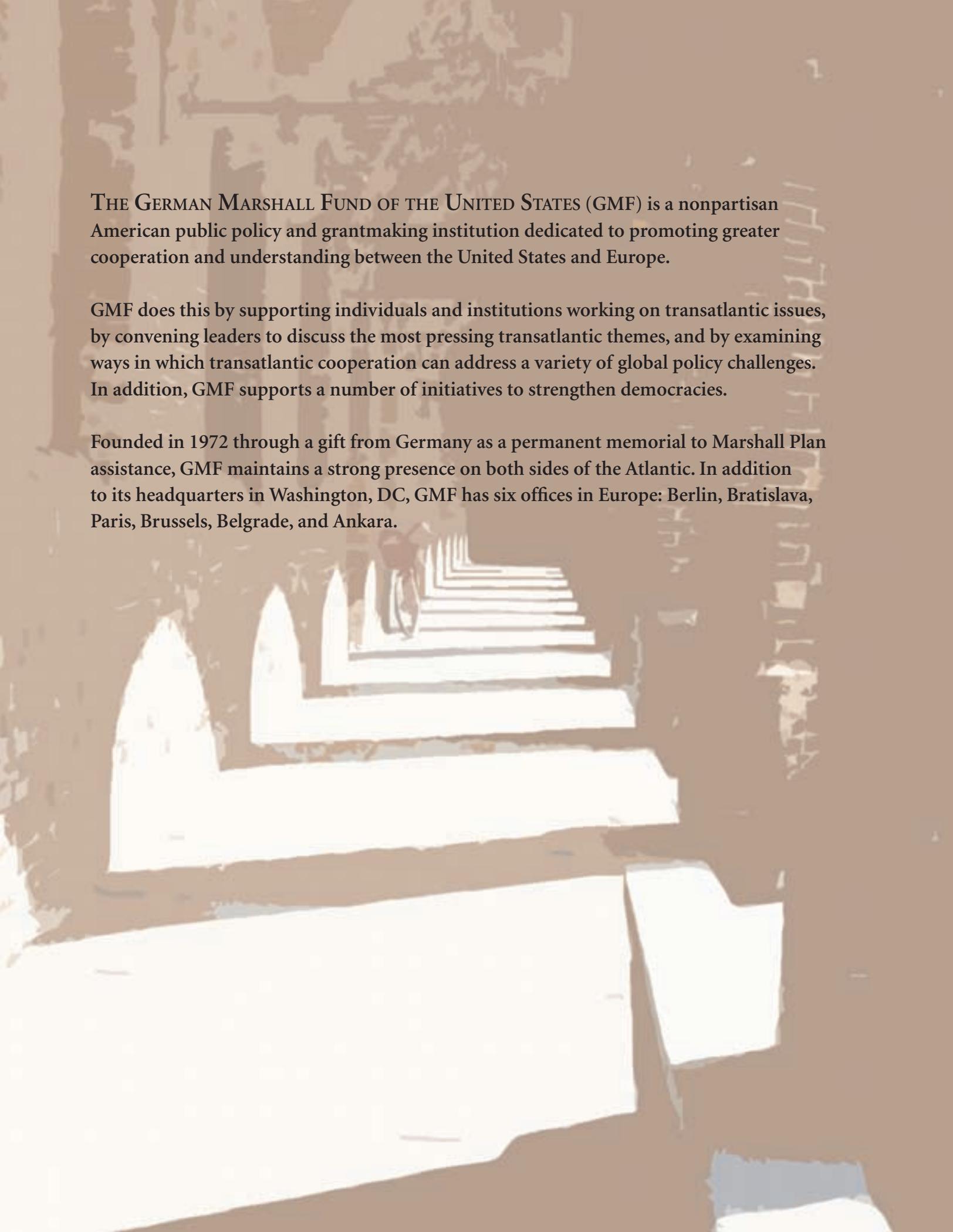


G | M | F The German Marshall Fund
of the United States

STRENGTHENING TRANSATLANTIC COOPERATION

2005 ANNUAL REPORT



THE GERMAN MARSHALL FUND OF THE UNITED STATES (GMF) is a nonpartisan American public policy and grantmaking institution dedicated to promoting greater cooperation and understanding between the United States and Europe.

GMF does this by supporting individuals and institutions working on transatlantic issues, by convening leaders to discuss the most pressing transatlantic themes, and by examining ways in which transatlantic cooperation can address a variety of global policy challenges. In addition, GMF supports a number of initiatives to strengthen democracies.

Founded in 1972 through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has six offices in Europe: Berlin, Bratislava, Paris, Brussels, Belgrade, and Ankara.

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LETTER

from the President

For the first time in several years, we can say with confidence that U.S.–European relations are improving. There are, of course, many issues that cause tension and conflict in the transatlantic community. While political, economic, and cultural differences continue to cause tension in the transatlantic relationship, overall, the past year was a good one for this vital partnership.

The most significant change was a renewed American commitment to partnership with Europe exemplified by President Bush's February 2005 speech in Brussels where he declared, "When Europe and the United States stand together, no problem can stand against us." And while NATO remains at the core of the Euroatlantic community, American policymakers are increasingly looking at the European Union as a key interlocutor on a host of issues, such as trade and economic policy, homeland security, energy policy, and foreign relations.

European leaders' reactions to Bush administration overtures have been cautious. The damage caused by four years of intense disagreements over Iraq and other major policy disputes will not be erased quickly. European public opinion remains strongly critical of current U.S. leadership and policies. There are also

signs that anti-Americanism is taking root among citizens in some European countries. But among the political elites of many European capitals, there is a feeling that American policy has changed. U.S. officials have become frequent visitors, as well as more attentive listeners to the concerns of their European counterparts. The United States has also taken a back seat to European leadership in managing crises in Lebanon, Ukraine, and Iran.

Neither Washington's unilateralist impulse nor Europe's skepticism toward American intentions has disappeared. However, a growing awareness of the value of transatlantic cooperation has eclipsed the animosities of the recent past. That said, the staying power of this trend, its ability to revitalize the U.S.–European alliance, and the impact a revitalized partnership would have on public attitudes in Europe remain unknown.

We believe that Europeans and Americans continue to share fundamental values and interests, including a commitment to the ideals of democracy and freedom, global peace and stability, and economic liberalism. The basis for transatlantic cooperation in the post–World War II period was the united front against Soviet communism and a shared commitment to the project of European reconciliation and integration.





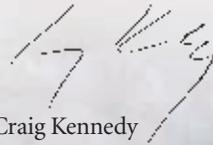
The end of the Cold War, together with the attacks of September 11, 2001, has profoundly altered the rationale for and purpose of the U.S.–European alliance. In 2006, the focus of the transatlantic relationship is not Europe, but rather how Europeans and Americans can together meet the daunting set of global challenges facing us — from terrorism to energy security, from pandemics to Islamic fundamentalism.

To address the global nature of shared transatlantic concerns, GMF has gradually built up a set of initiatives that focus on how the United States and Europe can cooperate on international economic and strategic issues. For example, a major new conference will bring together leading experts and policymakers to discuss the most pressing global challenges and shape the future agenda for transatlantic cooperation. The inaugural session of the annual Brussels Forum: Transatlantic Challenges in a Global Era will take place this April.

Our new Comparative Domestic Policy program will look at how American and European cities and regions, confronting a range of local challenges, can learn from each other through exchanges and study tours. We are also building upon our immigration grantmaking activities with a major new series of workshops on migration in June and July 2006.

While essential, conferences and dialogue alone do not ensure the development of a future generation of committed Atlanticists. For this reason, flagship GMF programs, such as the Marshall Memorial Fellowship, bring young leaders from Europe and the United States to the other side of the Atlantic to learn firsthand about culture, politics, and business, and introduce them to the institutions that support the transatlantic relationship. In addition, through our grantmaking, we support the work of individuals and institutions that are increasing transatlantic awareness and understanding.

GMF's expanding portfolio mirrors the increasing breadth of issues central to the transatlantic relationship in the 21st century. The opening of GMF's sixth European office in Ankara, Turkey, last May demonstrates how the definition of Europe itself is changing. We look forward to working with our many partners in the coming year to ensure greater policy coherence across the Atlantic and to increase understanding of the vibrant U.S.–European agenda.



Craig Kennedy
President

HIGHLIGHTS

2004-05

BUSH AND POWELL REACH OUT TO EUROPE

In the wake of a deep transatlantic rift over the Iraq war, the German Marshall Fund hosted U.S. President George W. Bush and then-Secretary of State Colin Powell as each reached out to Europe following the president's re-election.

He also said that the transatlantic alliance's top priority is resolving the Israel-Palestine conflict, and he made a particular call for a contiguous Palestinian West Bank. "A state of scattered territories will not work," President Bush said. Bush's speech was the keynote address of the first foreign trip of his second term. It was also the first major event for the new Brussels office executive director, Ronald D. Asmus.

Two days later, in the Slovak capital of Bratislava, where President Bush met with his Russian counterpart, Vladimir Putin, GMF co-hosted a conference on democracy promotion in Central and Eastern Europe titled "A New Quest for Democracy." Speakers from Belarus, Ukraine, Georgia, and other East European countries encouraged Slovak Prime Minister Mikulas Dzurinda to put democracy at the top of his agenda for meetings with Bush and other U.S. officials. The conference was organized with the Slovak Foreign Policy Association and the Institute for Public Affairs.

During his visit to Bratislava, President Bush met with "champions of freedom" from the region including GMF's own Pavol Demeš, director for Central and Eastern Europe and a "freedom champion" in his own right.

On Dec. 8, 2004, U.S. Secretary of State Colin Powell concluded his term with a farewell address to



Above: Secretary of State Colin Powell delivers his European farewell speech at GMF's Transatlantic Center in Brussels

Right: President George W. Bush meets "champions of freedom" in Bratislava

Opposite: Bush addresses European dignitaries in Brussels during the first foreign visit of his second term

On Feb. 21, in an event hosted by GMF's office in Brussels, President Bush signaled his commitment to improving relations and told an audience of European dignitaries and policy experts that the transatlantic relationship is founded on more than nostalgia.

Using the lens of democracy to address hot spots around the world, the U.S. president asked Europe to show the Iraqi people that "the world is with them," as Europe had done for Afghanistan. "When Europe and America stand together, no problem can stand against us," President Bush said while calling for "a new era of transatlantic unity."



Europe delivered at GMF's Transatlantic Center in Brussels. In the event co-hosted with the U.S. Mission to NATO, Secretary Powell told some 350 students, European Union interns and staff, and other guests that the transatlantic relationship is still vital.

