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

A B O U T G M F

The German Marshall Fund of the United States (GMF) is an 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. All GMF activities are organized within three principal program areas: Transatlantic Policy, Transatlantic Leaders, and Wider Europe. In addition, GMF has developed a strong Central and Eastern Europe program aimed at furthering democratic consolidation and promoting integration into European and transatlantic institutions.

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 five offices in Europe: Belgrade, Berlin, Bratislava, Brussels, and Paris.



2003

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LETTER FROM THE PRESIDENT

Last year, I started this letter by stating that 2002 had been difficult for those of us working on the transatlantic relationship. I sincerely hoped that I would not be starting my 2003 letter in a similar way. Yet 2003 has turned out to be an even more challenging year for U.S.–European relations.

Serious policy differences between the United States and Europe over the war in Iraq, the use of American power, the future of the Middle East, and a host of other issues dominated an acrimonious agenda. Substantive concerns were exacerbated by overheated rhetoric and accusations of betrayal and arrogance in the media and elsewhere. The situation became so rancorous that some prominent analysts began considering a world in which the United States and Europe might be estranged politically and strategically for many years to come.

Given this sorry state of affairs, do the members of the transatlantic community have a future as strategic partners? I believe the answer is yes. It would be foolhardy to say that political relations between the United States and Europe cannot become worse in the future. It is almost certain that the relationship will continue to suffer tensions and conflicts. However, the long-term prospects for close cooperation across the Atlantic are very good.

A positive outcome of recent transatlantic tensions is that the fundamental differences between Americans and Europeans are now clearly on the table and subject to open debate. Disparities in military capabilities, alternative views of development and foreign aid, and contrasting understandings of the role and legitimacy of multilateral institutions — coupled with the shock of aggressive international terrorism on an unprecedented scale — are now deeply ingrained in the political and cultural landscape. Though many of these differences are transatlantic, it would be wrong to ignore the fact that there are also deep conflicts *within* both Europe and the United States concerning the nature of global threats and the best means for addressing them.

Equally important, American and European leaders have recognized the costs of the transatlantic conflict. Both sides are unable to achieve their larger international goals without support from the other side. As a result of this realization, we are witnessing an emerging consensus on the steps needed to make the transatlantic relationship more vital and effective.

First, the United States and Europe must develop a common agenda for cooperation, with human rights and liberal democracy in the Middle East as its central foci. To that end, Turkey, an Islamic democracy and NATO ally, is crucial to our common efforts to foster peace and stability in that region. This must be coupled with a transatlantic consensus around other issues of common interest, such as the need to address the health and economic problems of the developing world.

Second, it is important for both Europeans and Americans to improve their capabilities for international intervention in order to be good partners. Within Europe, there is a growing call for more modern and efficient armed forces. While we



Craig Kennedy, president of GMF

should not expect to see significant increases in spending, there are moves to use current resources more efficiently and to address the military needs of the future. On the American side, there is a growing appreciation for the value of “soft power” as evidenced by a substantial rise in development aid as well as the push to give more Americans the skills they will need to operate effectively in the Islamic world.

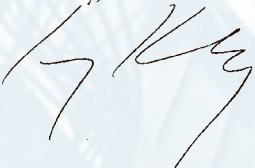
Third, it is essential to have an institutional framework that can support a revitalized transatlantic strategic community. The future roles of NATO and how it will relate to the European Union’s nascent military function should be the primary areas of focus. What is most encouraging is that Americans and Europeans both realize that there is a need for strong institutions to mediate and shape their partnership, and that existing arrangements may have to be altered substantially to achieve that end.

Finally, there is a growing recognition that better public diplomacy is necessary on both sides so that the policy debate can focus on the real issues that divide Europe and the United States — not on the half-truths, stereotypes, and concocted stories that too often were on display in 2002 and 2003. Both sides are beginning to realize that public opinion on the other side of Atlantic cannot be ignored and that there is a need for thoughtful ways of informing citizens of what is really at stake in these debates.

Concerted effort at making progress in each of the four areas above will pay dividends for the transatlantic partnership in the future. While Americans and Europeans do have differences in perspectives, values, and interests, I am convinced that the problems of the future are not insurmountable — because there is now an awareness of what both sides stand to lose if we do not work together. Over the past two years, leaders in the United States and Europe have dug themselves into a very deep rhetorical and political hole. They have now stopped digging and begun to build the ladder leading to the high ground of cooperation.

Before concluding, I want to express special recognition for the lifetime achievement of Ms. Marianne Ginsburg. Every institution needs an anchor and, for more than thirty years, Marianne Ginsburg played that role for GMF. As one of GMF’s first employees, she helped to create the culture and outlook that still inform our programs. Her enthusiasm and commitment to GMF’s mission have infused her work and our lives. As she begins her retirement, we — the staff and board of GMF — want to offer her our thanks for having made this organization a better place through her long service.

Sincerely,



Craig Kennedy, *president*

THE GERMAN MARSHALL FUND OF THE UNITED STATES

THIS YEAR'S HIGHLIGHTS

TRANSATLANTIC TRENDS 2003 RESULTS ANNOUNCED

Following the success of the *Worldviews 2002* public opinion survey and the rising demand for insights into public opinion in Europe and the United States — particularly in the wake of the Iraq war and strained relations between the United States and Europe — GMF partnered with the Compagnia di San Paolo, Turin, Italy, to carry out *Transatlantic Trends 2003*. The results of the survey, conducted in seven European countries and the United States in June 2003 and released in September, were widely covered in major print and broadcast outlets across Europe and the United States,

including *The New York Times*, *The Washington Post*, *The Wall Street Journal*, the BBC, CNN International, and the *Financial Times*. Several presentations were made to government officials and policy experts on both sides of the Atlantic highlighting the findings and providing an opportunity for deeper analyses and discussion following the initial launch. The survey results continue to be cited in articles and academic papers several months after their release. GMF Senior Transatlantic Fellow Ronald Asmus, together with Philip P. Everts of Leiden University and Pierangelo Isernia of the University of Siena, also wrote a paper on the nature and structure of the transatlantic divide entitled “Power, War, and Public Opinion.” The report, paper, and top-line data can be found at www.transatlantictrends.org. The inclusion of Portugal in this year’s survey was made possible by support from the Luso-American Foundation.



From left: Marc Grossman, U.S. undersecretary of state for political affairs; Congressman Doug Bereuter (R-Nebraska); and William Drozdiak, executive director of GMF's Transatlantic Center, Brussels

U.S.–EU THINK TANK SYMPOSIUM

On the occasion of the U.S.–EU Summit in Washington, DC, in June 2003, GMF hosted a one-day symposium entitled “Transatlantic Cooperation and Competition.” The symposium, designed to stimulate creative thinking about renewing the transatlantic partnership, included participants from 28 U.S. and European think tanks. The panelists from Europe and the United States presented analyses of the transatlantic divide over several issues, including Middle East policy, views on global trade, and the role of public opinion in shaping policy. Attendees then examined the prospects for resolving the tensions between the United States and Europe. The symposium began with closed sessions at GMF’s headquarters in Washington, DC, and ended with a public session at the United States Capitol to present the symposium findings and recommendations. Presentations at the Capitol were made by Congressman Doug Bereuter; Pat Cox, president of the European Parliament; Marc Grossman, undersecretary of state for political affairs; and George Papandreou, foreign minister of Greece. The program concluded with a dinner featuring a keynote speech by Romano Prodi, president of the European Commission, who discussed continued cooperation between the United States and Europe on global challenges.

