



The Franco-German dialogue on the future of the EU

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Summary

The backbone of European integration is reconciliation between France and Germany. With today's external and internal pressures on the EU, both countries agree on the need to affirm European sovereignty and deepen European integration. Their current dialogue began in the summer of 2018, reflected in the Meseberg Declaration, and cover all issues central to the EU. Joint ambitions on EU affairs are also reflected in the Aachen treaty of 22 January 2019.

This analysis accounts for French and German positions on external affairs, security and defence policies as well as economic matters. A fundamental argument is that the new context creates a sense of urgency and instigates both French and German positions to evolve. An understanding of the current Franco-German relationship is therefore important for understanding where the Union may be heading. At the same time, a Franco-German agreement is not enough to carry the whole of the EU. A conclusion is therefore that other member states need to take part in the search for solutions that can be translated into common EU policies.

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1 Introduction

A sense of urgency permeates current negotiations between France and Germany on issues central to the European Union (EU): the reform of the eurozone, the shades and forms of the next Multiannual Financial Framework, the reinforcement of security and defence policies, to name some major themes. Many of the items are familiar: indeed, this is true of the so-called Franco-German axis, which has been central to the Union since its inception.

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Nevertheless, the context is new. External pressures resulting from a more contested world, which include the Trump administration in the United States of America (USA), the rise of China, centrifugal forces caused by Brexit, and the advent of nationalism have united France and Germany in perceiving that now more than ever, the EU constitutes an indispensable platform for addressing external and internal challenges. An analysis of the Franco-German relationship is therefore important in understanding where the Union may be heading.

Franco-German dialogue thus takes on a new dimension, more significant than the traditional perception of reconciling supposedly expansive and restrictive economic policies and representing the European South and North. Common stereotypes, which are sometimes additionally entertained in respective capitals, claim that France, facilitated by its presidential system, will play the role of integrationist avant-garde, while Germany, meandering through its complicated constitutional system, is destined to (all the time clutching its purse) herd the common EU flock. The interplay between the two is then reduced to the supposedly structurally reformed Germany ceding as little as possible to pressures from an unreformed France that is constantly searching for common resources to cover the holes in its budget. This analysis aims to move beyond these stereotypes, while accounting for Franco-German differences, in the belief that France and Germany are united in their search for common solutions that will in turn determine much of the framework for the EU's future.

However, it is by no means certain that France and Germany can pull off the necessary agreements. Securing deals is becoming increasingly complicated as political energies may ebb in both Berlin and Paris. The two are alone in their endeavour, as Rome is perceived as being lost to the integrationist cause, at least for the time being. Moreover, although understanding between the two is essential, it does not necessarily carry the whole of the EU. Germany may be more experienced in securing wider acceptance for its proposals, but both France and Germany are new in their more exposed role in ensuring European integration. It would therefore seem important for Sweden and other member states to closely follow and attempt to shape the evolution of Franco-German understanding.

Furthermore, arriving at a common understanding in general may become more complicated in a dynamic and increasingly fluid political landscape, where member states probe their positions and seek out new constellations. Even though Brexit has increased general support for the EU among its citizens, the diversity of opinions regarding often intrusive policies can preclude a common understanding.

This analysis seeks to determine the state of the Franco-German dialogue at the beginning of 2019, arguably halfway through negotiations on the EU's long-term budgetary framework, the so-called Multiannual Financial Framework (MFF), and a few months away from elections to the European Parliament. Which items are prioritised by Berlin and Paris: the deals struck, trade-offs being made, sometimes across policy areas, and the sticking points that remain?

The analysis will first establish some timelines, before continuing with external affairs, the Common Security and Defence Policy (CSDP) including Permanent Structured Cooperation (PESCO). It will subsequently examine economic matters, in particular eurozone reform and negotiations over the MFF. Finally, the new Aachen Treaty will be described and some conclusions will be drawn.