Citing the Ukrainian and Afghan elections as models of what the transatlantic alliance stands for — freedom, democracy, and securing the rights of citizens — he suggested that the alliance's mission has moved beyond its traditional borders. "The transatlantic partnership is going on the road, beyond Europe," he said. "As pillars of the free world, we share the same threats."

Acknowledging the "blustery days" the alliance experienced in 2003 over the Iraq war, he indicated that things were on the mend and noted President Bush's planned European visit in February as an example of the American commitment to the alliance. He outlined opportunities for U.S.–European cooperation to resolve conflicts in Iran, Iraq, and Israel/Palestine, and said that the United States hopes Europe will become a stronger partner on the world stage.

The event marked the third anniversary of GMF's Transatlantic Center and the final event of the Center's founding executive director, William Drozdiak.

“When Europe and America stand together, no problem can stand against us.”

— PRESIDENT
GEORGE W. BUSH



Photo: Eric Draper, White House photographer

BLACK SEA STUDY TOURS

In order to raise the profile of the Black Sea region on the transatlantic agenda, and to encourage the resolution of Europe's ethnic and secessionist disputes in post-Soviet territories, the German Marshall Fund led several study tours to the area during the past year. These trips were designed to inform leading American and European policymakers, scholars, and journalists about the actors and issues in countries that border the Euroatlantic community.

In October 2004, GMF led a senior delegation to Georgia, Azerbaijan, and Armenia to examine the underlying causes and effects of the South Ossetia and Nagorno-Karabakh territorial conflicts. Participants met with the presidents and political leaders of each country, as well as U.S. and European ambassadors, leading opposition figures, and members of the news media. They also traveled to the conflict zones to meet with secessionist leaders. This trip resulted in articles published in the *Christian Science Monitor*, *Financial Times*, *Le Figaro*, and *Frankfurter Allgemeine Zeitung*.

GMF took seven senior congressional staff members to Romania, Turkey, Azerbaijan, Armenia, and Georgia at the start of 2005 to promote a transatlan-



Right: Construction of the South Caucasian gas pipeline

Below: Study tour participants visit the northernmost parts of Georgia



tic strategy for integrating these countries into the West. The group was the first international delegation to be received by the newly elected Romanian president, Traian Băsescu. Interest in the Black Sea region has subsequently grown on Capitol Hill, with a Senate Foreign Relations Committee hearing on the future of democracy in the area and questions about Black Sea policies during Secretary of State Condoleezza Rice's confirmation hearing.

In June, an impressive group of scholars and journalists looked at the democratic and economic development of Georgia, which sits in the East–West energy corridor. Led by GMF and former Swedish Prime Minister Carl Bildt, participants met with Georgian Prime Minister Mikheil Saakashvili and senior officials in the capital, and visited the country's borders with Chechnya and Daghestan. They also had the opportunity to witness the final construction phase of the Baku–Tbilisi–Erzerum gas pipeline.

GMF OPENS ANKARA OFFICE

On May 31, the German Marshall Fund opened a new office in Ankara, Turkey, with a reception for a transatlantic group of ambassadors, scholars, journalists, and other dignitaries, including a delegation of U.S. members of Congress on an official visit to the country. Featured speakers included Ambassador Yigit Alpogan, the first civilian secretary-general of Turkey's National Security Council; David Ignatius, *Washington Post* columnist and GMF Board member; and Markus Slevogt, the Deutsche Bank representative in Turkey.

"GMF is very excited to be opening an office in Ankara at a time when Turkey plays an increasingly critical role in the region, in Europe, and in the transatlantic alliance," said Craig Kennedy, GMF president. "Through our new office, we will support strong civil society in Turkey and its neighboring



U.S. Deputy Assistant Secretary of State Matthew Bryza launches the Ankara Speakers Series

countries and create a forum where Americans, EU citizens, and Turks can learn from one another and address shared challenges."

GMF's expansion into Turkey reflects the call to address policy challenges along Europe's borders, including the Balkans, the Black Sea region, and the Middle East. The Ankara office, located near the seat of Turkish government, will develop policy programs, fellowships, and grantmaking activities that will encourage more active and prominent Turkish participation in the

transatlantic community and improve American and European understanding of the country today.

Suat Kiniklioglu, founding director of the Ankara Center for Turkish Policy Studies (ANKAM) and a former GMF transatlantic fellow, was chosen to direct the office and GMF's activities in Turkey.

TRADE AND POVERTY FORUM MEETS IN NAGOYA

The Trade and Poverty Forum (TPF) held its third plenary meeting April 2–4 in Nagoya, Japan, to mobilize political and financial resources around trade and development reforms that could form the basis of an agreement in the Doha round of trade talks. Joined by Japanese Foreign Minister Nobutaka Machimura and U.S. congressmen Jim Kolbe (R-AZ) and Adam Smith (D-WA), the Forum announced plans to advance the recommendations of its 2004 *Call to Action* at key international events.

TPF members agreed to publicize the group's policy proposals in their home countries in the weeks and months before the July G8 Summit, and to travel to Scotland during the Summit to further broadcast their calls for poverty-alleviating trade reforms. They also agreed to carry their proposals forward in activities around the UN Millennium Review Summit in New York in September and the WTO's Hong Kong Ministerial Conference in December.

In addition, TPF members reaffirmed their commitment to educating audiences at home about the

link between trade and poverty. "I sometimes wonder how many Japanese people correctly understand the poverty situation in the rest of the world," Machimura said at the meeting in Nagoya, underscoring the importance of public awareness of the issues. "Very few people in Japan really understand the reality of developing-country citizens living on \$1 per day."

Japanese Foreign Minister Nobutaka Machimura (middle) with TPF chairmen Shoichiro Toyoda (left) and Dominique Strauss-Kahn at a press conference in Nagoya



TRANSATLANTIC TRENDS 2005

This year's *Transatlantic Trends* survey looked at the impact of President Bush's efforts to mend relations with Europe, as well as European attitudes toward the EU after the rejection of its proposed constitution in France and the Netherlands. Conducted in June, the survey found that despite major diplomatic efforts to improve transatlantic relations, there has been little improvement in European public opinion toward the United States.

Transatlantic Trends is a project of the German Marshall Fund and the Compagnia di San Paolo, with additional support from the Fundação Luso-Americana and Fundación BBVA. It is a comprehensive survey of public opinion in the United States and 10 European countries (France, Germany, Italy, the Netherlands, Poland, Portugal, the Slovak Republic, Spain, Turkey, and the United Kingdom). For the fourth consecutive year, respondents were asked their views on foreign policy and each other, as well as on global threats, world leadership, multilateral institutions, and the European Union.

Key findings include:

- **Support for EU Is Still High:** Despite the failure of EU constitutional referenda in France and the Netherlands, Europeans on the whole continue to have very positive feelings about the EU.
- **Democracy Promotion Has Broad Approval:** The centerpiece of President Bush's foreign policy agenda holds wide support among both Europeans and Americans, but receives much higher marks from Europeans.
- **Europeans Back a Single European Seat on UN Security Council:** A majority of Europeans support a single EU seat on the UN Security Council, even if it would replace the seats currently held by France and the UK.
- **Americans, Europeans Differ on Direction of Partnership:** While Americans want closer relations with Europe, Europeans believe the EU should take a more independent approach to security and diplomatic affairs.



PROMOTING AFRICAN DEVELOPMENT DURING THE G8

With the heads of state of the world's most powerful countries meeting a short distance away, the German Marshall Fund and The Partnership to Cut Hunger and Poverty in Africa convened African, American, and European leaders from the business and nonprofit communities to find solutions to poverty in Africa. The conference, titled "Raising Living Standards in Africa: A Role for the G8," was held July 6–7 in Edinburgh, Scotland.

By bringing together the different stakeholders in Africa's future for candid discussions about alleviating poverty on the continent, the conference highlighted reforms necessary in the United States and Europe to ensure that the poorest in Africa will benefit from further trade liberalization.

World Bank President Paul Wolfowitz delivered the first evening's keynote address, telling participants and the media, "This Summit is an opportunity for the rich countries and people to step up to the plate and carry out their responsibilities. There's a real chance now that the poorest countries of Africa can turn the corner, that Africa can become a continent of hope."

Conference participants called for more support for trade capacity building, and also for increased education, training, research, and innovation to boost Africa's competitiveness. They affirmed that it is up to Africans to take the lead in setting their own development agenda — with democratic reform and better governance — and urged the private sector to play a key role. Helping Africa succeed requires more



World Bank President Paul Wolfowitz greets Joaquim Chissano, former president of Mozambique, and other conference guests in Edinburgh

and better-targeted aid and debt relief, but also, most importantly, real and robust trade reform in industrialized countries.

"Free trade is not a magic wand; it is only when it is combined with policies that improve poor countries' capacities to trade that it works to deliver higher living standards," EU Trade Commissioner Peter Mandelson said while arguing for agricultural export subsidy reform.

Representatives from the private sector expressed interest in business development that is both profitable and benefits the poor. The group also saw a need to promote a more positive image of Africa as a place to do business and to highlight the efforts of African entrepreneurs.

"This Summit is an opportunity for the rich countries and people to step up to the plate and carry out their responsibilities."

— WORLD BANK
PRESIDENT PAUL
WOLFOWITZ



Former Mexican President Ernesto Zedillo, Ghanaian Trade Minister Alan Kyerematen, and former Irish President Mary Robinson



Conference participants at the opening reception

TRANSATLANTIC *Policy Programs*

Through its Transatlantic Policy programs, the German Marshall Fund promotes dialogue and scholarship on important global issues impacting Europe and the United States. These activities are conducted both by GMF and by partner institutions. In addition, GMF supports American and European think tanks and policy professionals working on a wide range of foreign and domestic policy challenges that affect the transatlantic relationship.

TRANSATLANTIC FELLOWS PROGRAM

The Transatlantic Fellows (TAF) program is a critical part of the German Marshall Fund's contribution to policy debates affecting the United States and Europe. Each year, GMF invites a small number of leading intellectuals and policy practitioners to examine key issues on the transatlantic agenda. Working largely in residence at one of GMF's offices in Washington, DC, or in Europe — where they have a bird's-eye view of American and EU policy-making institutions and processes — fellows look at questions of foreign policy, international security, trade and economic development, immigration, and other topics important to transatlantic cooperation.