LAUNCH OF THE BALKAN TRUST FOR DEMOCRACY

In January 2003, GMF, together with the United States Agency for International Development (USAID) and the Charles Stewart Mott Foundation, established an exciting new \$27 million grantmaking initiative for Southeast Europe called the Balkan Trust for Democracy. This public-private partnership to support local and regional democracy-building efforts over an initial ten-year period was officially launched at GMF's Washington, DC, headquarters on April 7. Some 100 people from Washington's international, policy, diplomatic, and media circles attended the launch. Ambassadors from all Balkan countries were present, showing the strong regional endorsement of this long-term initiative. Andrew S. Natsios, USAID administrator; Craig Kennedy, president of GMF; and Ivan Vejvoda, executive director of the Balkan Trust for Democracy, all addressed the audience, emphasizing the importance of transatlantic cooperation in international assistance to the region and the critical role that local initiatives can play in driving democratic consolidation and reform. GMF, USAID, and Mott were lauded for deepening their investment in Southeast Europe at a time when many donors are withdrawing.

The Balkan Trust for Democracy, based in Belgrade, Serbia and Montenegro, became operational in June 2003 and in September inaugurated its Belgrade office with a reception attended by United States Ambassador to Serbia and Montenegro Bill Montgomery, representatives from USAID, several ambassadors from countries of the European Union and the Balkan region, and a rich collection of representatives of Belgrade's political and civic communities. Overall, the Balkan Trust has been welcomed with great enthusiasm by public and private donors and by organizations working to strengthen democracy in the Balkans.



GMF and USAID welcome Balkan region ambassadors at the Balkan Trust for Democracy launch event in Washington, DC.

THIS YEAR'S HIGHLIGHTS

PETER R. WEITZ JOURNALISM PRIZES

GMF awards two prizes annually for excellence in reporting on European and transatlantic affairs. A team of writers from *BusinessWeek*, led by David Fairlamb and John Rossant, were awarded the 2003 senior Peter R. Weitz Journalism Prize of \$10,000 for their in-depth coverage of the expansion of the European Union to include countries of Central and Eastern Europe. The junior prize of \$5,000 was awarded to *The Wall Street Journal's* John Carreyrou for his detailed coverage of the downfall of Vivendi Universal SA and its chairman, Jean-Marie Messier. The award dinner featured keynote speaker Pascal Lamy, EU commissioner for trade, who talked about the importance of U.S.–European cooperation on international trade and economic development.



The 2003 Peter R. Weitz Journalism Prize winners, John Carreyrou of *The Wall Street Journal* and Patricia Kranz on behalf of the *BusinessWeek* team, with Craig Kennedy



German policy and opinion leaders with former U.S. Secretary of State Henry Kissinger

STRATEGIC DISCUSSION WITH HENRY KISSINGER

On May 25, GMF had a rare opportunity to host an informal roundtable discussion for former United States Secretary of State Henry Kissinger with young German policy and opinion leaders. The purpose was for him to meet with Germany's new generation and to learn from them how and why the U.S.–European and — more specifically, the U.S.–German — relationship has changed. The group put together by GMF included policymakers, business leaders, and journalists from a variety of backgrounds and political leanings.

Despite the diversity of the participants, a general consensus on the new trends in transatlantic affairs emerged. For example, there appeared to be a new sense of unity among Europeans around opposition to U.S. foreign policy in the Middle East; a diminishing sense of emotional ties to the United States; a desire to redefine European identity coupled with a sense of nationalism that potentially could make transatlantic cooperation more difficult in the future; and, finally, a consensus on the importance of multilateral institutions in dealing with global problems.

GMF TRANSATLANTIC CENTER IN BRUSSELS

During its two years in operation, the GMF Transatlantic Center (TC) in Brussels has become a hub for exchange and scholarship on transatlantic issues of importance in the European Union's capital. Two thousand three was an energetic year for the Center, which hosted six Transatlantic Fellows, organized several study tours for groups of visiting Americans, and held numerous substantive in-house events and meetings. One highlight was a panel that focused on the American political outlook after the 2002 midterm election and included high-ranking American public policy analysts: Ginny Wolfe, communications director of the National Republican Senatorial Campaign; Jim Jordan, executive director of the Democratic Senatorial Campaign Committee; and ABC News Political Director Mark Halperin. Another feature was a conference held in cooperation with NATO on the challenges facing the transatlantic defense alliance due to NATO enlargement, the growing capabilities gap, and the European defense agenda. NATO Secretary General Lord Robertson; Kristin Krohn Devold, minister of defense of Norway; Gen. Joseph W. Ralston, Supreme Allied Commander Europe; and Stephen Hadley, U.S. deputy national security advisor, were among the 200 participants. The Transatlantic Center also joined forces with the King Baudouin Foundation to hold a seminar for the heads of European private foundations. The goal was to create an opportunity for them to explore how European foundations could promote the growth of a broader global strategic vision for the EU as it prepares to expand to 25 nations encompassing more than 450 million people.

TRADE AND POVERTY FORUM INAUGURATED

In February 2003, GMF launched a new project called the Trade and Poverty Forum (TPF). TPF brings together prominent citizens from leading developing and industrialized democracies who are committed to finding ways for the global trading system to better address development challenges. The Forum is composed of six delegations from the United States, the European Union, Japan, India, Brazil, and South Africa. Each delegation includes a range of leaders from parliaments, industry, labor unions, and nongovernmental organizations and is chaired by a preeminent figure who is respected across the political spectrum in their home country. In its first year of operation, the Forum issued a report, "Restoring Trust in the WTO: The Challenge for Cancún," which included recommendations on the reform of agricultural trade, the need for improved multilateral trading rules, and ways to increase developing-country access to essential medicines and vaccines. These recommendations received considerable coverage in the international press, including the *Financial Times*, which published an op-ed authored by the Forum's chairs.

In the coming year, TPF will turn its attention to how to respond to the breakdown of trade negotiations in Cancún, and how to advance broad development goals, both inside and outside the global trading system.



TPF co-chairs Robert Rubin, Dominique Strauss-Kahn, and Shoichiro Toyoda urge leaders of the Group of Eight to prioritize Doha Round of WTO negotiations.

