin of Acts, Orders and Decrees on April 7th. He was later replaced by Alain Winants.

VII. Employment and Social Policy

A. Employment

On December 31st, there were 438,938 unemployed entitled to an allowance, i.e. 2.8% fewer than in 2005. A slight increase in Brussels (1.9%) was offset by decreases in Flanders (5.8%) and Wallonia (2.2%). The unemployment rate equalled 11.7%, down by 1.2%.

In its annual report, the National Bank of Belgium calculated 40,000 extra jobs had been created. Nevertheless, the gap with the former fifteen EU member states was predicted to widen. Part of the increase was due to the service cheque system: by the end of 2005 28,933 persons held a job in the sector, i.e. almost double the number of the previous year. The number of clients increased to 420,007 (up by 167,201); the total reimbursed sum of cheques almost doubled to € 32,187 million. In 2005 that amount had already tripled compared to the year before that.

In 2006 3,242 persons in search of employment saw their benefits suspended temporarily and 966 indefinitely, as part of the National Employment Office's activation policy started in 2004. On June 14th, a new monitoring procedure was installed. Unemployed persons would have to fill out a form proving they live in Belgium and are available to the labour market. Previously, unemployed persons were obliged to present themselves every day in the local unemployment benefit office.

Generation Pact – On April 1st, the first measures of the Generation Pact entered into effect. The principal aim was to restrict early retirement and to increase the employment rate among the over 55's. In the case of collective lay-offs, an employment cell for those eligible for early retirement must be established. They remain available to the labour market. On pseudo-early retirement schemes, both employer and employee are charged a special social contribution. The reduction

on social contributions payable for lower educated young employees was extended up to four years. Social contributions were also reduced for young employees who earn less than € 1,957 per month. 16 to 18 year olds could benefit from a € 500 internship bonus per completed year (€ 750 in the third and final year).

On July 11th, management and the unions agreed to four orders implementing the Generation Pact. These included an easier access to a minimum pension for part-time employees, an increase of the minimum pensions by 17% per year of employment for those retired since October 2006, a pension bonus of € 52 per month of employment for those who continue to work after their 62nd birthday or their 44th year of employment, and a pension penalty for those who retire after 58 years of employment.

On February 9th, moreover, the government decided to add a standard of living bonus for the lowest pensions – by means of a lump sum of € 75 in April and a 2% increase in September. This reflected a compromise between earlier government drafts, management and the unions. The government had preferred a lump sum, while management and the unions had agreed on a 2% increase. In addition, social contributions on night and shift work were reduced by 10.7%. This part of the agreement awaited implementation in 2007.

Access to the Labour Market and "Pressure Point Jobs" – On May 1st 2004, Ireland, Sweden and the UK had opened up their labour market to nationals of the new EU member states. The other member states were required to announce their decision by April 30th 2006. The coalition partners agreed to make access conditional on the expansion of Dimona (i.e. the electronic registration of employees with the National Office for Social Security), the several liability of employers in the case of offences against the wage and labour conditions of foreign employees, an increased coordination of the federal and regional social inspectorates, and admittance of the unions and foreign employees to the Belgian industrial tribunals. Admittance was made easier for persons from Central and Eastern European Countries to perform so-called "pressure point jobs", i.e. vacancies that cannot be filled by the training of unemployed persons. To this end, federal and regional governments would compile a list of said jobs by June 1st, after consultation of management and the unions.

Volkswagen – On November 21st, Volkswagen announced that the Golf model would no longer be assembled at the Vorst plant – resulting in the loss of up to 4,000 jobs. Prime Minister Verhofstadt expressed his disappointment at "the nationalist motives" governing the decision. Repeated talks with the Volkswagen management in Wolfsburg (Germany) culminated in the promise of the new Audi A1 to be assembled in Vorst from 2009 – on the condition that the production costs in Vorst would be reduced by 20% to equal those of Mosel in East-Germany. In response, the government offered to lower social contributions payable for night and shift work, and to introduce the "plus-minus account" to allow for more flexible working hours.

In spite of continued strikes and a demonstration in Brussels on December 2nd, a surprisingly great number of workers applied for voluntary redundancy – as a result of a handsome severance pay of up to € 144,000. The number would reach 2,311 in 2007. Only on January 8th 2007 would work at the plant resume.