Recent articles by fellows have appeared in the *Washington Post*, *Die Zeit*, *Foreign Affairs*, *International Herald Tribune*, *Prospect Magazine*, *Seattle Post-Intelligencer*, *European Affairs*, *Süddeutsche Zeitung*, and *Weekly Standard*, among other news and opinion outlets. Two former fellows published prominent books

in 2005 that resulted from their work in the TAF program. John F. Harris, a *Post* editor, published *The Survivor*, a critically acclaimed history of the Clinton

presidency. Mark Leonard, director of foreign policy at the Centre for European Reform, published *Why Europe Will Run the 21st Century*.

Other TAF activities in 2005 included a conference on transatlantic regulatory convergence with a keynote address by EU Trade Commissioner Peter Mandelson, and a U.S. speaking tour by Washington-based fellows who shared their research in several American cities. Fellows have also organized roundtable discussions, seminars, and debates on both sides of the Atlantic.

2004–05 Transatlantic Fellows:

- **John Audley**, former director of the Trade, Equity, and Development Project at the Carnegie Endowment for International Peace
- **Jeffrey Bergner**, U.S. assistant secretary of state for legislative affairs
- **Alexander A. Cooley**, assistant professor of political science at Barnard College
- **Ramón Gil-Casares**, former Spanish secretary of state for foreign affairs
- **Ulrike Guérot**, former head of the EU Unit at the German Council on Foreign Relations (DGAP)
- **Claire Healy**, former head of policy for the British Labour Party
- **Stephanie Henning**, former professional staff on the U.S. House Ways and Means Trade Subcommittee
- **Jörg Himmelreich**, former policy planner in the German foreign office



Stephanie Henning



Michael Werz

- **Ethan Kapstein**, *Paul Dubrulle Professor of Sustainable Development at INSEAD (France)*
- **Suat Kiniklioglu**, *former director of the Ankara Center for Turkish Policy Studies (ANKAM)*
- **Richard Phillips**, *former professional staff on the Senate Committee on the Judiciary*
- **Joseph P. Quinlan**, *chief market strategist of Banc of America Capital Management*
- **Robert Rohrschneider**, *professor of political science at Indiana University*
- **Áurea María Roldán Martín**, *legal advisor to the Spanish Council of State*
- **Mike Taylor**, *senior fellow at Resources for the Future*
- **Patrick Weil**, *director of the Center for the Study of Immigration, Integration, and Citizenship Policies at the Sorbonne University (France)*
- **Michael Werz**, *former associate professor of sociology at Hannover University (Germany)*

COMPARATIVE DOMESTIC POLICY PROGRAM

Recognizing that cities and regions across the United States and Europe are grappling with similar economic and social challenges brought about by rising global competition and societal change, GMF launched the Transatlantic Initiatives Fund (TIF) in 2003 to help leading community foundations look abroad for innovative approaches to pressing issues at home.

In fall 2004, GMF and the Brookings Institution's Metropolitan Policy Program led a group of American urban policy experts to Brussels, Lille, Essen, and Berlin to look at Europe's second-tier cities and the role of the EU in their economic transformation. GMF also sponsored a visit by Dutch experts on elderly housing to Washington, DC; Saint Paul, Minnesota; and Milwaukee, Wisconsin, in spring 2005 to learn about American innovations in housing and care for aging populations.

Building on previous TIF study tours and the great interest of civic leaders and public policy practitioners in learning from their counterparts abroad, GMF

established the Comparative Domestic Policy (CDP) program in May. CDP is a more comprehensive, strategic approach to facilitating and promoting the exchange of best practices between the United States and Europe in the urban, regional, and social policy arenas. Through study tours, policy conferences, and fellowships, the program:

- exposes civic leaders to alternative approaches to urban and regional challenges;
- provides a forum for networking among leaders in European and American cities and regions; and
- encourages an active exchange of best practices on pressing societal issues.

CDP works with community and private foundations, as well as think tanks, to identify domestic policy challenges affecting both continents. Programs focus primarily on urban and regional development, agriculture and rural communities, energy and the environment, and changing demographics and social policy.

ENERGY AND CLIMATE CHANGE

Recognizing the intrinsic link between energy and the environment, the German Marshall Fund seeks to raise awareness and foster greater understanding of the different energy policy approaches on each side of the Atlantic. In April, GMF and the National Commission on Energy Policy (NCEP) co-hosted a conference in Washington, DC, with energy, climate, and security experts including Jos Delbeke, director of the European Commission's Environment Directorate-General, and NCEP commissioners William K. Reilly and James Woolsey. The event served as a forum for openly discussing the EU's emissions trading scheme, carbon pricing, and member state allocation plans, as well as future U.S. climate policy, current government programs, and recommendations from a bipartisan NCEP report.



KEY INSTITUTION PROGRAMS

The Key Institution programs have been a central element of the German Marshall Fund's institutional grantmaking since 1988. These grants exemplify GMF's longstanding commitment to institutions that have demonstrated effectiveness in their research, analysis, and policy advice concerning the challenges facing the transatlantic relationship. Among the key institutions GMF supports are organizations focused on maintaining effective networks of European and American policy and opinion leaders.

Foreign Policy Key Institutions

Through its Foreign Policy Key Institution program, GMF supports academic and intellectual leaders of the transatlantic discussion and helps shape foreign policy solutions. Organizations selected as foreign policy key institutions in 2004–05 include:

- American Council on Germany — *New York, NY*
- American Enterprise Institute — *Washington, DC*
- American Institute for Contemporary German Studies — *Washington, DC*
- Aspen Institute Berlin — *Berlin, Germany*
- Atlantic Council of the United States — *Washington, DC*
- The Brookings Institution — *Washington, DC*
- Center for Applied Policy Research (CAP) — *Munich, Germany*
- Center for Strategic and International Studies — *Washington, DC*
- Centre for European Reform — *London, UK*
- Congressional Study Group on Germany — *Washington, DC*
- Council on Foreign Relations — *New York, NY*
- European Institute — *Washington, DC*
- French Institute of International Relations (IFRI) — *Paris, France*
- German Council on Foreign Relations (DGAP) — *Berlin, Germany*
- Hellenic Foundation for European and Foreign Policy — *Athens, Greece*
- Istituto Affari Internazionali — *Rome, Italy*
- Nixon Center — *Washington, DC*
- Project for the New American Century — *Washington, DC*
- Stiftung Wissenschaft und Politik — *Berlin, Germany*
- Transatlantic Policy Network — *Brussels, Belgium*



A Dutch expert on elderly housing observes assisted-living technology on a TIF study tour to St. Paul

Central and Eastern Europe Key Institutions

GMF's Central and Eastern Europe Key Institution program identifies and supports independent Central and East European (CEE) public policy institutions committed to developing democratic practices and strengthening transatlantic ties. Think tanks in the CEE region play a key role in offering independent analyses and encouraging open debate between members of the political elite and the general public.

In 2005, GMF supported 11 institutions working in the region on foreign and security policy, transatlantic relations, and democratization in Wider Europe:

- Center for International Relations — *Poland*
- Centre for Liberal Strategies — *Bulgaria*
- European Stability Initiative — *international*
- Europeum — *Czech Republic*
- Institute for Development and Social Initiatives — *Moldova*
- Institute for Public Affairs — *Slovak Republic*
- Institute for Public Policy — *Romania*
- Institute for Regional and International Studies — *Bulgaria*
- Institute of Public Affairs — *Poland*
- Romanian Academic Society — *Romania*
- Slovak Foreign Policy Association — *Slovak Republic*

Immigration and Integration Key Institutions

GMF's Immigration and Integration Key Institution program seeks to enhance understanding of the challenges and opportunities that increased immigration poses for societies. Topics of interest include illegal migration, economic integration and labor market needs, religious pluralism, and homeland security. In light of new security threats, GMF also strives to increase understanding of the relationship between migration flows and border security. In 2005, GMF supported the work of five immigration and integration policy institutes:

- **Center for the Study of Immigration, Integration, and Citizenship Policies, Sorbonne University**
— *Paris, France*
- **European Forum for Migration Studies, University of Bamberg** — *Bamberg, Germany*
- **Institute for the Study of International Migration, Georgetown University** — *Washington, DC*
- **Migration Policy Group** — *Brussels, Belgium*
- **University of California, Davis** — *Davis, California*

MARSHALL FORUM ON TRANSATLANTIC AFFAIRS

The fifth annual Marshall Forum on Transatlantic Affairs, titled “The Global Reach of the Transatlantic Partnership,” was held April 7–10 at Schloss Elmau in southern Germany. One of GMF's signature events, the three-day Marshall Forum brings together more than 150 political, business, media, and community leaders from the United States and 20 European countries to discuss the transatlantic relationship in a global context. GMF established the gathering in 2001 as a venue for alumni of the Marshall Memorial Fellowship and other fellowship programs to exchange ideas in an atmosphere of informal conversation and formal debate.

This year's event focused on political changes in the United States and Europe and global challenges facing the transatlantic relationship. Topics included the role of multilateral institutions, national and state identities, the EU constitutional debate, international security, global trade relations, and the strategic role of the Black Sea region.



Marshall Forum panel on democracy in the Black Sea region

Among featured speakers were U.S. Senator Robert Bennett (R-UT); Anton Buteyko, the Ukrainian deputy foreign minister; Ambassador Karel Kovanda, now the deputy–director general for external relations at the European Commission; and Jim Wooten, ABC News senior correspondent.

The next Marshall Forum will be held March 2006 in Tremezzo, Italy.

BRUSSELS DISTINGUISHED SPEAKERS SERIES

The German Marshall Fund's office in Brussels has made it a priority to bring the highest levels of U.S. leadership to the heart of the European Union to deepen relations and understanding across the Atlantic. The Brussels Distinguished Speakers Series is one of several GMF initiatives to increase contacts between Washington and Brussels as the EU's influence in the world and its role in defining policy increases vis-à-vis individual country governments.

Kicking off the Distinguished Speakers Series, U.S. President George W. Bush and then–Secretary of State Colin Powell gave major policy addresses before European and transatlantic audiences. In addition, such notables as U.S. Secretary of Homeland Security Michael Chertoff, new U.S. Ambassador to NATO Victoria Nuland, Democratic pollster Stan Greenberg, and *Weekly Standard* editor Bill Kristol have brought a variety of American perspectives to the Brussels policy community.



U.S. Ambassador to NATO
Victoria Nuland

Democratic pollster Stan Greenberg and GMF's Ronald D. Asmus discuss the future of the progressive movement in America



The series is intended to promote the discussion of topical transatlantic issues in Brussels and expose a European audience to many of the domestic U.S. debates that affect transatlantic ties. Speakers are drawn from all sides of the governmental, political, corporate, journalistic, and academic worlds.