Co-chairs and honored guests at the first plenary meeting of the Trade and Poverty Forum. Standing: Robert Rubin, Rahul Bajaj, Supachai Panitchpakdi, Craig Kennedy, Luiz Felipe Lampreia, Cyril Ramaphosa; seated: Shoichiro Toyoda, Mrs. Rubin, Mrs. Toyoda, Dominique Strauss-Kahn





PROGRAM AREAS

G *MF's operations are grouped into three program areas.*

*The **Transatlantic Policy** program encompasses GMF support to policy dialogues, institutions, and individuals working on a range of issues of relevance to the United States and Europe. The **Transatlantic Leaders** program includes the study tours, fellowships, and exchange programs that promote the continuous replenishing of leaders in the United States and Europe who are knowledgeable about the other side of the Atlantic.*

*The **Wider Europe** program includes GMF work in Central Europe and the Balkans and on the dual enlargements of NATO and the **European Union**.*



TRANSATLANTIC POLICY PROGRAM

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. In addition, the Transatlantic Policy program promotes dialogue on important global issues impacting transatlantic policy through GMF's six offices in Europe and Washington, DC.

The Transatlantic Policy program is divided into three areas: 1) **Policy dialogue** supports activities that promote sustained discussion and debate on transatlantic and global issues. These activities are conducted both by GMF and by partner institutions. 2) **Support for institutions** is channeled primarily through GMF's various Key Institution programs in the areas of foreign policy, Central and Eastern Europe, and immigration and integration. 3) **Support for individuals** is provided through a variety of fellowship programs for policy professionals.

POLICY DIALOGUE

TRANSATLANTIC TRENDS 2003 PUBLIC OPINION SURVEY

For the second year in a row, the German Marshall Fund has developed and conducted a survey to take the pulse of citizens in Europe and the United States on several pressing foreign policy concerns. This year's survey, *Transatlantic Trends 2003*, was conducted in June, in the wake of the Iraq war, with the Compagnia di San Paolo of Turin, Italy. Eight thousand Americans and Europeans were asked about their views on international threats, the use of force, global leadership, multilateralism, and areas of conflict such as the Middle East. The findings showed that the American and European publics agreed on the top five global threats, but differed on how to respond to them. Americans were more likely than Europeans to support the use of military force to rid countries of weapons of mass destruction and bypass the United Nations if vital interests were at stake. The survey also showed Europeans sharply questioning U.S. global leadership, with Germany showing the sharpest decline in support for the United States from last year's survey. In just two years, the survey has become a primary source for media and analysts seeking a source of in-depth analysis of public opinion and its impact on the transatlantic relationship. Support for the inclusion of Portugal in the survey for the first

time was made possible by the Luso-American Foundation. GMF plans to conduct the *Transatlantic Trends* survey again in 2004 with the same partners.

TRADE AND POVERTY FORUM

The Trade and Poverty Forum (TPF) was created to address two related challenges in transatlantic affairs: managing the global trading system, and coordinating U.S. and European efforts to tackle development and poverty. Since the United States and Europe cannot act alone in these matters, GMF also sought to include perspectives from other important global players, particularly from the developing world.

TPF consists of six delegations from democracies in South and North America, Africa, Europe, and Asia, and brings together leaders from parliaments, businesses, labor organizations, and other civil society groups. The U.S. delegation is chaired by Robert Rubin, former U.S. treasury secretary; the European Union delegation is chaired by Dominique Strauss-Kahn, former French minister for economy, finance, and industry; the Brazil delegation is chaired by Luiz Felipe Lampreia, former Brazilian foreign minister; the India delegation is chaired by Rahul Bajaj, former president of the Confederation of

Opposite page, left: Cyril Ramaphosa and Luiz Felipe Lampreia in a TPF session; right: Tremezzo meeting

Below: Craig Kennedy with Director-General of the World Trade Organization Supachai Panitchpakdi at a TPF meeting



POLICY DIALOGUE *continued*

Indian Industry; the Japan delegation is chaired by Shoichiro Toyoda, honorary chairman of Toyota Motor Corporation and chairman of the 21st Century Public Policy Institute; and the South Africa delegation is chaired by Cyril Ramaphosa, former secretary general of the African National Congress.

In TPF's first year of operation, a meeting of all the chairs was held in February 2003, followed by a meeting in May of the entire Forum. These efforts resulted in a first report of the co-chairs, entitled "Restoring Trust in the WTO: The Challenge for Cancún," which emphasized reforming agricultural trade and expanding access to medicines as two key elements for rebuilding developing-country faith in the global trading system. The group also published op-eds in the *Financial Times*, *O Globo* (Brazil), the *Economic Times* (India), and the *Sunday Times* (South Africa).

The breakdown of the World Trade Organization talks in Cancún in September confirmed the relevance of TPF's focus on rebuilding the confidence of developing countries in the importance of world trade for their economic well-being. In the coming year, TPF will hold a full plenary session in Delhi, India, and will expand its efforts to educate the press and public about the importance of U.S.–EU leadership on trade and development matters.

BUNDESTAG FORUM ON THE UNITED STATES

The Bundestag Forum on the United States was created with support of Deutsche Bank AG in 2002 on GMF's 30th anniversary and the 55th anniversary of the Marshall Plan. The goal of the Forum is to increase understanding of U.S. politics and policies in the Bundestag (the German parliament). Deutsche Bank sponsored the Bundestag Forum for the second year in a row.

The 2003 Bundestag Forum began on June 5 with a formal dinner hosted by Deutsche Bank and attended by more than 60 Bundestag members, staffers, policy experts, media representatives, and government officials, including the minister of interior for Brandenburg, Jörg Schönbohm. Robert Kagan, senior associate at the Carnegie Endowment for International Peace, gave a speech entitled "Is This Still the West?" Remarks on U.S. and German policies toward the Greater Middle



Wolfgang Thierse, president of the Bundestag, addresses participants of the 2003 Bundestag Forum on the United States.

East followed from members of the Bundestag and the vice-chairman of the Foreign Affairs Committee, Ulrich Klose, and led into an open discussion.

The second day of the Bundestag Forum was kicked off by Bundestag president Wolfgang Thierse and Josef Ackermann, chairman of the executive committee of Deutsche Bank. The day started with a speech from Robert M. Kimmitt, executive vice president global and strategic policy at AOL Time Warner, Inc., and former U.S. ambassador to Germany, entitled "Recapturing the Spirit of Marshall and Brandt." This was followed by comments from Volker Rühle, member of the Bundestag and chairman of the Foreign Affairs Committee, on the reasons for the German government's decision not to participate in the U.S.-led war in Iraq and on German foreign policy more generally. The Forum concluded with a presentation by GMF Senior Transatlantic Fellow Ronald Asmus on "Transatlantic Cooperation and the Greater Middle East" and a debate during lunch. The third Bundestag Forum on the United States will be held May 27–28, 2004, in Berlin.

AGRICULTURE, GENETICALLY MODIFIED ORGANISMS, AND TRADE

For the past several years, the United States and Europe have been at odds over how to handle the production and marketing of genetically modified (GM) seeds and foods. The differences in approach between the United States and Europe reflect deeply rooted

transatlantic disagreement over agriculture, food, and economic development. Since the late 1990s, GMF has been actively promoting dialogue among the various stakeholders in this debate. In 2003, two projects were active in this area:

1) *A symposium on the transatlantic relationship, the hunger crisis in southern Africa, and genetically modified foods.* In January 2003, GMF brought a group together in Brussels of 35 American, European, and southern African government officials, biotech and agricultural industry representatives, academics, farmers, and nongovernmental organization representatives to look at the hunger crisis in southern Africa and the use of genetically modified organisms (GMOs) as food aid. The meeting, the fourth in GMF's series on biotechnology and agriculture, was prompted by the controversy over the decision by famine-stricken southern African nations to refuse genetically modified food aid from the United States in the summer of 2002.