Interviews in Paris, Berlin and Brussels in the autumn and winter of 2018, as well as in Stockholm in June 2018, provide the main basis for this analysis. Altogether, 20 interviews were made for this purpose.¹

1.1 Timelines and the political context

The backbone of European integration is reconciliation between two warring protagonists of 19th and 20th-century Europe: France and Germany. Central to the bilateral history of the two countries was the Post-World War Two creation of the European Coal and Steel Community (ECSC) through the Treaty of Paris in 1951.² This was then reinforced by the bilateral Élysée Treaty in 1963 and renewed on 22 January 2019 in the form of the Aachen Treaty.

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Moving to more recent history: Europe pulled out of the economic crisis in 2016 when growth returned, but scars still needed to be healed. The crisis revealed imperfections in the eurozone’s architecture and indicated the importance of addressing at least some of them before the next economic downturn. Elections to the Presidency in France in May 2017 and to the German Parliament in September of the same year appeared to stem the populist tide. However, victory came at a high prize, as the Social Democratic Party (SPD) and the Christian Democratic Union (CDU) registered big losses, while the populist Alternative for Germany (AfD) became Germany’s third largest party and Front National in France gained 33.9% of the popular vote. In March 2018, Germany was finally able to form a government, while Italy elected a government based in part on Lega Nord, openly challenging key EU policies and occasionally aligning itself with illiberal forces in Europe. The balance between centrist and populist forces in Europe still had to be established. Elections to the European Parliament in May 2019 would offer the next test.

Negotiations between France and Germany began in earnest in the summer of 2018, covering all major issues on the European agenda. The joint publication in June of the so-called Meseberg Declaration³ offered the contours of a deal. The French President had already staked his claims

in his Sorbonne speech⁴ of September 2017, while the German Chancellor limited herself to introducing some German caveats in an interview in *Frankfurter Allgemeine Sonntagszeitung* on 3 June 2018.⁵ The French President acquired further negotiating space through his declaration to support the German Chancellor’s migration policies, which were at the time contested by the Christian Social Union (CSU). At the Foreign Affairs Council (FAC) meeting in November 2018, some agreements were reached regarding security and defence; moreover, at the Euro Summit in December of the same year, a compromise was made concerning some aspects pertaining to the reform of the eurozone. Renewed attempts at finding solutions would be made in June 2019.

Agreements in some areas were still preliminary, as the logic of election campaigns to the European Parliament rendered politicians less prepared to position themselves on sensitive EU issues. In addition, many central matters still required clarification, for instance the hole in the EU budget resulting from Brexit and the conclusion of the MFF negotiations. Although Berlin had hoped for an early agreement with Paris, it appeared more likely that negotiations would drag on until the second half of 2020 and the German Presidency of the EU when Germans were expected to demonstrate financial largess. This was at least the concern expressed in Berlin.⁶

2 External affairs

First, and as indicated above, France and Germany are united in the strong belief that Europeans should exercise sovereignty in global affairs. They have jointly held the line through the Normandy format⁷ to end the conflict in eastern Ukraine and maintain sanctions against Russia. The ascent of Donald Trump to the Presidency of the USA, putting “America first” even at the expense of allies, has probably contributed more than anything else to the closing of ranks. Germany could not possibly stand up alone to American trade policies singling out German surplus in trade with the USA and threatening to impose 25% tariffs on German cars. EU negotiators tell the story of an indignant President Trump complaining to Europeans about the large numbers of German cars seen on the streets of New York.⁸ Germany needs France and the EU in this seminal trade battle with potentially far-reaching consequences for

the German economy. Indeed, France, Germany and the EU generally fear that the multilateral system will be undermined, as exemplified by the Paris Agreement and World Trade Organization (WTO). France and Germany have championed proposals in the EU for a screening mechanism of certain foreign investments, prompted by Chinese acquisitions of core technological industries and critical infrastructure.

In the following we will describe the Franco-German dialogue on some issues central to external affairs: the eventual use of Qualified Majority Voting (QMV) in some areas of external policies; the proposal for the creation of a European Security Council (ESC); and German demands regarding France's position as a P5, one of the five permanent members of the UN's Security Council (UN SC in the following). In these areas, Germany has been a driver of change while France has offered some resistance, in a reversal of their traditional roles.