BUNDESTAG FORUM ON THE UNITED STATES

The German Marshall Fund held the fourth annual Bundestag Forum on the United States June 16–17 in Berlin. The Bundestag Forum provides an opportunity for leading U.S. thinkers to debate American politics and policies in the German capital. This year's gathering focused on regional challenges for the transatlantic community, and featured a lively discussion among approximately 150 parliamentarians, opinion leaders, and decision-makers from the United States and Europe.

GMF Vice President Phillip Henderson and Deutsche Telekom representative Daniel Goffart served as the Forum's hosts and moderators. Bruce P. Jackson, president of the Project on Transitional Democracies, opened the event with a dinner address on transatlantic approaches to Wider Europe. Gernot Erler, vice-chairman of the SPD Parliamentary Group and a leading expert on Eastern Europe, served as the German respondent.

The second day of the conference began with a talk on Israel and Palestine by Steven Erlanger, Jerusalem bureau chief for *The New York Times*. He pointed out that Germany is Israel's second closest ally, after the United States, and that the Israel–Germany relationship is growing more important by the day. Hans-Ulrich Klose, chairman of the German Parliamentary Friendship Group–USA, offered comments after Erlanger's remarks. The Forum concluded with a luncheon discussion led by Ambassador Stephen R. Sestanovich, the George F. Kennan Senior Fellow at the Council on Foreign Relations, on recent developments in Russia and their impact on transatlantic relations. Deutsche Telekom provided support for the Bundestag Forum, with additional financial and logistical support from the German-American Parliamentary Group, the Foreign Relations Committee of the German Bundestag, and the International Relations Division of the German Bundestag.

EU CONSTITUTION CONFERENCE

Ahead of the crucial French and Dutch referenda on the EU constitution, the German Marshall Fund, together with the European Commission, convened nearly 45 European and American policy experts to discuss the constitution and its potential impact on transatlantic relations. The one-and-a-half-day conference was held April 28–29 at GMF's Washington office to raise awareness of the constitution in the United States and to consider possible outcomes of the ratification process.

U.S. Supreme Court Justice Stephen Breyer delivered the keynote address analyzing the EU constitution from an American legal perspective. Philippe de Schoutheete, Belgium's former permanent representative to the EU, and Pierre Levy, head of policy planning at the French foreign ministry, also gave remarks on how the treaty would affect the Euroatlantic community.

Discussions by conference participants centered on EU enlargement and concerns that the constitution's failure could halt accession negotiations with Turkey and stall Europe's neighborhood policy. The group also

looked at how a constitutional Europe might impact the relevance of NATO in world affairs. While most agreed that NATO remains an important institution for transatlantic cooperation, some proposed that the alliance alone is no longer sufficient in addressing many global issues that affect Europe and the United States, such as the China arms embargo and Iranian nuclear ambitions. The group called for a geo-strategic framework between the United States and the EU to discuss issues that cannot be addressed solely through NATO.

TRANSATLANTIC THINK TANK SYMPOSIUM

With support from the European Commission, the German Marshall Fund held the third annual Transatlantic Think Tank Symposium June 30 in Washington, DC. Timed to follow the official U.S.–EU Summit, the event sought to forge “A Common Transatlantic Geo-strategy for the European Neighborhood,” with participation by more than 50 policy experts and scholars from the United States and Europe.

John Bruton, the EU ambassador to the United States, opened the Symposium by talking about the

Fourth annual Bundestag Forum on the United States



French and Dutch referenda on the European constitution. He said that the “no” votes in both countries were not a negative sign about the future of the continent but were more about each nation’s domestic anxieties.

Panelists at the conference spoke on a wide range of transatlantic policy issues, including American cooperation with the European Union vis-à-vis its individual member states; Kosovo’s future status; the China arms embargo; EU integration of Black Sea countries; and political developments in Russia. The wider group also considered how American interests abroad could be joined with and advanced by Europe’s agenda.

The next Transatlantic Think Tank Symposium is planned for June 2006 in Vienna, at the end of Austria’s presidency of the EU.

RESEARCH FELLOWSHIP PROGRAM

In its final year in this format, the German Marshall Fund’s Research Fellowship program provided grants to American Ph.D. candidates and senior scholars for research on economic, political, and social developments relating to Europe, European integration, and transatlantic relations. Since 1999, the program has aimed to bridge the transatlantic policy and academic communities. Recipients undertake their projects largely at their home universities, with the opportunity to spend a month at one of GMF’s offices in Europe.

In 2005, GMF awarded 11 fellowships from a pool of more than 100 applicants. The awards were granted for research on a range of issues, including ethnic conflict in Eastern Europe’s German diaspora and the role of the mosque in French Islam. In addition, two recipients from the previous year were invited to continue their research in residence at GMF’s Brussels office. Alexander A. Cooley of Barnard College remained in Brussels last spring to examine U.S. Army base politics in newly democratic Southeast European countries. Indiana University’s Robert Rohrschneider spent the academic year mapping attitudes of Central and East European political parties toward EU accession.



U.S. Supreme Court Justice Stephen Breyer and Pierre Levy of the French foreign ministry discuss the EU constitution

Advanced research fellows:

- Richard Grossman, *Wesleyan University*
- Sheryl Kroen, *University of Florida*
- David Lublin, *American University*
- Kenneth J. Mouré, *UC Santa Barbara*
- Balazs Szelenyi, *Library of Congress*

Dissertation research fellows:

- Naomi Davidson, *University of Chicago*
- Tolga Esmer, *University of Chicago*
- Michael Meng, *UNC-Chapel Hill*
- Darius Ornston, *UC Berkeley*
- Margarita Petrova, *Cornell University*
- Christopher Wendt, *MIT*

This program is being restructured to support research conferences that address specific policy issues. This change is designed to foster dialogue between academics and policy practitioners, and to increase the impact of university research on the formulation of policy.





STRENGTHENING *Democracies*

Since the 1980s, GMF has worked with the democracy movements of Central and Eastern Europe. Some of the countries in this region are now reaching the final stages of transition, while others are still on the path to full democracy. GMF remains active and engaged throughout Central Europe, the Balkans, and the Black Sea region through a variety of programs supporting the continued process of democratic consolidation and the integration of the region into Euroatlantic structures.

BALKAN TRUST FOR DEMOCRACY

The Balkan Trust for Democracy (BTD) is a ten-year, \$29 million grantmaking initiative that supports good governance in Southeastern Europe. Since its inception in 2003, BTD has awarded more than 240 grants totaling more than \$6.2 million. Made possible through a unique public-private partnership between founding partners GMF, the United States Agency for International Development, and the Charles Stewart Mott Foundation, it is the only transatlantic initiative

The presidents of Bosnia and Herzegovina, Croatia, and Serbia and Montenegro meet under the auspices of a BTD grantee, the Center for Regionalism, to sign a statement on relations between their countries

of its kind promoting democracy in the Balkans and supporting the region's integration into the Euroatlantic community. Now in its third year, BTD continues to strengthen its grantmaking capability and attract new partners, including the Rockefeller Brothers Fund, the Netherlands Ministry of Foreign Affairs, the Swedish International Development Agency, and the Greek government.

In addition to grantmaking, BTD is committed to long-term development and democratic consolidation throughout the region by working to promote progress on a wide range of Balkan issues. Ivan Vejvoda, BTD's executive director, continues to lead this effort and has engaged directly with policymakers through briefings on Capitol Hill and with EU foreign policy chief Javier Solana in Brussels. In April, he testified before the U.S. House Committee on International Relations.

DEMOCRATIC REFORM IN UKRAINE

The German Marshall Fund recognizes the vital role free and fair elections play in strengthening democracy in Central and Eastern Europe. Post-Soviet republics in the region are attracting growing attention from American and European policymakers who understand that a democratic and stable neighborhood is vital for a strong transatlantic community. At the end of 2004, Ukraine's presidential election triggered an upsurge in civic activity and social unrest. In the run-up to and during the elections, numerous nongovernmental organizations





A Ukrainian activist shows solidarity with the Orange Revolution during the 2004 presidential election

developed initiatives to increase voter education and participation, mobilize the country's youth, and monitor the electoral process. In response to ballot fraud intended to undermine the popular will, hundreds of thousands of Ukrainians took to the streets in protest. Civic pressure ultimately resulted in the assertion of civil society and democracy in the country.

Among the key civic players in the Orange Revolution were the Freedom of Choice Coalition of Ukrainian NGOs and the youth civic campaign PORA ("It's Time"). In addition to assisting these

groups through grantmaking, GMF's director for Central and Eastern Europe, Pavol Demeš, attended a PORA training camp in Ukraine's Crimea Peninsula in August 2004 to share his rich experience with civic initiatives. GMF's Bratislava office also hosted PORA representative Anastasia Bezverkha to help strengthen the campaign's international outreach.

Parallel to this direct support, GMF initiated a series of policy seminars for senior decision-makers, opinion leaders, and experts from Ukraine, Europe, and the United States. Together with the Ukrainian Center for European and International Studies and the Heinrich Böll Foundation, GMF held two seminars in Kiev in September 2004 and January 2005. Discussions focused on strategies for domestic reform in Ukraine, the consolidation of democracy and market economy, and regional, European, and transatlantic cooperation. Conclusions from this dialogue were published in a book titled *Ukraine after the Orange Revolution: Strengthening European and Transatlantic Commitments*, edited by GMF's Joerg Forbrig and Robin Shepherd of the Center for Strategic and International Studies.

BLACK SEA REGION

Historically viewed by the United States and Europe as marginal to Western strategic interests, the Black

“Development of civil society and independent policy institutes remains essential for any successful integration of the Balkans into European institutions. BTD does this through carefully targeted assistance delivered by people who know the region and its potential extremely well.”

— GERALD KNAUS,
PRESIDENT, EUROPEAN
STABILITY INITIATIVE



Civic activism training in Crimea for the Ukrainian youth organization PORA

Sea region has moved to the center of the debate on how to promote peace and stability across Wider Europe. Following a shift in U.S. foreign policy priorities after September 11, 2001, combined with dual EU and NATO enlargement in 2004, Americans and Europeans are looking anew at the Black Sea as a cultural and political bridge between Europe, Russia, and the Middle East.

In recognition of the growing importance of the region, the German Marshall Fund, together with the Romanian and Bulgarian foreign ministries, launched a seminar series in 2003 titled “Developing a New Euroatlantic Strategy for the Black Sea Region.” The series — which will be continued in 2006 — looked at how to anchor Black Sea countries more closely to the West and prompted a collection of writings on the future of the region.