While the workshop demonstrated that there is no end in sight to the disagreements between the United States and the European Union over GM foods and crops, it did serve to highlight the broader underlying problems and tensions, such as the trade implications of European and American policies for Africa, the status of scientific knowledge of human health and the environmental effects of GMOs, and the need for better communication and transparency between European and American institutions in this complicated area.

2) *U.S.–European journalist study tours.* To further explore the issues of agriculture; trade; genetically modified foods, crops, and feeds; and the reasons behind the vastly different acceptance levels of these on both sides of the Atlantic, GMF supported two

study tours for journalists from America and Europe who specialize in the GM food debate. Each group spent a week learning the perspectives of their counterparts on the other side of the Atlantic. American journalists visited Brussels, Berlin, and the Brittany region of France. The Europeans — representing Germany, France, Poland, Slovakia, and Belgium — visited Iowa, Nebraska, and Washington, DC.

TREMEZZO MEETING OF EMERGING FOREIGN POLICY LEADERS

One of GMF's most successful efforts to build networks of emerging leaders across the Atlantic is the conference it has held for the last three years in Tremezzo, Italy, in cooperation with the Bertelsmann Foundation and the Center for Applied Policy Research. The June 2003 Tremezzo conference focused on what has become known as the transatlantic “train wreck” — its causes, and how to get the relationship back on track. More than 30 European and American participants gathered at the Grand Hotel Tremezzo on Lake Como to analyze and discuss a variety of interconnected issues, including:

- the domestic causes of the transatlantic rift;
- the Israeli-Palestinian conflict and the Greater Middle East;
- the future of international organizations such as the UN and NATO;
- economic and financial interdependence; and
- what steps can be taken to renew and rebuild transatlantic relations.

Participants were drawn from a range of professions, from the private sector and media to government and think tanks.

Left: Tremezzo meeting of emerging leaders at the Grand Hotel Tremezzo, Como, Italy

Right: Farm visit on U.S.–European journalist study tour



SUPPORT FOR INSTITUTIONS

FOREIGN POLICY KEY INSTITUTION PROGRAM

The Foreign Policy Key Institution program is a central element of GMF's grantmaking to institutions in the Transatlantic Policy program. These grants exemplify GMF's strong commitment to supporting institutions that have demonstrated effectiveness in their research, analysis, and policy advice concerning the challenges facing the transatlantic relationship. Among its key institutions, GMF also includes organizations focused on maintaining effective networks of European and American policy and opinion leaders. GMF invites proposals only from institutions with a strong track record of previous work on transatlantic policy issues.

CENTRAL AND EASTERN EUROPE KEY INSTITUTION PROGRAM

In 1999, GMF launched a Key Institution program to identify and support important independent public policy institutions committed to developing democratic practices and strengthening transatlantic links in Central and Eastern Europe. In the four years of its operation, this program has developed into the backbone of GMF activities in this part of Europe.

Across the region, think tanks play a central role in the democratic transition because of their independence. Unlike the state-funded universities and research institutes, they encourage open debate among both political elites and the general public. GMF support has contributed significantly to the development of independent think tanks as an ever-stronger voice in the policy process and public debate in Central and Eastern European countries. The program also helps policy institutes deepen their transatlantic partnerships, thereby enriching their own programs while increasing knowledge and understanding of Central and Eastern Europe among American and Western European partners.

GMF supported the work of 14 key institutions from Bulgaria, Poland, Romania, Serbia and Montenegro,

and Slovakia on a broad range of domestic and foreign policy issues in 2003. Prominent themes included the transatlantic security agenda, the future of NATO and the European Union after the Prague and Copenhagen summits, and regional cooperation in Southeast Europe. Several institutions focused on monitoring political transition, public policy reform, and economic restructuring.

IMMIGRATION AND INTEGRATION KEY INSTITUTION PROGRAM

During the past two decades, both Europe and the United States have experienced record levels of immigration, but none of the recipient countries have been fully prepared for the consequences. GMF's Immigration and Integration program seeks to enhance understanding among policymakers and the media of both the challenges and the opportunities that increased immigration implies for societies. It does this largely through its Key Institution program, whereby GMF provides support to leading policy institutes for comparative research on immigration and integration policies, dissemination of findings, and original programming on refugee policy and humanitarian assistance. In 2003, GMF supported the work of four policy institutes through this program:

- 1) Briefings in Washington, DC, by the Center for the Study of International Migration (Georgetown University) on the integration of immigrants into society; in Sweden, on remittances and economic development (in cooperation with the Swedish government); and in Brussels, Belgium, on the international mobility of highly skilled employees of global corporations.
- 2) "Migration Dialogue" seminars (University of California at Davis) in Bratislava and Vienna on the implications of integrating a region such as Central Europe that is a source of migrants into the EU. The seminar format provided one day of background presentations and discussion, followed by a one-day field trip to discuss the issues with people directly involved, and concluded with a session on developing policy recommendations.

- 3) A meeting convened by the Center for International and European Law on Immigration and Asylum (University of Konstanz, Germany) in Vienna, Austria, of experts and policymakers from the United States and Europe to debate the European immigration and asylum framework. Another meeting, held in Charlottesville, Virginia, focused on the implications for immigrants and asylum seekers of recent developments in terrorism legislation. The Center also conducted three Migration Policy Forums, which brought relevant U.S. and EU policy developments to the attention of German policymakers.
- 4) Comparative research conducted by the Migration Policy Group (Brussels, Belgium) in the United States, the European Union, and six EU member states on four themes: a) the European Union Justice and Home Affairs agenda; b) root causes of forced migration; c) the connection between migration and development; and d) migration and trade.

GMF KEY INSTITUTIONS IN FISCAL YEAR 2003

American Council on Germany — New York, New York

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

Brookings Institution — Washington, DC

Center for Strategic and International Studies — Washington, DC

Centre for European Reform — London, United Kingdom

Centrum für Angewandte Politikforschung — Munich, Germany

Congressional Study Group on Germany — Washington, DC

Council on Foreign Relations — New York, New York

Deutsche Gesellschaft für Auswärtige Politik — Berlin, Germany

European Institute — Washington, DC

Hellenic Foundation for European and Foreign Policy —
Athens, Greece

Institut Français des Relations Internationales — Paris, France

Instituto Affari Internazionali — Rome, Italy

Stiftung Wissenschaft und Politik — Berlin, Germany

Transatlantic Policy Network — Brussels, Belgium

SUPPORT FOR INDIVIDUALS

TRANSATLANTIC FELLOWSHIP PROGRAM

The past year witnessed some of the most intense and strained diplomacy seen between governments in the United States and Europe in the entire post–World War II period. As a result, 2003 was a busy one for GMF’s Transatlantic Fellowship (TAF) program. The TAF program is GMF’s effort to help shape current policy debates through the addition of several leading scholars based at GMF. Transatlantic Fellows engaged in some of the most important U.S.–European policy discussions of the last year, from the breakdown in

diplomacy over the war in Iraq, to U.S.–EU efforts to guide the current round of global trade negotiations. Recent TAF publications have appeared in *Foreign Affairs*, *International Security*, *NATO Review*, *Die Zeit*, *The Wall Street Journal*, and *Revue des Affaires Européennes*.