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2.1 A forward-leaning Germany

In his State of the Union-speech⁹ to the European Parliament in September 2018, President Juncker stated that now was the Hour of European Sovereignty. He underlined the importance of the EU not being pushed around by major powers, but instead exercising European sovereignty in global affairs. For the EU to speak with a clearer voice, he proposed the use of the so-called "passerelle" allowing for QMV in areas of external policies, as also mentioned in the Meseberg Declaration. The demand for such a procedure was said to have resulted from the perceived influence of foreign powers over individual member states, resulting in non-decisions or weak decisions regarding, for example, human rights in the UN.

Another push for QMV comes from Germany, which would like to see the EU's executive powers increased and the efficiency of the EU's external policies improved. It has been suggested that the concept be tested in the "non-controversial" area of civilian missions. The non-proliferation of weapons of mass destruction could offer another

example, according to observers in Berlin. In what has been described as a major French concession, France has agreed to discuss the proposal and joint Franco-German meetings have been held in order to elaborate on the concept. Nevertheless, France remains reluctant because it regards consensus-based decision-making on missions and operations as a means of securing member states' control through a veto, if necessary.¹⁰ France is not the only country raising objections, and the eventual development of any common understanding on the meaning of QMV in external policies (let alone its application) is likely to take some time to elaborate. Sweden, which is reluctant to introduce QMV in the areas of taxation and social affairs, has demonstrated interest in the idea because attempts at passing resolutions on human rights in the UN have been hampered by recalcitrant member states.¹¹

In the next section we shall turn to German proposals for creating a European Security Council (ESC) and for embedding France's position as a P5 in a wider European arrangement.

2.1.1 European formations: ESC, EU and the UN SC

The German proposal for the creation of an ESC, advanced by the Chancellor in Frankfurter Allgemeine Sonntagszeitung on 3 June 2018, has been presented as a further attempt to improve European sovereignty and ensure greater efficiency. The Council would be made up of six or seven rotating members, possibly always including one of the big countries. It would prepare strategic discussions at the FAC that are today often deemed excessively vague and inconclusive. It is unclear whether an ESC could be endowed with a secretariat along the lines of that attached to the Eurogroup.¹² Objections to the arrangement have been made by some member states on the grounds that such a council could undermine the authority of the High Representative, in spite of his/her assumed participation in the Council's deliberations, and possibly favour major member states.

In a paper presented by the Konrad-Adenauer-Stiftung, which is close to the CDU, the proposal to establish an ESC was put in the context of the EU's position vis-à-vis the UN SC:

The ESC should provide a forum for coordinating the EU's position in the United Nations in

general and in the Security Council in particular. If there is a Europeanisation of the EU countries' temporary Security Council seats to become a *European Security Council seat*, these member states need to be committed to the position adopted in the ESC. The ESC could also gain in importance by productively integrating France as a permanent member of the Security Council. The Europeanisation of the seat in the UN Security Council should be the long-term perspective.¹³

In a more short-term perspective, France and Germany will closely wire their UN delegations in view of the sequencing of their chairmanships of the UN SC in March-April 2019: Germany in March in its capacity as a non-permanent member (2018-2019), and France in April as a permanent member. In addition, France holds the Presidency of the G7 for 2019. The UN ambassadors of France and Germany have declared their intentions to defend the multilateral order in view of security challenges and have invited the USA to join their efforts: "American commitments to our shared values have rarely been more critical".¹⁴ In the new Aachen Treaty, France and Germany claim to use their bilateral Defence and Security Council as an instrument for coordinating positions in the UN and other relevant international fora more closely.

At the request of impatient partners, Germany has gradually assumed a role as a major strategic player and is now party to the Iranian nuclear deal according to the formula EU+3; it also participates in military operations in the Levant and Sahel. Germany has previously campaigned for a seat in a reformed and enlarged UN SC. With the United Kingdom (UK) leaving the EU, France will be the only EU member with a seat on the UN SC. German representatives have proposed that the French P5 seat be embedded in a larger European context or even transformed into an EU seat.¹⁵ This is a question of considerable importance for the changing relationship between France and Germany (as well as the UK). More importantly, it raises the larger issue of the EU's relationship to the UN SC.