Since then, GMF has initiated another project to put resolving Europe’s frozen conflicts at the forefront of the transatlantic agenda. In partnership with the Project on Transitional Democracies and the Lynde and Harry Bradley Foundation, GMF has led five study tours to Southeastern Europe for senior European and American policymakers, congressional staff, and journalists to understand the roots of these secessionist conflicts and to promote a transatlantic strategy for their resolution.

A GMF-led delegation to the Black Sea visits Georgia’s Tusheti province to see security operations along the Georgian–Russian border

GMF also opened an office in Ankara in May 2005 to help support civil society development in Turkey and neighboring Black Sea countries. GMF’s new presence in the Turkish capital will help to increase its outreach to the Black Sea region and its programming around these issues.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

The Trust for Civil Society in Central and Eastern Europe, based in Warsaw, Poland, was established in 2001 as a joint ten-year project of the German Marshall Fund, the Ford Foundation, the Charles Stewart Mott Foundation, the Open Society Institute, and the Rockefeller Brothers Fund. Its mission is to promote the development and long-term stabilization of civil society and nongovernmental organizations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, and Slovenia. The Trust provides grants to support civil society institutions, activities, and projects in each country. The founding donors have pledged \$65 million to the Trust toward a goal of \$75 million. To date, the Trust has awarded nearly \$25 million in grants to organizations in the target countries. In 2006, the Trust will open a second office in Sofia, Bulgaria, and will welcome a new executive director, Rayna Gavrilova.



RETHINKING DEMOCRACY PROMOTION

The German Marshall Fund, in cooperation with the Project on Transitional Democracies, held a series of working dinners in Washington, DC, last year to review the role of the executive branch of the U.S. government in promoting democracy abroad. Between April and June, GMF convened policymakers, experts, and academics working on democracy promotion to discuss such topics as the role of the administration and other branches of government, lessons learned from postcommunist Europe, and challenges in the Middle East.

The meetings provided a valuable forum for debate and reflection on democracy promotion, and they highlighted the complexity of issues facing the United States as democracy moves to the center of its foreign policy agenda. In particular, the diversity of geographies that policymakers must consider — including the Middle East, Russia and postcommunist countries, and China — raises difficult questions about how to advance freedom around the world. Participants in the dinner series developed recommendations highlighting ways which the U.S. government can be most effective in promoting democracy.

ENVIRONMENTAL PARTNERSHIP

In 1991, the Environmental Partnership was launched by the German Marshall Fund, the Rockefeller Brothers Fund, the Charles Stewart Mott Foundation, and Atlantic Philanthropies. The Environmental Partnership is a consortium of national environmental organizations focused on fostering community-based environmental action and citizen participation in Central Europe. It is comprised of six independent grantmaking and technical assistance foundations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic. Acting both nationally and regionally, they focus on small-scale environmental action projects that contribute to sustainable development by reconciling social, economic, and environmental priorities.

Moreover, the Environmental Partnership supports bottom-up initiatives aimed at proposing alternatives to official government programs and policies, leading to more effective sustainable development solutions at the local, regional, and national levels. The Environmental Partnership foundations

represent one of the best examples of the development of indigenous grantmaking capacity in these countries. Each year the foundations provide critical support to the improvement of environmental conditions throughout the region. Partners in the Czech Republic, Hungary, Poland, and the Slovak Republic have now reached a level of organizational sustainability that allows the Partnership to focus continued support on the more recently established foundations in Bulgaria and Romania.

INTERNATIONAL COMMISSION ON THE BALKANS

The International Commission on the Balkans was established in 2004 to seek solutions to unresolved issues in the Balkans and further Balkan countries' integration into international institutions. Co-funded by the German Marshall Fund, the Robert Bosch Foundation, the Charles Stewart Mott Foundation, and the King Baudouin Foundation, the Balkan Commission issued a report after a yearlong effort that included three study tours to the region. The report, titled *The Balkans in Europe's Future*, was released simultaneously in Brussels and Washington, DC, in April 2005, and subsequently in several key European capitals. It attracted great attention from the international press and policy-making circles, and it has become a reference for future policies in and toward the Balkans.

The report calls for the European Union to speed up accession of the Balkan states in order to foster political and economic stability across Europe. The Commission concludes that a new contract between the Balkans and the EU is essential to international security and delivers a regional framework, a process, and benchmarks for achieving this goal. It also urges the U.S. government to play a more active role in the region, stressing that coordinated EU–U.S. policies are necessary to ensuring lasting peace and stability.

The Balkan Commission is chaired by former Italian Prime Minister Giuliano Amato and is comprised of 17 internationally renowned decision-makers from Europe and the United States. The Centre for Liberal Strategies in Bulgaria serves as the secretariat of the Commission's activities.



ECONOMIC POLICY

Programs

With globalization at the top of the international agenda, the German Marshall Fund aims to tackle the major economic challenges facing the transatlantic community. Building on the work of its Trade and Development program and Trade and Poverty Forum, GMF seeks to encourage a stronger and more cooperative economic relationship between the United States and Europe through sustained discussion between policymakers and opinion leaders on both sides of the Atlantic.

TRADE AND DEVELOPMENT PROGRAM

As the world's two largest economies and comprising its biggest commercial relationship, the United States and Europe are key players in trying to advance the international development agenda.

With support from the William and Flora Hewlett Foundation and the Rockefeller Foundation, among others, GMF's Trade and Development program seeks to promote transatlantic cooperation on domestic and international trade policies as vital instruments of global prosperity, especially for the poor and those affected by shifts in the global economy. Bringing together disparate constituencies — from multinational business leaders to developing-country policymakers — has been central to this work.

In 2005, the program held a major conference parallel to the G8 Summit with leaders from Europe, the United States, and Africa to talk about what the trans-

atlantic community could do to raise living standards on the poorest continent. Among an impressive group of government officials, industry heads, and NGO representatives, the event in Edinburgh, Scotland, featured World Bank President Paul Wolfowitz, then-WTO Director-General Supachai Panitchpakdi, EU Trade Commissioner Peter Mandelson, and former Mozambique President Joaquim Chissano.

The Trade and Development program also organized more than 20 other events on both sides of the Atlantic to foster debate and form networks of individuals and organizations working on trade, agriculture, and development issues. Among these was a highly regarded luncheon series in Washington, DC, that focused on such topics as WTO dispute resolution, economic modeling of agricultural trade outcomes, and the impact of the Doha round on international development. The series hosted EU Trade Commissioner Peter Mandelson for a talk on regulatory convergence and EU Agriculture Commissioner Mariann Fischer Boel in her first public appearance in the United States.

In 2004, GMF launched a public opinion survey to inform policymakers and the media about how Americans and Europeans feel toward international trade, development assistance, and a host of issues related to globalization. The findings of the survey, titled *Reconciling Trade and Poverty Reduction*, were presented in Washington, DC, Geneva, Brussels, and London.

Participants on a journalism fellowship to Brazil interview a cotton farmer in Mato Grosso



Photo: Joshua Cogan



GMF Senior Transatlantic Fellow John Audley analyzes U.S. and EU farm subsidies at a Brussels event

The survey was conducted again in 2005, in the run-up to the WTO ministerial in Hong Kong, and included Italy and Poland in addition to the original countries (United States, Britain, Germany, and France).

As part of its ongoing effort to increase public awareness and understanding of trade and development issues, GMF organizes journalism study tours around these themes. This year, a group of European and American journalists traveled to Brazil in the wake of the WTO sugar and cotton subsidy decisions to look at how the agricultural sector is affected by subsidies, and also how these debates are viewed by different constituents in a prominent developing country. A Trade and Development Web site was also launched to provide a forum for exchange between the American and European trade, agriculture, and development communities on trade policy reform and its impact on development.

TRADE AND POVERTY FORUM

As concerns over global poverty took center stage on the international agenda this year, members of GMF’s Trade and Poverty Forum (TPF) continued to support efforts to harness the global economy into service for the world’s poor. Established in 2002, TPF is an independent group of highly regarded stakeholders from six key developing and industrialized democracies — Brazil, India, South Africa, Japan, the European Union, and the United States. The Forum aims to address development challenges through trade and governance reforms.

Since issuing their recommendations in a *Call to Action* in 2004, TPF members have held meetings across the globe to build popular and political support for a poverty-alleviating conclusion to the Doha round of trade negotiations at the WTO. In the last year, TPF members have rallied policymakers, businesspeople, NGOs, journalists, and other opinion leaders around their goals at international events like the World Economic Forum’s India Economic Summit, the G8 Summit in Edinburgh, and the UN Millennium Review Summit in New York. TPF members have also worked to expand their global coalition by holding a televised town hall meeting at the international Expo 2005 in Aichi, Japan, and by meeting with British Prime Minister Tony Blair as part of his “Make Poverty History” campaign.

In addition, TPF planned informal meetings around the WTO Ministerial Conference in Hong Kong. It also agreed to expand its outreach efforts in the coming year to create stronger stakeholder alliances and to identify concrete action plans for important issues.

TPF is a project of the German Marshall Fund with support from: the 21st Century Public Policy Institute, the William and Flora Hewlett Foundation, the Bill & Melinda Gates Foundation, the Citigroup Foundation, the Confederation of Indian Industry, the King Baudouin Foundation, and Merck & Co.

GMF President Craig Kennedy and members of TPF urge cooperation on trade reform at the Aichi Expo 2005 in Japan



LEADERSHIP Programs

Since its inception, GMF has brought Americans and Europeans together to increase understanding and build future transatlantic networks among the political, media, business, and nonprofit communities. By sponsoring a range of fellowship and exchange programs, GMF provides both broad cultural exposure and targeted opportunities for learning about specialized policy areas. GMF's Leadership programs consist of a number of fellowships, study tours, and other initiatives designed to sustain a vibrant community of American and European leaders who are committed to the transatlantic relationship.

MARSHALL MEMORIAL FELLOWSHIP

The Marshall Memorial Fellowship (MMF) provides a unique opportunity for emerging leaders from the United States and Europe to explore societies, institutions, and cultures on opposite sides of the Atlantic. The MMF program, now in its 23rd year, draws fellows from 14 European countries and the United States for a 3- to 4-week traveling program.



Right: European fellows with their host family at the Southern Poverty Law Center in Alabama

Below: American fellows experience café life in Brussels

GMF awards more than 100 Marshall Memorial Fellowships each year to leaders in politics, government, business, media, and the nonprofit sector committed to strengthening the transatlantic relationship. Close to 1,400 fellows have participated in the program since its inception in 1982, creating a diverse network of transatlanticists who remain engaged through annual conferences, meetings, online communications, and involvement in other GMF programs.