Amid this fast-paced diplomatic activity, 2003 also brought considerable growth for the TAF program. The number of Fellows in Washington and Brussels grew from 8 to 14, and the program continues to attract senior-level, high-impact candidates from industry, government, academia, and the media.

In addition to extensive publications, other TAF activities in 2003 included the launch of a speaker series called “Power, Institutions and Legitimacy in Atlantic Relations,” featuring prominent academics opining on general questions of American and European hard and soft power; a European tour by Washington, DC–based Fellows who led policy workshops in Berlin, Brussels, Bratislava, and Paris; and the organization of various panel discussions, such as “Transatlantic Cooperation

in the Field of Migration”; “Filling NATO’s Ranks: Military Personnel Policies in Transition”; and “Liberal Hegemony or Empire: American Power in the Age of Unipolarity.”

Transatlantic Fellows new to GMF in 2003 included Esther Ezra, a specialist on U.S. and EU migration policies; Ethan Kapstein, professor of political economy at INSEAD; Cem Özdemiř, a former member of the German parliament; Barry Posen, Ford Foundation Professor of International Political Science at the Massachusetts Institute of Technology (MIT); Joseph Quinlan, chief market strategist for Bank of America Capital Management; Alexandr Vondra, the former deputy foreign minister of the Czech Republic; and Cindy Williams, professor of security studies at MIT.

RESEARCH FELLOWSHIP PROGRAM

GMF awarded 16 Research Fellowships last year, from a pool of more than 100 applicants. As GMF’s largest academic grantmaking initiative, the Research Fellowship program supports American academics doing research on European matters. The program seeks to improve the understanding of significant contemporary economic, political, and social developments relating to Europe, European integration, and relations between Europe and the United States. A considerable number of awards in the past year were given for research on issues of ethnicity, immigration, migration, and membership concerns, as well as emerging issues of legal harmonization within Europe. One Research Fellowship recipient, Erik Bleich, of Middlebury College, also was selected to spend time in residence at the GMF Transatlantic Center in Brussels. His study, “The Politics of Hate: Criminalizing Racial Hatred,” will compare hate crime law in the United States, the United Kingdom, France, and Germany.

JOURNALISM PROGRAMS

GMF supports a number of activities geared to promoting stronger news coverage of transatlantic issues. It runs the Journalism Fellowship program and the Transatlantic Journalists Forum, and frequently hosts press briefings for journalists around timely issues of

Transatlantic Fellows
Esther Ezra and
Ronald Asmus



transatlantic concern. GMF also regularly invites journalists to its seminars and meetings on transatlantic topics.

Journalism Fellowship Program: GMF created the Journalism Fellowship program in 1999 to expand U.S. media coverage of European issues. The program aims to widen the small corps of American journalists who currently have European reporting experience, as well as to keep journalists with European experience up-to-date on events, ideas, and policies. Between 20 and 30 fellowships are awarded each year to enable American journalists to investigate and report on a broad range of European issues, including European economic and political integration, transatlantic relations, and the internal affairs of individual European countries. On a more limited basis, grants are also available to American journalists to write books on European and transatlantic themes.

Good examples of the high level of work resulting from GMF Journalism Fellowships include a National Public Radio program on transatlantic relations produced by America Abroad Media and a series of articles by Andrew Conte of the *Pittsburgh Tribune-Review* on steel-related issues linking Pittsburgh, Pennsylvania, with Slovakia.

Transatlantic Journalists Forum: Following the success of last year's first annual Transatlantic Journalists Forum (TJF) in Brussels, GMF, in cooperation with the European Commission, held the second TJF in Washington, DC, from June 25 to 27. Similar to last year's Forum, this one brought together some 30 American and European journalists who cover transatlantic issues to exchange views and hear from high-level policymakers from both sides of the Atlantic. The group addressed a wide range of pressing topics, including Iraq, immigration, the Israeli-Palestinian conflict, agriculture, and EU enlargement. Next year's TJF is scheduled to take place in Brussels in early 2004.



European Union Commissioner for Trade Pascal Lamy gives the keynote address at the 2003 Transatlantic Journalists Forum.

TRANSATLANTIC LEADERS PROGRAM

Since its inception, GMF has brought Americans and Europeans together to increase understanding and to build future transatlantic networks among the political, media, business, and nonprofit communities. GMF sponsors a range of fellowship and exchange programs designed to provide both broad cultural exposure and more targeted opportunities for learning about specialized policy areas. Through the Transatlantic Leaders program, GMF directs a number of fellowship programs and leadership development initiatives to support the continued replenishment of leaders in the United States and Europe committed to the importance of 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 people on the other side of the Atlantic. The MMF program, now in its 22nd year, draws Fellows from 14 European countries and the United States for a three- to four-week traveling program. American Fellows visit five European cities while European Fellows visit six American cities, meeting formally and informally with a range of policymakers and prominent members of the business, government, political, NGO, and media communities. Recent American Fellows have visited Brussels, Berlin, Paris, Sofia, Copenhagen, Amsterdam, Hamburg, Barcelona, and Turin. European Fellows have been to New York, Los Angeles, Seattle, Chicago, Madison, Lincoln, Montgomery, Chattanooga, Raleigh, and Washington, DC. Along the way, each Fellow has the opportunity to explore their own professional interests as well as a variety of group experiences, such as briefings at NATO headquarters, meetings with members of the U.S. Congress, and volunteering in inner-city soup kitchens.

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. More than 1,000 Fellows have participated in the program since its inception, creating a diverse network on both

sides of the Atlantic that remains engaged in transatlantic issues through annual conferences, meetings, online mailing lists, informal reunions, and involvement in other GMF program areas.

TRANSATLANTIC INITIATIVES FUND

The Transatlantic Initiatives Fund (TIF) is a unique new partnership between GMF and leading U.S. and European community foundations that see the value of preparing the next generation to lead in a more globalized world, and that are keen to look abroad for innovative approaches to pressing issues at home. Through TIF, GMF aims to establish an active transatlantic exchange of ideas, experiences, and best practices with some of the foremost catalysts in American cities today — community foundations.

Participating foundations identify major issues affecting their communities and select between five and seven urban leaders to participate in study tours addressing those issues. Using its network of contacts, including European foundations, and its knowledge of European socioeconomic issues, GMF will design and organize the seven- to ten-day study tours, accompany the group, and ensure appropriate follow-up activities such as reports and action plans.