B. Social Negotiations

On November 13th, the negotiations for an inter-professional agreement 2007-2008 kicked off. The National bank of Belgium had calculated a 4.2% increase of the wages in 2005-2006 in Belgium. Neighbouring countries would limit pay increases to 3.6% in the same period, however. In the end, management and the unions agreed to allow wages to increase by 5% on average in 2007-2008. The government accepted to share the burden, in the form of advance tax payments exemptions worth 0.25% of gross wages. Sectors were encouraged to conclude all-in agreements, offsetting rising inflation by lower pay raises.

The minimum income for over 21's would be increased by € 25 per month in April 2007 and October 2008. In implementation of the Generation Pact, the compilation of an exhaustive list of "heavy professions" permitting early retirement was abandoned. Instead, employees having worked night shifts for 20 years or partially disabled construction workers were allowed early retirement at the age of 56. Over 55's in all industries would also be offered the opportunity to reduce their working hours by 20%. Management would increase the funds for training to 1.9% of the total sum of earnings. Per year, an extra 5% of the employees would be offered additional training.

Management and the unions signed the agreement on February 2nd 2007. Both expressed their satisfaction, even if employers' organisation Unizo estimated that management had paid "a high price".

C. Social Security

The social security sector realised a € 955 million surplus in 2006 – with a total budget of € 56.2 billion. The health insurance sector completed the fiscal year 2006 on a € 738 million surplus. Of the € 18,483 billion budgeted, only € 17,735 billion was spent. On July 1st, the reimbursement of medicines was replaced for three-quarters by a lump sum per pathology – with the exception of expensive cancer medicines. The hospital reform would encourage a more frugal consumption of medicines and eliminate prescription differences between hospitals.

In implementation of the "kiwi model", the first two medicinal products (anti-hypertensives and cholesterol inhibitors) were put out to tenders. Only the cheapest medicine would be reimbursed by 75% – others would only be reimbursed by half. A boycott of the sector resulted in a single offer to be made.

The 2007 health insurance budget was fixed at € 19.619 billion or an increase by 6.4%. A new OMNIO statute was to replace the former WIGW statute (widows, disabled, pensioners, and orphans). This would lower the non-refundable part of medical expenses for 1.4 million persons (up by 0.3 million) earning less than € 13,312 gross per year (+ € 2,465 per supported person).

Other measures included an increase of the refundable part of painkillers for the chronically ill, a reduction by half of the non-refundable part of generic medicines in bulk and of the first 18 visits to a physiotherapist. In addition, a fund to finance health care in the future was established – from 2012 it would contribute financially to the adaptation of the health care sector to the ageing population. In 2007, the fund received € 309 million.

Between September 4th and 18th, 41,870 medical doctors elected their twelve representatives in the National Institute for Sickness and Disability Insurance (RIZIV-INAMI). Turnout was only 46.6%, however. The Belgian Association of Medical Trade Unions obtained 66.6% of the vote and eight of the twelve seats, against a cartel list.

VIII. Policy on Mobility

Zaventem Airport and the Flight Dispersal Plans – Throughout 2006, an enduring solution to the longstanding dispute over the approach routes to the airport proved elusive.

On March 21st, the Brussels Court of Appeal gave the federal government 30 days to draw up a new noise nuisance dispersal plan that wouldn't unfairly target the inhabitants of the northern rim. The government faced damages of € 25,000 per day in the case of non-compliance. The court thought the strict noise level norms set by the Brussels region a breach of the principle of proportionality. The verdict led to minor changes in the flight dispersal plan – limited to flights on Saturday.

Separate court rulings just added to the confusion. The Council of State repeatedly upheld the strict noise level norms in the Brussels region – against appeals by airport proprietor BIAC, DHL, as well as a number of airline carriers. The Court of Cassation similarly rejected an appeal of an earlier ruling sentencing the state to pay € 25,000 in damages in the case of non-compliance of the Brussels noise level norms. The Council of State, on the other hand, annulled the new dispersal plan on May 10th, following a complaint by the inhabitants of the eastern rim. On October 6th, the Court of Cassation upheld an earlier ruling that annulled the heavy use of runway 02/20. The consultations with the Flemish and Brussels regional governments that had been interrupted in October 2005, didn't resume in 2006.