American and European fellows each visit five or six cities per trip. They meet formally and informally with a range of policymakers and prominent members of the business, government, political, NGO, and media communities. GMF works closely with partner institutions and individual consultants in each city, providing fellows with an invaluable local perspective on transatlantic and domestic issues. In 2005, three groups of American fellows visited twenty-four European cities, such as Amsterdam, Athens, Barcelona, Belgrade, Berlin, Brussels, Hamburg, Paris, Sofia, Turin, and Warsaw. European fellows' itineraries took them to 36 American cities, including Birmingham, Boise, Chicago, Cleveland, Dallas, Denver, Lincoln, Madison, Seattle, and Washington, DC. Along the way, each fellow has the opportunity to explore his or her own professional interests beyond the group programs, which focus on a range of domestic and international policy areas.



CONGRESS—BUNDESTAG FORUM

German and American lawmakers gathered in Berlin and Elmau, Germany, July 6–10 for the second Congress–Bundestag Forum, organized by the German Marshall Fund and the Robert Bosch Foundation. On the heels of the German government’s no-confidence vote on July 1, ten members of the German Bundestag and six members of the U.S. Congress came together to deepen contacts with each other and to discuss important transatlantic issues.

The Forum opened in Berlin with a talk by Wolfgang Schäuble, then vice-chairman of the German CDU/CSU parliamentary faction and now interior minister. He said that the Christian Democrats would strive for balance in relations with France and the United States in a new government, but warned, “Don’t make us choose.” The members of Congress responded by stressing their interest in a strong, united Europe as America’s partner. The next morning, German State Secretary Klaus Scharioth presented German foreign policy priorities and highlighted the country’s active role in nation building in the Balkans and Afghanistan.

In Elmau, keynote speaker and EADS CEO Thomas Enders defended aircraft subsidies and suggested that it no longer makes sense to think of Boeing and EADS as American and European companies, respectively, because of the complexity of intra-industrial relationships. Another discussion focused on moral issues in foreign policy and sparked a spirited debate.

The next Forum is planned for February 2006 in San Diego, California. A trip to the U.S.–Mexican border will give lawmakers a chance to debate immigration and national security at one the world’s busiest cargo shipment and human migration borders.



Robert Bosch Foundation Chairman Dieter Berg and GMF President Craig Kennedy lead the concluding session of the Congress–Bundestag Forum at Schloss Elmau

TREMEZZO YOUNG LEADERS CONFERENCE

Since 2001, the German Marshall Fund, together with the Bertelsmann Foundation, has convened the annual Transatlantic Conference for Young Leaders on the shores of Lake Como in Tremezzo, Italy. The annual event brings together promising European and American leaders to discuss and debate the challenges facing the Euroatlantic community. Participants come from a variety of professional backgrounds — including government, business, the media, and the think tank and NGO communities — and develop lasting professional and personal connections on both sides of the Atlantic.

This year’s Tremezzo conference, titled “Transatlantic Relations Reloaded — Defining the Matrix for EU–U.S. Cooperation,” was held October 20–22, 2004. For three days, forty European and American participants discussed pressing global issues in the run-up to the U.S. presidential election. While differences in opinion emerged on such topics as democracy promotion in the Middle East and homeland security, all participants remained strongly committed to continued dialogue and cooperation between the United States and Europe. The young leaders returned home with a deeper understanding of the dynamics — and tensions — that drive political developments within and between the United States and Europe.

“The Fellowship program is helping to increase this community’s capacity to deal with our most important present and future public and civic concerns.”

— JAY TALBOT,
PROGRAM DIRECTOR,
THE CLEVELAND
FOUNDATION
(MMF PARTNER)

TRANSATLANTIC COMMUNITY FOUNDATION FELLOWSHIP

In June, nine American and European community foundation professionals participated in the sixth year of the Transatlantic Community Foundation Fellowship (TCFF), held in Budapest, Hungary, in conjunction with the Community Philanthropy Initiative's annual conference.

The program enables staff of community foundations to exchange best practices and experiences with their colleagues on the other side of the Atlantic by spending two weeks in residence with a host community foundation. TCFF allows for direct, one-on-one learning, exposing both the host institutions and the fellows to alternative means of addressing similar social and economic concerns.

The broader goal of the program is to create and strengthen networks of community philanthropy professionals who can share their international experiences with their colleagues, therefore assisting in the further development and capacity building of the field at large. The program is coordinated in partnership with the King Baudouin Foundation of Belgium, which funds and manages the European portion of the exchange. The German Marshall Fund handles the American component with financial support from the Charles Stewart Mott Foundation.

Senior congressional staff meet with representatives from the Joint Control Commission in South Ossetia, a secessionist region of Georgia



CONGRESSIONAL STAFF STUDY TOURS

U.S. congressional staff study tours are an effective tool for building a more informed political leadership and raising awareness of European issues in the United States. In 2005, the German Marshall Fund conducted three of these trips, during which participants met with government officials, members of nongovernmental organizations, industry heads, and community leaders:

■ BLACK SEA

January 7–14, GMF led a tour of seven senior congressional staff members to the Black Sea region — including Romania, Turkey, Azerbaijan, Armenia, and Georgia — to study the area and promote a Euroatlantic strategy for integrating these countries into the West. In the wake of this trip, interest on Capitol Hill was evident in questions about Black Sea policies asked of Secretary of State Condoleezza Rice during her confirmation, as well as in a Senate Foreign Relations committee hearing on the future of democracy in the region.

■ BALKANS

A second study tour, to Serbia and Montenegro, Kosovo, and Macedonia, was held February 20–27 for 11 senior congressional staff members in order to foster a deeper understanding of the challenges facing the Balkans. Since the trip, the Congressional Serbian Caucus has increased its membership roster, the House International Relations Committee has held several hearings on the region, and the House Republican leadership has received informal briefings on Balkan issues.

■ EUROPEAN UNION

With support from the European Commission, GMF took a group of seven congressional staff members to Brussels and Paris May 28–June 4. The study tour began in the EU capital to introduce participants to the institutions of the European Union and then moved to Paris, just two days before the French referendum on the EU constitution. Staff returned home with a firsthand understanding of the political climate in France and of policies that affect the U.S.–EU partnership.

Participants were selected from both the U.S. House of Representatives and the Senate, and each group was split between Democrats and Republicans.

JOURNALISM PROGRAMS

The German Marshall Fund's Journalism programs promote in-depth coverage of transatlantic issues by American and European journalists and encourage an open and spirited exchange between media professionals on both sides of the Atlantic. In addition to regularly including journalists in other programming, GMF offers a range of activities and fellowship opportunities tailored specifically to members of the news media.

The Journalism Fellowship program helps American and European journalists to research and report on a wide variety of transatlantic issues. At a time when news outlets have fewer resources for sending reporters abroad, these short-term grants contribute to better reporting on both sides of the Atlantic and allow stories to be told that might not otherwise be covered. Recent work supported by GMF includes Mark Houser's series in the *Pittsburgh Tribune Review* on "Fighting Islamic Extremism in Europe," Sesh Kannan's WAMU radio documentary on "Being Young, European and Muslim," and French journalist Thomas Cantaloube's forthcoming book that aims to explain "red state" America to the French public.

GMF also coordinates several study tours each year for European and American journalists to explore issues of transatlantic concern. These trips may be organized around other GMF programs or they may be focused on important transatlantic events such as a summit or election. In fall 2004, eight journalists from regional news outlets in Germany, Italy, France, Spain, Poland, and the Czech Republic traveled to the United States to observe and cover the final days of the U.S. presidential election. The group traveled to Washington, DC, Colorado, and Florida, where they met with pollsters, congressional staff, candidates, and voters. The trip provided the journalists with a firsthand understanding of the American political landscape. Earlier in the year, following cotton and sugar subsidy decisions at the WTO, GMF took a group of European and American journalists to Brazil to see how that country's agricultural sector is being affected.

In June 2005, GMF convened the fourth annual Transatlantic Journalists Forum in San Antonio, Texas, with support from the Washington delega-

tion of the European Commission. This year's event focused on "Borders, Neighborhoods, and Political Landscapes in Europe and North America." Over two days, twenty European and North American journalists exchanged ideas and experiences, made new contacts, and debated the challenges they face in covering immigration and border issues in their countries. Participants were drawn from such outlets as CNN, *The Dallas Morning News*, and the *Los Angeles Times* on the North American side, and *Le Figaro* (France), *Frankfurter Allgemeine Zeitung* (Germany), and *Novosti* (Serbia).

PETER R. WEITZ JOURNALISM PRIZE

On Sept. 26, GMF awarded the 2005 Peter R. Weitz Journalism Prize for excellence in reporting on European affairs to the *Washington Post*'s Craig Whitlock and to John W. Miller of *Dow Jones Newswires*. Whitlock, Berlin bureau chief for the *Post*, received the \$10,000 senior prize for his investigation into "The Paths of Terrorism in Europe." The \$5,000 junior prize went to Miller, based in Brussels, for his work looking at how European Union policies affect ordinary citizens in new EU member states.

The Weitz Prize was established in 1999 to honor the memory of Peter R. Weitz, former director of programs at GMF's Washington office, for his interest in promoting coverage of European affairs by American journalists.

APSA CONGRESSIONAL FELLOWSHIP

Each year, the American Political Science Association (APSA) Congressional Fellowship program, with support from the German Marshall Fund, provides an opportunity for two German professionals to gain an insider's view of Capitol Hill through a ten-month fellowship in a U.S. congressional office. Fellows secure their own jobs as legislative assistants in Congress by contacting member offices directly. Once they obtain a position, APSA fellows gain an intimate understanding of the functioning of the federal government as a whole. The program provides participants with a

"If Tocqueville had traveled to America in the 21st century, he would have come as a Marshall Memorial Fellow. The Fellowship has succeeded in achieving what any great introductory course must do: showing how little you really knew about the subject and that what you thought you knew were mostly stereotypes."

— PERCIVAL MANGLANO,
CHIEF OF STAFF,
MADRID REGIONAL
GOVERNMENT, SPAIN
(2005 MARSHALL
MEMORIAL FELLOW)



unique view into the American political process that they take home with them.

Two outstanding fellows were selected for the 2004–05 APSA program: Hans Michael Kloth, a journalist for the German weekly magazine *Der Spiegel*, and Annika Busse, who earned degrees in European management and business economics and is currently pursuing a Ph.D. in political science at the University of Hamburg. Kloth worked in the office of Congressman Brad Miller of North Carolina while Busse focused on European issues for the House International Relations Committee.