Four American foundations are participating in the pilot phase of the project. The Cleveland Foundation and The Pittsburgh Foundation assembled delegations to study economic and workforce development in



Lyons, France, and Turin, Italy, in November 2003, and they plan a follow-up study tour in June 2004 to those same cities, to look at neighborhood revitalization and quality-of-life issues. The Greater Milwaukee Foundation and the Dade Community Foundation will be sending delegations to Europe in February 2004 to learn about new developments in housing for the elderly and economic integration of immigrants and refugees, respectively.

TRANSATLANTIC COMMUNITY FOUNDATION FELLOWSHIP

A project of the German Marshall Fund and the King Baudouin Foundation (KBF) of Belgium, the Transatlantic Community Foundation Fellowship builds the skills of community philanthropy professionals and the capacity of community foundations in the United States and Europe. GMF is responsible for the American component with financial support from the Charles Stewart Mott Foundation, whereas KBF organizes and supports the European component. The Fellowship enables staff members of community foundations to spend two weeks in residence with one or two host foundations on the opposite side of the Atlantic. This ensures that Fellows exchange experiences and best practices, and are introduced to alternative means of addressing similar social and economic concerns. Ten Fellows participate in the program each year in June.

APSA CONGRESSIONAL FELLOWSHIP

Each year, the American Political Science Association (APSA) Congressional Fellowship program, with support from the German Marshall Fund of the United States, provides an opportunity for two mid-career 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 unique view into the American political process that they then take home with them.

Two outstanding Fellows were selected for the 2002–03 program: Lars Berger, who began examining the role of Islam and terrorism during his studies in Cairo, Egypt, and has published articles in several German academic journals; and Marcus Menzel, who has a varied professional background in education, research, and media studies, and has published *A Handbook on German Foreign Policy*. Berger worked in the office of Congressman Jim McDermott of the State of Washington on the Middle East, the Israeli-Palestinian conflict, Iraq, and defense and security issues; and Menzel worked for Congressman Joseph Crowley of New York on international affairs, trade, and defense issues.

MANFRED WÖRNER SEMINAR

Co-sponsored by GMF and the Armed Forces Office of the German Ministry of Defense, the Manfred Wörner Seminar (MWS) is a professional development program on European security. The program annually brings 15 young American professionals from all disciplines to Europe to meet with their German counterparts and to discuss shared security interests. The ten-day program takes place each year in three German cities — Bonn, Cologne, and Berlin and in Brussels, Belgium. Discussions are led by experts and address important security and defense dimensions of the German–American bilateral relationship within a broader transatlantic framework. The participants also examine business, economic, political, and cultural issues. This year's program included briefings by senior representatives from the German Air Force, the German Defense Ministry, and the Foreign Affairs and Economics ministries. In addition, participants met with members of the Bundestag, senior staff from NATO, the Russian Ambassador to Germany, representatives from the U.S. Mission to the European Union, and members of the European Parliament and the EU.

Manfred Wörner Seminar participants at the University of Bonn

WIDER EUROPE PROGRAM

Since the 1980s, GMF has been active in Central and Eastern Europe. Some of the countries in this region are now reaching the final stages of transition, while others still have much work to do. GMF remains active and engaged throughout Central Europe and the Balkans through a variety of programs supporting the process of democratic consolidation and the integration of the region into Euroatlantic structures.

BALKAN TRUST FOR DEMOCRACY

The Balkan Trust for Democracy is an exciting new grantmaking initiative that supports good governance and regional dialogue in Southeast Europe. This unique public–private partnership of the German Marshall Fund, USAID, and the Charles Stewart Mott Foundation aims to support innovative ideas for linking citizens with government, increasing cross-border and regional cooperation, and building on the positive steps toward functional democracy that have already been made. The first European contribution to the Balkan Trust was made by the Greek government and has been a source of great encouragement for future partnerships. This contribution also serves as an important symbol of the importance of transatlantic cooperation in the Balkans and elsewhere.

GMF's Washington, DC, office hosted the official launch of the Balkan Trust in April 2003, and the Trust formally began operations in June. Over the first few months of operation, the Balkan Trust's staff established and began operating its office in Belgrade; put together an advisory board comprising experts from all Balkan countries, the United States, and the EU; coordinated with other donors and implementers around the region to identify interesting funding opportunities; and began its grantmaking program.

The Balkan Trust has two programs: linking citizens with government, and fostering regional cooperation. Through these programs it provides support to indigenous civic groups, local and national governments, academic institutions, and media. Already, the Balkan

Trust is supporting a wide range of projects — from citizens' information centers in small towns and gatherings of youth leaders from around the Balkans, to cooperative ventures between media and nongovernmental organizations to encourage public dialogue about promised reforms.

Overall, the Balkan Trust for Democracy has been welcomed with great enthusiasm by public and private donors and by organizations working to strengthen democracy in the Balkans. The Balkan Trust, which will operate for at least ten years, is seen as a positive sign in a region where many donors are substantially diminishing operations.

ENVIRONMENTAL PARTNERSHIP FOUNDATIONS

The Environmental Partnership for Central and Eastern Europe (EPCE) was launched in 1991 by GMF, the Rockefeller Brothers Fund, the Charles Stewart Mott Foundation, and the Atlantic Philanthropies. EPCE is a consortium of national environmental organizations focused on fostering community-based environmental action and citizen participation in Central Europe. Today, it is comprised of six independent grantmaking and technical assistance foundations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia. In 2003, EPCE's focus both nationally and as a regional group was on renewable energy, sustainable agriculture, land stewardship and the development of greenways systems, watershed management, and more effective environmental management through public–private partnership

Andrew S. Natsios, administrator for the United States Agency for International Development, speaks at the inauguration of the Balkan Trust for Democracy held in Washington, DC.





Left: Pavol Demeš, GMF's director for Central and Eastern Europe, speaks at a meeting of the Trust for Civil Society.



Right: Participants at an EU Enlargement meeting

and education. The Environmental Partnership Foundations represent one of the best examples of the development of indigenous grantmaking capacity in these countries, and each year, the foundations provide critical support to the improvement of environmental conditions throughout the region.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

The Trust for Civil Society in Central and Eastern Europe, based in Warsaw, Poland, is a joint project of GMF, 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, Slovakia, and Slovenia. The Trust provides block grants to partner institutions in each country. These partner institutions then re-grant the funds in small increments to support the projects of civil society organizations. Since early 2002, the Trust has made several grants to indigenous partner organizations in Slovakia, the Czech Republic, Poland, Hungary, and Slovenia. The founding donors have pledged \$60.5 million to the Trust toward a goal of \$75 million. During 2004, the Trust plans to extend its activities to Bulgaria and Romania and to be fully operational in all seven countries.

EU ENLARGEMENT

The enlargement of the European Union to include ten new member states in May 2004 presents GMF with a number of challenges and opportunities. GMF has been working in Central and Eastern Europe since 1990, and recently its Bratislava, Slovakia, office has been holding strategy sessions with analysts from Central and Eastern Europe to help refocus its programming to better respond to impending European Union membership and the changing needs of a number of countries in this region. GMF plans to hold a series of enlargement seminars throughout Europe to examine the changes that enlargement will bring to the European Union and to the transatlantic relationship. GMF will utilize its network of offices in both Western and Eastern Europe to stimulate dialogue about the emerging policy dynamics that will result from enlargement.