Railways – NMBS Holding signed an agreement on December 5th with the three regions to jointly finance major projects developing the infrastructure, in particular in Zeebrugge, on the line Brussels-Luxembourg, and in the port of Brussels.

Road Tax Sticker – The Walloon government repeatedly pressed the other regions for the introduction of a road tax sticker by January 2008. The road tax was intended for the use of the highways and was also payable by foreign drivers. The Brussels region, however, stood in the way of an agreement: it demanded 9% of the revenues rather than the 5% it was offered.

IX. Policy on Energy

A. Belgium and the Suez-Gaz de France Merger Plans

By December 6th 2005 Suez had acquired 98.6% of the shares of Electrabel. The take-over would put the entire electricity supply in Belgium firmly in French hands. In a gentleman's agreement, nicknamed Pax Electrica, Suez offered to reduce its share in Elia (the national grid administrator), to maintain its strategic decision centre in Brussels, and to expand the Belgian presence among its managers. Further concern was fuelled by the merger plans that Suez and Gaz de France announced, in response to an attempted take-over of Electrabel by an Italian concern, Enel.

A merger would have huge consequences for the Belgian energy market, as Gaz de France (in a joint venture with British Centrica) had acquired a majority share in SPE, owner of supplier Luminus and Electrabel's sole competitor on the Belgian market. In addition, Gaz de France was Suez subsidiary Distrigas' main competitor for the natural gas supply to the Belgian industries. In a reaction, Prime Minister Verhofstadt promised to hold Suez to all its previous commitments and to preserve the crucial part played by Distrigas and the port of Zeebrugge in the distribution of natural gas. He saw in the merger an opportunity to open up the natural gas market to new suppliers.

In a conversation with Verhofstadt on March 17th, EU Commissioner Neelie Kroes promised to monitor the situation on the Belgian energy market closely. On June 19th, she duly ordered an investigation into the merger. In an initial response, Suez offered to sell off its 25.5% share in SPE. But it refused to consider releasing its grip on the national grid and the nuclear power plants – something the Belgian government had demanded. In the meantime, tensions arose between Verhofstadt and Neelie Kroes over the Belgian government's involvement in the negotiations with Suez-Gaz de France.

On September 20th, Suez and Gaz de France proposed five concessions to meet the Commission's objections. Fluxys would be split in three divisions: the management and the exploitation of the natural gas grid, and the LNG terminal in Zeebrugge. Only in the latter would Suez retain a majority share. A separate

concern governing the Distrigas industrial clients' contracts and the sale of natural gas to SPE would be sold off at a later date. In addition, its earlier promise to sell of its share in SPE was repeated.

Moreover, Suez struck a separate agreement with the Belgian government on October 4th. Electrabel would freeze its prices for residential clients until September 2007, yield part of its production capacity to SPE and a foreign concern, and pay for the natural gas reduction of € 100 million (II.B). Suez agreed to double the capacity of the LNG terminal in Zeebrugge – otherwise a third shareholder would be allowed to join in Fluxys. In addition, the Belgian government was offered a veto right in strategic decisions.

The EU Commission, however, rejected the proposed concessions. It demanded that Suez-Gaz de France gave up 35% of the supply capacity on the Belgian market (meaning Distrigas) and its majority share in Fluxys. Suez-Gaz de France was allowed 60% of the shares of the concern governing the LNG terminal. The remaining 40% could be shared by Publigas (a communal holding) and a third foreign concern. On October 13th, Suez-Gaz de France duly agreed to sell of Distrigas in the course of 2007, removing the final barrier to the merger to be decided on the shareholders' meeting of June 25th 2007.

In the fall, there was some concern that the government, in return, had promised not to alter tax regulations in the industry before 2009. Ministers Verwilghen and Reynders maintained that the agreement had been unilateral in character and that tax regulations could still be altered but not "in a discriminating manner". Subsequently, letters and documents were leaked to the press that contradicted the government's explanation.