MANFRED WÖRNER SEMINAR

Co-sponsored by the German Marshall Fund and the Armed Forces Office of the German Ministry of Defense, the annual Manfred Wörner Seminar brings together 30 young American and German professionals to examine German and European security policy and discuss common U.S.–German and U.S.–European security interests. Participants are drawn from a diverse range of professional and educational backgrounds. In 2005, they came from

a wide array of sectors on both sides of the Atlantic, including government, business, the media, academia, and nonprofit organizations.

The ten-day program takes place each year in three German cities — Bonn, Cologne, and Berlin — and in Brussels, and consists of meetings with experts on security and defense in the German–American and European–American frameworks. The group’s itinerary included briefings by senior representatives of NATO, the EU, and the German Defense Ministry. The highlight of the program was an audience with then–German Chancellor Gerhard Schröder. In addition, participants met with Elfi Wörner, widow of former NATO Secretary General Manfred Wörner, and with former German President Richard von Weizsäcker.



Manfred Wörner Seminar participants meet then-Chancellor Gerhard Schröder of Germany



PARTNERSHIPS

Successful transatlantic relations depend on strong partnerships built up over time, across sectors, and between regions of the world. The German Marshall Fund has integrated this model of partnership into its organizational strategy as a means of achieving greater cooperation among the United States, Europe, and other regions. This approach has led to the inclusion in the transatlantic community and the GMF network of a wide variety of individuals — policymakers, journalists, nonprofit leaders, and business leaders — and organizations cutting across the full spectrum of society.

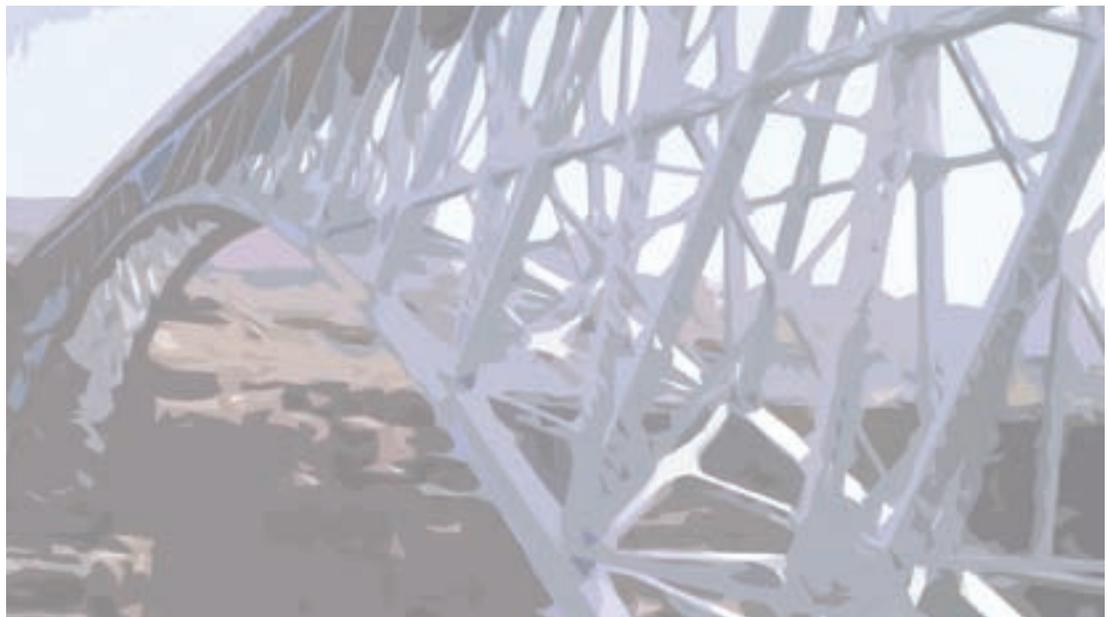
GMF understands the crucial role that partnerships play in affecting and addressing the concerns facing the transatlantic community. Our goal is to tackle the fundamental issues surrounding the U.S.–European relationship by drawing on a wide network of individuals and institutions on both sides of the Atlantic.

Through partnering with other organizations, GMF is able to ensure that its projects, programs, and activities bring a unique perspective and provide innovative solutions to transatlantic problems, rather than recapitulate existing work. We actively

seek innovative solutions and partners with whom we can work to develop a sustainable, effective transatlantic community.

GMF pursues a variety of partnership models based on a shared vision, such as developing joint initiatives, undertaking matching funding projects, providing grants for projects carried out by other institutions and individuals, developing fully granted programs, and seeking in-kind contributions.

We are grateful to all of our partners for their contributions to furthering transatlantic cooperation.



The following list includes partners who have made substantial financial or in-kind contributions to the German Marshall Fund in the 2005 Fiscal Year:

21st Century Public Policy Institute
American Council of Young Political Leaders
Atlantic Philanthropies
Atlantische Commissie
Bertelsmann Stiftung
Bill & Melinda Gates Foundation
The Brookings Institution
Centrum Stosunków Międzynarodowych
Charles Stewart Mott Foundation
Chicago Council on Foreign Relations
Citigroup Foundation
Cleveland City Council
The Cleveland Foundation
Compagnia di San Paolo
Confederation of Indian Industry
Council for the United States and Italy
Council of State Governments
DaimlerChrysler Corporation
Daniel J. Evans School of Public Affairs,
University of Washington
Draeger Stiftung
European Commission
Foreign Relations Committee of the
German Bundestag
Foundation for Pluralism
Friedrich-Ebert-Stiftung
Friedrich-Naumann-Stiftung
Fundação Luso-Americana
Fundación BBVA
Fundación La Caixa
GE Foundation
Gemeinnützige Hertie-Stiftung
George Gund Foundation
German Ministry of Defense
Hanns-Seidel-Stiftung
Heinrich-Böll-Stiftung
Hellenic Foundation for European and
Foreign Policy, ELIAMEP
Hubert H. Humphrey Institute of Public Policy,
University of Minnesota
Institute of Public Policy Studies, University of
Denver
International Affairs Council of North Carolina
International Development Aid Department of the
Greek Ministry of Foreign Affairs
International Affairs Council of North Carolina
Key Bank, Cleveland, Ohio
King Baudouin Foundation
Konrad-Adenauer-Stiftung
Körber Stiftung
Lynde and Harry Bradley Foundation
Merck & Co.
National City Bank, Cleveland, Ohio
National Commission on Energy Policy
Netherlands Ministry of Foreign Affairs
Pacific Council on International Policy
PAREX Bank
The Pittsburgh Foundation
Pittsburgh Tribune-Review
Robert Bosch Stiftung
Rockefeller Brothers Fund
Rockefeller Foundation
RPM International, Inc.
SBC Ohio
Smith Richardson Foundation
Southern Center for International Studies
Squire Sanders & Dempsey LLP
Stavros S. Niarchos Foundation
Swedish International Development Agency
Thompson Hine
U.S. Agency for International Development
U.S. Mission to the European Union
U.S. Mission to NATO
Valley Leadership
William and Flora Hewlett Foundation
World Affairs Council of Greater Dallas
Zeit-Stiftung Ebelin und Gerd Bucerus

FINANCIAL Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees

*The German Marshall Fund of the United States —
A Memorial to the Marshall Plan and Subsidiary*

Grant Thornton 

We have audited the accompanying consolidated statement of financial position of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (collectively, GMF) as of May 31, 2005, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of GMF's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GMF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary as of May 31, 2005, and the consolidated statements of activities, changes in its net assets, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, on our consideration of GMF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of GMF taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



Vienna, Virginia
August 12, 2005



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended May 31, 2005

<i>Assets</i>	
Cash and cash equivalents	\$ 11,701,115
Investments	200,677,138
Fixed assets, net	15,170,914
Other assets	208,086
Total Assets	\$ 227,757,253
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts payable and accrued expenses	\$ 2,239,440
Deferred revenue	12,143,728
Grants payable	3,235,983
Total Liabilities	\$ 17,619,151
Net Assets	
Unrestricted:	
Undesignated	200,160,145
Board-designated — Balkan Trust for Democracy	8,468,954
Total unrestricted net assets	208,629,099
Temporarily restricted net assets	1,509,003
Total Net Assets	210,138,102
Total Liabilities and Net Assets	\$ 227,757,253

The accompanying notes are an integral part of this statement

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended May 31, 2005

Changes in Unrestricted Net Assets

Revenues and grants:

Income on investments	\$ 23,171,176
Federal grants	1,347,688
Non-federal grants	1,046,935
Royalties and other	369,008

Total unrestricted revenues and grants 25,934,807

Net Assets Released from Restrictions 3,207,828

Total Unrestricted Revenues, Grants, and Other Support **29,142,635**

Expenses

Program services:

Grant expense	10,262,283
Internal projects expense	8,227,625
Prior year grant expirations — non-federal	(18,689)

Total program services 18,471,219

Fundraising 246,428
Supporting services — management and administration 6,658,092

Total expenses 25,375,739

Increase in unrestricted net assets 3,766,896

Changes in Temporarily Restricted Net Assets

Grants	4,213,277
Net assets released from restrictions	(3,207,828)

Increase in temporarily restricted net assets 1,005,449

Increase in net assets 4,772,345

Net Assets, beginning of year 205,365,757

Net Assets, end of year \$ 210,138,102

The accompanying notes are an integral part of this statement

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended May 31, 2005

Cash Flows from Operating Activities	
Increase in net assets	\$ 4,772,345
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	343,109
Realized and unrealized gain on investments	(21,076,036)
Net gains on Balkan Trust for Democracy	(363,940)
Changes in assets and liabilities:	
Other assets	1,801
Accounts payable and accrued expenses	1,612,935
Deferred revenue	915,856
Grants payable	2,192,046
Net Cash Used in Operating Activities	<u>(11,601,884)</u>
Cash Flows from Investing Activities	
Purchases of investments	(107,295,958)
Proceeds from sale of investments	112,123,186
Purchases of fixed assets	<u>(8,789,731)</u>
Net Cash Used in Investing Activities	<u>(3,962,503)</u>
Net Decrease in Cash and Cash Equivalents	(15,564,387)
Cash and Cash Equivalents, beginning of year	<u>27,265,502</u>
Cash and Cash Equivalents, end of year	<u>\$ 11,701,115</u>

The accompanying notes are an integral part of this statement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A — Summary of Significant Accounting Policies

Organization and Nature of Business

The German Marshall Fund of the United States — A Memorial to the Marshall Plan (GMF) was incorporated on March 15, 1972, under the laws of the District of Columbia. GMF is an American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the postwar Marshall Plan.