The French claim to be open to discussing German demands (originating in the Chancellery) for sharing the French P5 position in a Franco-German or Franco-European arrangement of some sort. Through a closer cooperation with France, Germany would learn the trade while awaiting an

eventual future reform of the UN SC.¹⁶ In Paris, one would prefer to describe this as "systemic cooperation".¹⁷ However, connecting the EU to the UN SC is, according to Paris, out of the question, again in the name of efficiency, as decisions regarding military operations may need to be made overnight. Getting stuck in cumbersome European decision-making involving 27 countries is deemed an unrealistic proposition.

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Regardless of the Franco-German specifics, the discussion highlights the asymmetry between the positions of two European P5 members – France and the UK – and their relatively weakened positions in global affairs. The goal to retain as many European voices as possible on the UN SC may mitigate the long-term sustainability of such an arrangement, based on the outcome of World War Two. A related aspect is the asymmetry between the nation-based UN SC and the growing importance of regional security providers such as the EU and the African Union (AU), which have no seats at the table.

3 Common Security and Defence Policy (CSDP): A New Level of Ambition

To France and Germany, symbolising the great European reconciliation after the wars of the 19th and 20th centuries, CSDP is an area that offers opportunities for unifying messages and means of regulating an uneven relationship between the economically mighty Germany and a militarily powerful but overstretched France. Some of the common themes are based on hands-on cooperation, as in the field of defence capabilities and materiel, where Franco-German and European cooperation is perceived as a way of countering increasing global competition. Others are more rhetorical in nature, such as the call for "A European Army", recently repeated by both the French President and the German Chancellor. Brexit and the Trump administration have unified Germany and France in a conviction that Europeans will have to assume greater responsibility for European security. Their departing points vary

considerably, however. France is the main defence spender in the EU, has its own nuclear force and expeditionary capabilities, and emphasises European strategic autonomy. Germany, lagging in terms of defence spending, has struggled to reconcile pacifist traditions with demands by partners to take on a more assertive strategic role.

In his State of the Union speech of 2018, President Juncker called for an EU that “protects, empowers and defends”, leading to the creation of a European Defence Union by 2025.¹⁸ The emphasis on CSDP represents a so-called New Level of Ambition, corresponds with real challenges to European security, resonates with high levels of public support and is perceived as a unifying message in times of discontent and fragmentation in other policy areas, such as migration.

3.1 Peacekeeping and territorial defence

CSDP is grounded in provisions made in the Lisbon Treaty. In the consolidated version of the Treaty of the European Union (TEU), Article 42.1 speaks of peacekeeping and conflict prevention missions outside of the Union in wordings similar to those already present in the Amsterdam Treaty. Article 42.7 contains a mutual assistance clause in case of armed aggression against a member state. With the new European Union Global Strategy (EUGS) and consequent Council conclusions on security and defence from 14 November 2016, political ambition has been expanded to additionally protect the Union and its citizens. The introduction of Permanent Structured Cooperation (PESCO), as stipulated in Article 42.6, represents another manifestation of the New Level of Ambition.

European paralysis in view of the wars in the former Yugoslavia in the 1990s stimulated the development of the European Security and Defence Policy (ESDP). The Europeanisation of French and British security policies in Africa provided another impetus. France and the UK, the EU’s main military powers, in 1998 presented the St Malo Declaration, a precursor to ESDP. In the beginning of the 2000s, the mood in Europe was optimistic as the wars in the former Yugoslavia had been put to rest and the economy was growing. In the words of the European Security Strategy of 2003:

Europe has never been so prosperous, so secure nor so free. The violence of the first half of the 20th Century has given way to a period of peace and stability unprecedented in European history.¹⁹

In 2003, the EU launched the first of its six military operations, for which France in particular and the UK played leading roles.²⁰ Germany was a more reluctant partner, fiscally restrictive and resisting perceived French pressures to be dragged into African conflicts. The US-led wars on terror in Iraq and Afghanistan eventually diverted resources and the attention of the UK away from ESDP. France, frustrated by attempts to mobilise EU forces and support counter-terrorism operations in Sahel, launched its own Operation Serval in Mali in 2013. Enthusiasm for EU-led operations ebbed.