B. Miscellanea

Apetra – Member states of the International Energy Agency (IEA) are obliged to retain a strategic oil reserve equivalent to 90 days of domestic consumption. The decentralised system of compensations did not provide the oil companies and refineries with enough of an incentive to live up to the obligation. To this end, *Apetra* was established on January 26th as a company limited by shares governed by public law charged with the management of that part of the strategic oil reserve that is not held by oil companies as a working reserve.

Biofuels – A 2003 EU directive stated that by 2006 biofuels had to account for 2% of the fuel consumption. By 2010, that share had to be at least 5.75%. To offset the greater production cost, excise duties on biofuels were lowered: on biodiesel containing at least 3.37% FAME (Fatty Acid Methyl Ester) from November 2006 and on fuel containing at least 7% of bioethanol from October 2007.

In addition, three companies were registered to produce bioethanol between 2008 and 2012: BioWanze (Wanze), Alco Bio Fuel (Ghent) and Tate & Lyle (Aalst). Four companies were recognized to produce FAME: Proviron (Ostend), Flanders Bio Fuel (Gistel), Oleon (Ertvelde), and Néochim (Feluy). After Südzucker had

threatened not to invest in Wanze if production couldn't exceed 108 million litres per year, the production limit of bioethanol was raised 250 million. Südzucker obtained 50.5% of the quota. Diesel prices were raised by 1.02 cents per litre – even if no FAME was produced by November due to the late recognition decision.

Nuclear Energy – On June 23rd, the government decided to open surface storage facilities of low and medium radioactive waste in the municipality of Dessel by 2017. Surface storage of the material was estimated to cost € 350 million, compared to the € 1 billion cost of subterranean storage.

On November 17th, the Energy 2030 Committee presented its report, urging the government to reconsider the closure of the nuclear power plants between 2015 and 2025. Nuclear energy was deemed vital to the energy supply and the reduction of CO₂ emissions. But the report met with scathing criticism, in particular on the relations Professor William D'Haeseleer, the committee's chairperson, entertained with the nuclear sector. This, however, did not dissuade the liberal parties VLD and MR to reopen the debate.

Elia Levy – On April 26th the Court of Arbitration rejected the appeal of this temporary levy on energy consumption. While the court objected to its retroactive nature, it declared itself incompetent to annul the decree.

X. Foreign and Defence Policy

A. Foreign Policy

United Nations – Belgium was elected by the General Assembly to serve in 2007-2008 as a non-permanent member of the Security Council.

Congo – In February, Foreign Minister De Gucht promised Belgium's participation to the European Intervention Force (Eufor) in the form of four unmanned aerial vehicles (UAV) and 50 servicemen. Eufor would monitor the presidential and general elections on July 30th and October 28th in the capital Kinshasa. In addition, € 15 million was earmarked for the organisation of the elections. Following the elections, the government expressed its satisfaction with the electoral proceedings. The elections were deemed a "watershed in the history of Congo".

On Christmas Eve the last servicemen charged with the training of the Congolese military in Katanga returned home. This ended a three-year military presence in Belgium's former colony.

Rwanda – A SN Brussels Airlines plane was grounded in the Rwandan capital Kigali on February 22nd. It was considered retaliation after Rwandan Silverback Cargo Freighters was blacklisted and one of its planes grounded on Zaventem airport since August 2005. Following a phone call with President Kagame, Verhofstadt obtained the release of the SN plane two days later. In March, Silverback

was given permission to return its cargo plane to Kigali. SN Brussels Airlines did not resume their flights to Kigali until May.

Genocide Law – Former Rwandan Major Bernard Ntuyahaga was referred to the Assize Court on September 7th for his complicity in the murder of Prime Minister Agathe Uwilingyimana and ten Belgian paratroopers. It would be the third trial under the genocide law.

Senegal refused to extradite former Chad dictator Hissène Habré to Belgium. Apprehended in 2005, Habré wasn't expected to face trial in Senegal for another three years.

Lebanon – After hostilities flared between Israel and Hezbollah militias, 1.151 Belgian civilians were repatriated. The Belgian embassy received help from the other EU countries and in its turn assisted French, Italian, Luxembourg, and American citizens.