The German Bundestag has approved funding for GMF as an independent American grantmaking institution. From March 15, 1972, through May 31, 2005, the German Bundestag has contributed approximately 128 million euros to GMF.

GMF makes grants in the following areas:

- Economics
- Environment
- Foreign policy
- Immigration and integration
- Special opportunities

In May 2004, GMF formed a limited liability corporation named 1700 18th Street LLC (LLC), which was incorporated as a wholly owned subsidiary of GMF. The purpose of LLC was to purchase a building in Washington, DC. In June 2004, LLC purchased a building for approximately \$5.9 million.

Principles of Consolidation

The financial statements of GMF and LLC (collectively, GMF) have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The financial statements of GMF are prepared using the accrual basis of accounting.

Revenue, expense, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Also, satisfaction of donor-imposed restrictions is reported as net assets released from restrictions in the statement of activities.

Unrestricted net assets — Net assets that are not subject to any donor-imposed stipulations or other legal limitations.

Temporarily restricted net assets — Net assets subject to donor-imposed stipulations on the use of the assets that may be met by actions of GMF, the passage of time, or both.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, repurchase agreements, and short-term investments in money market funds.

Translation of Foreign Currencies

Financial statements for foreign activities reflect assets and liabilities converted to U.S. dollar values at prevailing rates of exchange. Gains or losses from fluctuations of foreign exchange rates are not material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Investments are reported in the financial statements at fair value.

Fixed Assets

Fixed assets are reported at cost net of accumulated depreciation. GMF currently depreciates its assets using the straight-line depreciation method over 3–5 years, with no salvage value. Buildings are currently depreciated over a 40-year term using the straight-line method. In 2005, GMF capitalized approximately \$2.5 million of costs relating to renovations on the building at 1744 R Street. These renovations are considered work in progress and are capitalized as buildings and costs are incurred. Depreciation on the building renovations will begin once the renovations are complete and the space is ready for occupancy.

Contributions

Unconditional contributions to GMF are recognized in the period promised by the donor. Contributions due in future periods are considered temporarily restricted until they are collected, or when the purpose restriction is accomplished, at which time the restriction is released.

Grants

Grants to non-federal third parties are recognized as expense and liabilities when GMF makes an unconditional promise to fund particular organizations or programs.

Federal grants are expensed only when paid to a third-party recipient upon acceptance of review performed. Prior-year non-federal grant expirations represent prior-year grants no longer expected to be paid.

GMF has made grants to organizations with at least one Board member in common with GMF. These grants totaled \$618,122 for the year ended May 31, 2005. These grants are made on the same basis as other grants. Related Board members do not participate in the approval process.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, due to broker, and accounts payable approximates fair value because of the short maturity of these financial instruments.

The fair value of investments is based upon values provided by the external investment managers or quoted market values. Fair value of investments in limited partnerships is determined by quoted market values or the general partners.

Retirement Program

Eligible employees who have attained age 21, and completed six months of employment, may participate in GMF's defined contribution retirement program. GMF contributes an amount equal to 15 percent of a participant's annual salary subject to Social Security tax, and 10 percent of the annual salary in excess of the Social Security base up to the maximum annual salary allowed by the Employee Retirement Income Security Act of 1974 (ERISA) regulations. Retirement expense was approximately \$288,000 for the year ended May 31, 2005. Vesting is immediate for all participants.

Federal Income Tax

GMF is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is currently classified as an organization that is not a private foundation within the meaning of Section 509(a) of the Code.

1700 18th Street LLC is a single member LLC and, as such, is a "disregarded entity" for federal income tax purposes, pursuant to Section 7701 of the Code.

Administrative Expenses

Certain program management expenses are allocated to program expenses. This includes a portion of the Washington, DC, and European office salaries, as well as related benefit costs and other office expenses.

Note B — Investments

Investments consisted of the following at May 31, 2005:

	Cost	Fair Value
Common stocks	\$ 105,525,007	\$ 129,405,607
Corporate bonds	30,213,027	34,943,883
Limited partnerships	38,489,252	36,327,648
	<u>\$ 174,227,286</u>	<u>\$ 200,677,138</u>

Income on investments was comprised of the following for the year ended May 31, 2005:

Interest and dividends	\$	2,095,140
Realized gain on investments		15,943,653
Unrealized gain on investments		5,132,383
	<u>\$</u>	<u>23,171,176</u>

Limited partnerships comprise approximately 18 percent of GMF's total investments at fair value at May 31, 2005. The fair value of the limited partnerships is determined either by using quoted prices listed on national exchanges or by the general partners of the limited partnerships.

Note C — Property and Equipment

Property and equipment consisted of the following at May 31, 2005:

Building	\$	14,475,329
Land		1,237,440
Furniture, fixtures, and equipment		753,148
Leasehold improvements		4,415
		<u>16,470,332</u>
Less: accumulated depreciation		<u>(1,299,418)</u>
	<u>\$</u>	<u>15,170,914</u>

Note D — Leases

GMF's office in Berlin, Germany, is leased until July 2009. GMF's office in Paris, France, is leased until May 2010. GMF's Brussels, Belgium, office is leased until November 2010. All three leases require monthly payments with annual adjustments based on the Consumer Price Index (CPI).

The future approximate minimum lease payments under non-cancelable operating leases as of May 31, 2005, are:

Year ending May 31,	
2006	\$ 224,143
2007	263,102
2008	258,302
2009	150,959
2010	14,000

Total rental expense was approximately \$165,000 for the year ended May 31, 2005.

Note E — Federal Awards

Federal awards consisted of a grant received from the U.S. Agency for International Development (USAID) to be expended and administered by GMF on projects in Central and Eastern Europe, in the areas in which GMF operates. The grant was restricted to the use set forth in the grant agreement between USAID and GMF. The related expense is included in grant expense in the accompanying consolidated financial statements.

The portion of GMF's revenue from federal awards is subject to audit by the federal government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported in accordance with, and audited under, government audit requirements. Until such audits have been completed, and final settlement is reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Note F — Temporarily Restricted Net Assets

Temporarily restricted net assets included the following at May 31, 2005:

Marshall Memorial Fellowship program	\$	199,971
Transatlantic Community Foundation Fellowship		48,648
U.S.–European Trade, Agriculture and Development Policy program		637,459
Transatlantic Policy Dialogue		153,354
Democracy in Central and Eastern Europe		349,806
EPCE		70,000
Other		49,765
	\$	1,509,003

Note G — Grants Payable

At May 31, 2005, GMF had grants payable to third parties amounting to approximately \$3,235,983, representing committed grants that are expected to be disbursed within one year.

Note H — Related-party Transaction

GMF is affiliated with Friends of the Carpathian Foundation–United States (FCF), a not-for-profit organization incorporated in November 2002, to engage in activities to create sustainability for civil society, ethnic harmony, and cultural and economic development, particularly in the border regions of Hungary, Poland, Romania, the Slovak Republic, and Ukraine. GMF has the ability to appoint two of the five Board members of FCF, but no control or economic interest exists between the two organizations and, therefore, consolidation is not required. As of May 31, 2005, FCF owed GMF approximately \$23,000.

Supplemental Information

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended May 31, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number/Program Number	Program Dates	Federal Expenditures
German Marshall Fund Endowment	98.194-A-00-03-00101-00	1/10/03–1/10/13	\$ 1,347,688

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

May 31, 2005

Note A — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards summarizes the expenditures of GMF under its major program as funded by USAID for the year ended May 31, 2005, recorded on the accrual basis of accounting. Because the schedule of expenditures of federal awards presents only a selected portion of GMF's operations, it is not intended to, and does not, present the financial position or changes in net assets of GMF.

Note B — Subrecipients

Of the federal expenditures presented in the schedule, GMF provided federal awards to subrecipients under the USAID grant totaling \$1,347,688.

**Report of Independent Certified Public Accountants on
Internal Control over Financial Reporting and on
Compliance and Other Matters Based on Audited
Financial Statements in Accordance with
*Government Auditing Standards***

Board of Trustees

The German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary

We have audited the consolidated financial statements of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (GMF) as of and for the year ended May 31, 2005, and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered GMF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GMF's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and officials of the U.S. Agency for International Development and other federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Vienna, Virginia

August 12, 2005

**Report of Independent Certified Public Accountants on
Compliance with Requirements Applicable to Each
Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (GMF) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended May 31, 2005. GMF's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GMF's management. Our responsibility is to express an opinion on GMF's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GMF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GMF's compliance with those requirements.

In our opinion, GMF complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended May 31, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 05-01.

Internal Control over Compliance

The management of GMF is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GMF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, and not to provide an opinion on the internal control over compliance. Accordingly, we express no such opinion.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, and officials of the U.S. Agency for International Development and other federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Vienna, Virginia
August 12, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended May 31, 2005

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|--------------------------------|
| 1. Internal control over major program: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified not considered to be material weaknesses? | None reported |
| 2. Type of auditor's report issued on compliance for major program: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | Yes |
| 4. Identification of major programs: | |
| <i>CFDA Number</i> | <i>Name of Federal Program</i> |
| 98.194-A-00-03-00101-00 | German Marshall Fund Endowment |
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

Section 2

Financial Statements Findings

None reported

Section 3 Federal Award Findings and Questioned Costs

Finding 05-01

Criteria for Specific Requirement:
Cash Management

Program:
German Marshall Fund Endowment

Finding: We noted that GMF made two drawdowns from federal funding during the year and deposited the amounts with operating amounts used to fund both federal and non-federal projects. The grant requires that the federal amounts be maintained in a separate account and that investment income earned go to future expenses under the grant. As of May 31, 2005, approximately \$200,000 of federal funding drawdown was included with non-federal operating cash.

Questioned Costs: No specific questioned costs were noted.

Recommendation: We recommend that reconciliations be performed prior to drawing down for federal expenditures to ensure that the amount being drawn down represents only the portion attributable to the federal grant.

Corrective Action Plan/Status: Management acknowledges the finding identified by Grant Thornton regarding the manner in which USAID funds were used. Over the past six months, GMF's new financial management team has completed an in-depth review and overhaul of its cash management and related accounting procedures, one result of which is a change in how the USAID funds are managed. Beginning in fiscal year 2006, GMF will pay for all appropriate USAID-covered expenses out of its own funds and then reimburse itself after the fact for the exact amounts used.

STAFF

WASHINGTON, DC

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