GMF PARTNERSHIPS

Successful transatlantic relations depend on strong partnerships built up over time, across sectors, and between regions of the world. GMF has integrated this model of partnership into its organizational strategy as a means of achieving greater cooperation between the United States, Europe, and beyond. 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, business leaders — and organizations cutting across the full spectrum of society.

Investing in partnerships is key to improving transatlantic communication in an increasingly global economy. At GMF, our goal is to tackle the fundamental issues affecting the U.S.–European relationship, and we do so by drawing on a wide network of individuals and institutions on both sides of the Atlantic. In some cases, we pool intellectual or analytical resources, and in other cases, we pool financial resources. But most often, we pool both.

Through partnering with other individuals and organizations, we are able to ensure that GMF projects, programs, and activities bring a unique perspective rather than a recapitulation of existing work. We actively seek innovative solutions and partners with whom we can work to develop a sustainable, effective transatlantic community.

GMF's roles as funder, public policy institution, and operating foundation provide a unique opportunity for partners to extend and expand their work through connecting with key decision makers, networks, and

research in both Europe and the United States. GMF provides an opportunity for American voices to be heard in Europe and for European voices to be heard in America, and for both Americans and Europeans to be heard throughout other world regions.

We tailor partnerships on the basis of shared vision and are careful to meet the needs of our partners. GMF undertakes a variety of partnership models 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.

At GMF, we understand the crucial role that partnerships play in affecting and addressing the concerns facing our transatlantic community. GMF would like to take this opportunity to thank all its partners for their contributions to furthering transatlantic cooperation. Please refer to our website for a complete list of partners.

**A NUMBER OF ORGANIZATIONS HAVE MADE
SUBSTANTIAL FINANCIAL OR IN-KIND CONTRIBUTIONS
TO GMF’S ACTIVITIES, INCLUDING:**

Bertelsmann Stiftung	Ford Foundation	NATO Office of Press and Information
Bill and Melinda Gates Foundation	Foundation for Pluralism	Netherlands Atlantic Commission
Brazilian Council on Foreign Relations	Fundación La Caixa	Niarchos Foundation
Charles Stewart Mott Foundation	GE Foundation	Open Society Institute
Chicago Council on Foreign Relations	Gemeinnützige Hertie-Stiftung	Pacific Council on International Policy
Citigroup Foundation	George C. Marshall Fund of the Netherlands	Pittsburgh Foundation
City of Lyons	Goldman School of Public Affairs, University of California–Berkeley	Robert Bosch Stiftung
City of Marseilles	Greater Milwaukee Foundation	Rockefeller Brothers Fund
Cleveland Foundation	Greek Foreign Ministry	Rockefeller Foundation
Compagnia di San Paolo	Hubert Humphrey Institute of Public Affairs, University of Minnesota	Southern Center for International Studies
Confederation of Indian Industry	Institute of Public Policy Studies, University of Denver	Stefan Batory Foundation
Council for the United States and Italy	King Baudouin Foundation	21st Century Public Policy Institute
Council of State Governments	Koerber Stiftung	United States Agency for International Development
Council on Foreign Relations	Luso-American Foundation	United States–Sweden Bicentennial Fund
Dade Community Foundation	Mayor’s Office of the City of Paris	World Affairs Council/International Visitors Council of Raleigh
Daniel J. Evans School of Public Affairs, University of Washington	Merck Foundation	World Affairs Council of Greater Dallas
Deutsche Bank Group	Migration Dialogue	ZEIT-Stiftung Ebelin und Gerd Bucerius
Draeger Stiftung	Migration Policy Group	
European Commission	National League of Cities	
European Institute		

FINANCIAL STATEMENTS



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton 

BOARD OF TRUSTEES

THE GERMAN MARSHALL FUND OF THE UNITED STATES — A MEMORIAL TO THE MARSHALL PLAN

We have audited the accompanying statements of financial position of The German Marshall Fund of the United States — A Memorial to the Marshall Plan (GMF) as of May 31, 2003 and 2002, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of GMF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of GMF as of May 31, 2003 and 2002, and the statements of activities and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Vienna, Virginia
August 1, 2003

STATEMENTS OF FINANCIAL POSITION

MAY 31,	2003	2002
<i>Assets</i>		
Cash and cash equivalents	\$ 6,071,563	\$ 4,700,092
Investments	175,084,311	196,993,353
Fixed assets, net	6,622,001	5,325,771
Pledges receivable	—	100,000
Other assets	172,695	118,789
Total Assets	\$ 187,950,570	\$ 207,238,005
<i>Liabilities and Net Assets</i>		
Liabilities:		
Accounts payable and accrued expenses	\$ 562,268	\$ 1,682,544
Grants payable	4,371,516	3,716,044
Total Liabilities	4,933,784	5,398,588
Unrestricted net assets	182,906,369	201,679,867
Temporarily restricted net assets	110,417	159,550
Total Net Assets	183,016,786	201,839,417
	\$ 187,950,570	\$ 207,238,005

STATEMENTS OF ACTIVITIES

MAY 31,	2003	2002
Changes in Unrestricted Net Assets		
Revenues and grants		
Income on investments	\$ (6,607,712)	\$ 2,474,425
Federal awards	—	54,733
Other	477,985	50,300
Grants	724,207	1,216,933
Total unrestricted revenues and grants	(5,405,520)	3,796,391
Net Assets Released from Restrictions	851,223	15,093,462
Total Unrestricted Revenues, Grants and Other Support	(4,554,297)	18,889,853
Expenses		
Grant expense	8,325,404	25,365,176
Prior year grant expirations	(1,347,882)	(174,891)
Grant management costs	1,752,106	1,547,530
Total program services	8,729,628	26,737,815
Fundraising	386,819	294,339
Supporting services—management and administration	5,102,754	3,801,064
Total expenses	14,219,201	30,833,218
Decrease in unrestricted net assets	(18,773,498)	(11,943,365)
Changes in Temporarily Restricted Net Assets		
Grants	802,090	746,961
Net assets released from restrictions	(851,223)	(15,093,462)
Decrease in temporarily restricted net assets	(49,133)	(14,346,501)
Decrease in net assets	(18,822,631)	(26,289,866)
Net Assets, beginning of year	201,839,417	228,129,283
Net Assets, end of year	\$ 183,016,786	\$ 201,839,417

STATEMENTS OF CASH FLOWS

MAY 31,	2003	2002
Cash Flows from Operating Activities		
Decrease in net assets	\$ (18,822,631)	\$ (26,289,866)
Adjustments to reconcile decrease in net assets to cash used by operating activities:		
Depreciation	199,142	67,104
Unrealized and realized loss on investments	10,328,320	2,812,407
Decrease (increase) in assets:		
Pledges receivable	100,000	70,000
Other assets	(53,907)	117,944
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,120,276)	710,442
Grants payable	655,472	(700,749)
Net Cash Used in Operating Activities	(8,713,880)	(23,212,718)
Cash Flows from Investing Activities		
Purchases of investments	(78,625,051)	(43,986,842)
Proceeds from sale of investments	87,215,029	65,757,668
Purchases of fixed assets	1,495,373	(5,313,284)
Net Cash Provided by Investing Activities	10,085,351	16,457,542
Net Increase (Decrease) in Cash and Cash Equivalents	1,371,471	(6,755,176)
Cash and Cash Equivalents, beginning of year	4,700,092	11,455,268
Cash and Cash Equivalents, end of year	\$ 6,071,563	\$ 4,700,092

NOTES TO 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, 2003, the German Bundestag has contributed approximately €128 million to GMF.