On August 25th, Belgium agreed to support the Unifil Peace Corps in southern Lebanon. 394 servicemen would be deployed to clear the area of mines, to offer medical assistance, and contribute to the reconstruction. They would be accompanied by a Belgian protection force.

Afghanistan – On the NATO summit in Riga on November 28th, Belgium offered € 30 million for the reconstruction and development of the country. But it refused to send extra servicemen, on top of the 290 already present in Afghanistan.

9/11 – A national security service investigation concluded that there was no evidence of unmarked CIA planes making use of Belgian airspace or airports for the transportation of suspects following the 9/11 attacks. But an MEP claimed that a total of four such planes had landed in Deurne and Zaventem in 2002 and 2006.

In June, it was leaked that Swift (Society for Worldwide Interbank Financial Telecommunication) had allowed the US access to the communications of 8.000 financial institutions following the 9/11 attacks. The National Bank of Belgium had neglected to inform the government. While acknowledging the tension between Belgian and US regulations, the Privacy Commission denounced that Swift as a company based in Terhulpen had neglected to inform the Belgian and EU authorities.

Cluster Bombs – On May 18th, Belgium became the first country to prohibit the production, storage, possession, and sale of cluster bombs.

B. Defence Policy

On January 27th, the government assented to the purchase of 242 Piranha III armoured vehicles, worth € 700 million. The first 138 vehicles – 18 equipped with a 90 mm cannon – were to be delivered in 2007. The remainder of the contract was conditional and subject to a new government decision. The 90 mm cannons and ammunition would be ordered from Walloon companies. Military experts and

the Financial Inspectorate pointed out that the calibre was incompatible with that of the NATO allies (105 and 120 mm).

Reorganisation of army personnel was concluded on July 20th with the introduction of the Mixed Career Concept (GLC). By 2018, the army would employ a mere 27,725 servicemen and 10,000 civilians. As a result, the share of labour costs in the defence budget would drop to 50% (from 63%). After 10-12 years of service, servicemen would be offered the choice to remain in the army as a civil servant or to seek employment in the private sector (receiving assistance to do so). The introduction of GLC would be staggered: from 2008 GLC would apply to 6,900 servicemen under the age of 32. 13,493 servicemen in the 32-46 age cohorts would have to choose between a military and a civilian position. 15,286 servicemen over 46 could stay on until their retirement at the age of 56.

In September, eleven servicemen were apprehended for their membership of Blood and Honour (BBET). Searches in five barracks and eighteen private residences yielded hundreds of firearms. Nine servicemen were suspended; two were dishonourably discharged.

XI. Other Events and Developments

Royal Family – On March 17th, several newspapers reported a growing annoyance among business partners with Prince Filip's behaviour on a trade mission to South Africa. The Prince had appeared aloof and had simply rehashed speeches from previous occasions. In a written comment published on March 25th, Prince Filip responded that members of the royal family are not meant to be "media stars", but that he wasn't indifferent to criticism of his person.

Further commotion arose over a number of exclusive photographs of the young princes Aymeric and Nicholas that Prince Laurent had offered for sale. At the government's insistence, the Prince later withdrew the photographs.

On December 1st, *Het Laatste Nieuws* alleged that Prince Laurent had received fraudulent financial support from the Navy in the late 1990s. A number of companies had charged the Navy up to € 175,000 of false invoices for the renovation of the Prince's residence, Villa Clémentine, in Tervuren and animal hospitals in Liège and Brussels. Twelve accused would stand trial in the spring of 2007. The prime suspect, Colonel Noël Vaessen, directly implicated the Prince. But Prince Laurent wasn't questioned, even after Prime Minister Verhofstadt had promised that "no-one was above the law". That sentiment was later repeated in the King's Christmas broadcast. A growing body of opinion called for investigations into the Princes' donation, in particular into the Royal Institute for the Sustainable Management of Natural Resources and the Promotion of Clean Technology (KINT). The institute had been established in 1994 by the regions to ensure the Prince an income at a time when he didn't receive a donation.

Gay Adoption – On April 20th, the Senate approved the gay adoption bill by the narrow margin of a single vote. Voted in favour: SP.A-Spirit, PS, Ecolo, and VLD (with the exception of 2 abstentions). An amendment to restrict adoption to the children of one of the adopting parents was rejected after equality of votes.

The Picanol Act and Public Enterprise Managers' Wages – The liberal and socialist parties failed to reach agreement on the disclosure of private and public enterprise managers' wages. After the exorbitant wages paid to Jan Coene, manager of loom manufacturer Picanol, had become public in 2004, the government had urged Parliament to regulate the disclosure of managers' wages. The Senate had adopted a private member's bill to that effect in December 2004.

In the Chamber, the liberal parties hoped to restrict the disclosure to the CEO's wages. The wages of the other members of the board would be disclosed in a single figure. A second amendment would also force health insurance funds, unions, political parties, and other subsidised organisations to disclose their managers' wages. The first amendment was adopted in committee on March 28th with the support of Vlaams Belang. After that, VLD and MR retracted the second amendment. This caused Vlaams Belang to withdraw their support and the (amended) bill failed to pass – the votes being equal.

In the course of the debates, State Secretary for Public Enterprise Bruno Tuybens caused something of a surprise by disclosing the wages of the CEO's of Belgacom, the Postal Services, Belgian Rail (NMBS), and the National Lottery.

Mittal-Arcelor – Mittal Steel's hostile bid to take over Arcelor met with concern in Belgium, as Arcelor employed a total of 12,500 persons in Ghent, Genk, and the wider Liège and Charleroi region. Prime Minister Verhofstadt reassured that CEO Lakshmi Mittal had personally promised to honour Arcelor's earlier commitments vis-à-vis its Belgian plants. The Walloon government demanded a further commitment to the unions and to continue production in Liège and Charleroi. Concern was also apparent in France and Luxembourg. Only after Mittal had increased its bid by 49% did the Arcelor board of directors agree to the takeover on June 25th.

Charleroi – Further irregularities came to light in Charleroi, after Jean-Claude Van Cauwenberghe had been compelled to resign as Walloon Prime Minister in 2005. On May 18th, Lucien Clariat, chair of the inter-municipal waste disposal service ICDI and PS alderman, was arrested on charges of forgery and misappropriation of funds. PS member of the provincial executive Jean-Pierre De Clercq faced similar charges as curator of three bankruptcies. In response, party president Elio Di Rupo called for a "powerful signal", in particular regarding the list of candidates for the upcoming local elections. But on May 22nd, the local section of the party approved the list of candidates regardless.

Looking for a strong commitment of support from central party office, Mayor Jacques Van Gompel resigned his position after his private secretary was apprehended on May 29th. Central party office duly obliged and asked him to open up housing committees and inter-municipal companies to the opposition. Yet,

following the local elections, Van Gompel, himself, faced charges of forgery and misappropriation of funds. He announced his resignation from jail. Di Rupo reacted disappointed.

In the meantime, the local section had reelected Jean-Claude Van Cauwenberghe as the Charleroi party president. The Walloon government sent an audit committee to Charleroi on October 24th. In its report, the committee denounced a series of malpractices, as well as a lack of organisation and oversight. The Walloon government promised to closely monitor public contracts and the appropriation of public funds. On December 4th, a new local council – a coalition of PS, MR, and CDH – was installed.

Namur – In the spring, rumours abounded about a conspicuous number of public contracts in Namur being accorded to Sogetec, a research bureau chaired by socialist Mayor Bernard Anselme's girlfriend. On October 19th, Anselme faced charges of forgery and misappropriation of funds but not apprehended.

XII. Events and Developments in the Political Parties

VLD – On January 10th, Rik Daems resigned from the parliamentary party presidency as a result of his relation with Sophie Pécriaux, a PS Member of the Chamber, who was expecting his child.

On February 10th, Jean-Marie Dedecker presented his right-wing populist views on a variety of social problems in a book. Throughout the spring, there were speculations on whether he would or wouldn't stand for the local elections of October 8th in Ostend. Only on June 20th, he agreed to the last slot on the list – perhaps paradoxically, a rather salient slot in Belgian politics. With 2,950, he obtained the greatest number of preference votes in the local party. Nevertheless, three days later the central party office demanded his expulsion from the party. Dedecker had continually caused discord in the party, in particular with local party figure-head Bart Tommelein. He was expelled on October 16th. In response, Dedecker announced he would seek to form a new party rather than join VLOTT (led by former VLD-member Hugo Coveliers) or Vlaams Belang. But on November 29th, it was announced that he would join N-VA. Forced to choose, N-VA in the end opted for the cartel with CD&V rather than for Dedecker. Dedecker would form his own formation Lijst Dedecker for the 2007 federal elections.