GMF makes grants in the following areas:

- Economics
- Environment
- Foreign Policy
- Immigration and Integration
- Special Opportunities

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 statements 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. Cash equivalents at May 31, 2003 and 2002, were approximately \$6,071,000 and \$4,700,000, respectively.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE A — Summary of Significant Accounting Policies *continued*

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, at which time the restriction is released. All contribution receivables are due in less than one year.

GRANTS

Grants to other parties are recognized as expenses and liabilities when GMF makes an unconditional promise to fund particular organizations or programs. Prior year 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. For the years ended May 31, 2003 and 2002, these grants totaled \$651,098 and \$816,850, respectively. 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 Employee Retirement Income Security Act of 1974 (ERISA) regulations. Retirement expense was approximately \$186,000 and \$125,000 for the years ended May 31, 2003 and 2002, respectively. 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.

ADMINISTRATIVE EXPENSES

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

NOTE B — Investments

Investments consisted of the following at May 31:

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Common stocks	\$ 127,247,183	\$ 133,429,663	\$ 141,268,900	\$ 159,026,634
Corporate bonds	29,609,886	32,014,215	26,512,646	26,672,506
Limited partnerships	14,893,252	9,640,433	14,893,252	11,294,213
	<u>\$ 171,750,321</u>	<u>\$ 175,084,311</u>	<u>\$ 182,674,798</u>	<u>\$ 196,993,353</u>

Income on investments was comprised of the following for the years ended May 31:

	2003	2002
Interest and dividends	\$ 3,720,608	\$ 5,286,832
Realized gain on investments	977,021	3,848,844
Unrealized loss on investments	(11,305,341)	(6,661,251)
	<u>(6,607,712)</u>	<u>2,474,425</u>
Less: investment management fees	684,962	753,028
	<u>\$ (5,922,750)</u>	<u>\$ 1,721,397</u>

Limited partnerships comprise approximately 5 percent and 3 percent of GMF's total investments at fair value at May 31, 2003 and 2002, respectively. 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 consist of the following:

	2003	2002
Furniture, fixtures, and equipment	\$ 650,514	\$ 556,270
Leasehold improvements	4,415	4,415
Building	6,401,129	5,000,000
Land	300,000	300,000
	<u>7,356,058</u>	<u>5,860,685</u>
Less: accumulated depreciation	734,057	534,914
	<u>\$ 6,622,001</u>	<u>\$ 5,325,771</u>

During the fiscal year ending May 31, 2003, GMF purchased a building in Washington, DC. The total contract price was approximately \$950,000.

NOTES TO FINANCIAL STATEMENTS

NOTE D — Leases

GMF's office in the Federal Republic of Germany is leased until July 2009, and requires monthly rental payments, with annual adjustments. GMF's office in France is leased until May 2010, and requires monthly rental payments, with annual adjustments. GMF's Brussels office is leased until November 2010, and requires monthly lease payments, with annual adjustments.

The future approximate minimum lease payments under non-cancelable operating leases as of May 31, 2002, are:

YEAR ENDING MAY 31,	
2004	\$ 166,000
2005	138,000
2006	140,000
2007	140,000
2008	140,000
Thereafter	334,000
	<u>\$ 1,058,000</u>

Total rental expense was approximately \$208,000 and \$309,000 in 2003 and 2002, respectively.

NOTE E — Federal Awards

Federal awards consisted of a grant received from the United States 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 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,	2003	2002
Marshall Memorial Fellowship Program	\$ 110,417	\$ 149,137
Community Foundation Exchange Fellowship	—	10,413
	<u>\$ 110,417</u>	<u>\$ 159,550</u>

MARSHALL MEMORIAL FELLOWSHIP PROGRAM

During 1998, GMF received a pledge of \$75,000 for the Marshall Memorial Fellowship Program to include Fellows from Greece in 2001. Through 2002, \$149,137 was included in the temporarily restricted net assets, as the purpose and time restrictions for those contributions had not yet been met. For the year ended May 31, 2003, GMF recognized \$38,720 that had been released from restriction.

COMMUNITY FOUNDATION EXCHANGE FELLOWSHIP

The Community Foundation Exchange Fellowship enables senior staff of community foundations to collaborate with their colleagues across the Atlantic, exchange ideas and experiences, and learn about the social, cultural, and economic circumstances affecting community foundations in a country other than their own. Temporarily restricted contributions totaled \$62,201 and amounts released from restriction related to this program totaled \$72,614 for the year ended May 31, 2003, leaving no temporarily restricted net assets at May 31, 2003.

NOTE G — Grants Payable

At May 31, 2003 and 2002, GMF had grants payable amounting to approximately \$4,372,000 and \$3,716,000, respectively, for grants that will be funded or closed in future years. The 2003 grants payable balance is expected to be paid within one year.

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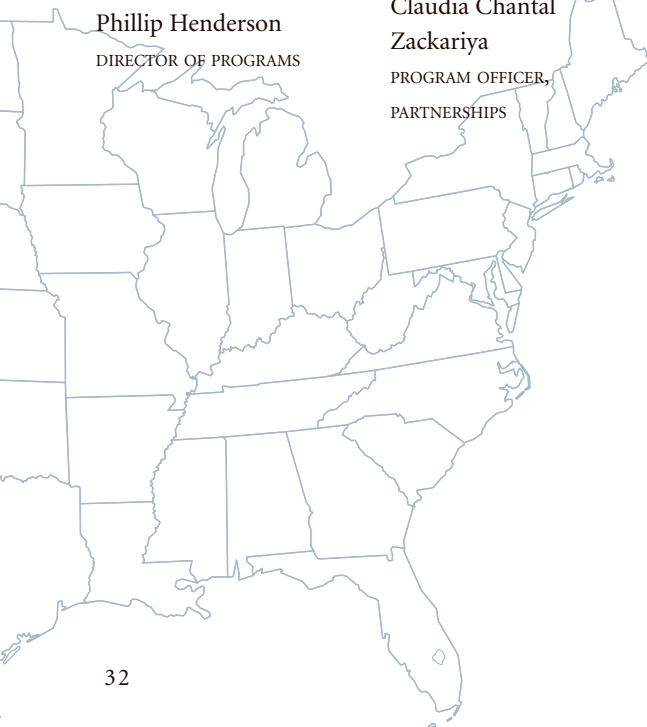
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