On October 20th, VLD hired Noël Slangen as strategic manager for 6 years. Earlier, Slangen had been press advisor to Verhofstadt. A ten point plan was expected to cause a "revolution" in the party – with the transformation of the party into a "progressive centre party" as a first step, focusing on civil society and the disadvantaged. Five "labs" were promised to study the ageing of the population, the labour market, single parent families, diversity, and the trades of the future. On December 16th, Verhofstadt presented his fourth citizen manifesto "Plea for an Open Society" – that was considered to kick off the 2007 elections campaign.

CD&V – N-VA – The news that Dedecker would join the N-VA hit cartel partner CD&V hard. Hours after the announcement was leaked on November 30th, party president Jo Vandeuren and Flemish Prime Minister Leterme gave N-VA the choice: a cartel with CD&V or Dedecker. Urgent conversations with N-VA party president Bart De Wever had failed to change their point of view.

The N-VA party executive upheld its decision to field Dedecker in the campaign, but expressed their regret over CD&V's decision. N-VA also expected to resign from the Flemish government. Further consultation with CD&V, however, resulted in a joint declaration on December 4th to observe the cartel and coalition agreements "accurately and faithfully". On December 9th, the party council reversed the executive's decision and opted for the continuation of the cartel with CD&V. De Wever had intimated that CD&V had agreed not to enter into a federal coalition after the 2007 elections without a major new step in the reform of the state. N-VA was also promised five seats in the federal Parliament. Dedecker responded bitterly. De Wever's position was hardly harmed by the debacle, but Frieda Brepoels resigned from the party's vice-presidency.

Vlaams Belang – On May 17th, the Council of State was petitioned by ten Members of Parliament to suspend state subsidies to Vlaams Belang on the basis of the party's "hostility towards human rights". In response, Vlaams Belang filed three appeals: to challenge all French-speaking State Councillors, to be informed on the Councillors' membership of irregular masonic lodges, and to challenge 26 State Councillors on the basis of their membership of organisations combating the far-right or connected to political parties. The first two petitions were rejected. Two State Councillors resigned from the case as a result of the third on March 22nd 2007.

Member of Parliament, Guido Tastenhoye embarrassed the party by pleading on February 23rd for the regularisation of a Kazakh family. His point of view was hardly compatible with the party's harsh view on immigration. Rob Verreycken resigned from the Flemish Parliament on March 31st, following an incident in which he stepped on an N-VA flag.

SP.A – Party president Johan Vande Lanotte surrounded himself with a council of sages – twelve famous persons from different walks of life.

On March 18th, the first of two ideological conferences were held on energy, housing, mobility, the environment, and globalisation. In the conference, a number of non-socialist organisations participated, including the Flemish Environmental Federation, Federation of Families, and Pax Christi. Together, the conferences ought to result in a manifesto "Equal Opportunities for All". The second conference was planned for January 26-27th 2007.

Groen! – On November 6th, the central party office's hold over candidate selection procedures for the federal and regional elections was strengthened. This was deemed to prevent the formation of local cartels with SP.A.

PS – The malpractices in Charleroi and Namur developed into a confrontation between party president Elio Di Rupo and the Charleroi strong man, Jean-Claude

Van Cauwenberghe. Nevertheless, both protagonists carefully avoided a public power struggle.

To restrict the fourteen federations' autonomy, the possibility for the national party executive to take over by a 3/5 majority decision from a party branch that failed to meet its statutory obligations or harmed the party, was inserted into the party statutes on September 3rd.

Van Cauwenberghe did not stand for the local elections.

FDF – On March 18th, Olivier Maingain was reelected party president with 79.9% of the votes in a postal ballot, in which one in five party members participated. Didier Gosuin withdrew as a candidate at the insistence of six party figureheads.