With Russian aggression against Georgia in 2008 and Ukraine in 2014, traditional concerns with territorial defence re-emerged and NATO deployed forces to the Baltic states, Poland and Romania.²¹ The Arab Spring turned into Winter with the Syria war, causing the deaths of half a million people and in 2015 stimulating a massive influx of more than one million refugees into Europe. In 2016, the deteriorating security landscape was reflected in the EU’s new Global Strategy, EUGS:

We live in times of existential crisis, within and beyond the European Union. Our Union is under threat. Our European project, which has brought unprecedented peace, prosperity and democracy, is being questioned.²²

The Brexit referendum decision in the summer of 2016 and the outcome of the American presidential election later in the same year added to this sense of crisis. There was now a general realisation that Europeans, regardless of their perceived dependence on an American security guarantee, the backbone of NATO, would have to assume greater responsibility for their own security and defence. Or, as already stated in the EUGS:

The EU needs to be strengthened as a security community: European security and defence efforts should enable the EU to act autonomously while also contributing to and undertaking actions in cooperation with NATO.²³

Differences remain between Europeans, reflected in the Franco-German relationship regarding the correct way to proceed with this issue. Will greater European assertiveness pre-empt and impede eventual American disengagement, additionally caused by the rise of China? Or could it instead unwittingly spur gradual American disengagement? France emphasises the need for emancipation, while Germany, now centrally placed for NATO’s

revitalised territorial defence, is sensitive to the views of its Central and Eastern European neighbours, for whom NATO and its mutual defence clause as enshrined in Article V of the Atlantic Treaty is central.

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As mentioned above, the Lisbon Treaty also includes an article on mutual defence. However, an important caveat is added to Article 42.7: that the ambition described should not impinge on security arrangements made for collective defence by EU member states that are also members of NATO, or otherwise affect specific security and defence policies, a reference to the non-aligned EU member states. Article 42.7 was first invoked by France following the terrorist attacks in Paris of 2015, resembling the first activation of Article V in the Atlantic Treaty in the wake of the terrorist attacks of 2001 in the USA.

While Article V of the Atlantic Treaty corresponds to operational planning according to specific scenarios, no such efforts have yet been undertaken by the EU. The Commission’s Reflection Paper on the Future of European Defence, published in 2017,²⁴ discusses the eventual activation of 42.7 in a so-called grey zone under Article V, such as in the case of cyberattacks. The French President has stated the need to give more substance to the Article and has declared France’s preparedness to initiate such discussions.²⁵ It should be noted that as part of their new Aachen Treaty, France and Germany have bilateralised the mutual defence clauses enshrined in the Lisbon and Atlantic treaties.

Predicting the exact division of labour between the EU and NATO is difficult. It would, as a start, probably be useful to de-emphasise the dichotomy between them and instead speak of a Europeanisation of European security that will affect both institutions, which represent part of the same institutional web.

3.2 PESCO: Binding commitments

Permanent Structured Cooperation (PESCO) is an example of the format for so called Enhanced Cooperation in the Lisbon Treaty. Article 42.6 stipulates that member states whose military capabilities fulfil higher criteria and that have a more binding commitment to one another in this area can establish a permanent structured cooperation within the EU framework. In December 2017, this paragraph was translated into council conclusions establishing PESCO.²⁶ It is based on so-called binding commitments, defined in an Annex to the council conclusions, and decisions are taken by QMV.

However, the provision does not include any sanctions aside from the risk of being suspended from a project. Instead, peer pressure is supposed to be applied to member states as they submit a yearly report card in the form of the Coordinated Annual Review on Defence (CARD) and the sequential National Implementation Plan (NIP). The updated list (as of 19 November 2018)²⁷ of PESCO projects contains 34 projects of varying character. Many of the first PESCO projects were modest in nature, but the financial resources allocated to funding them during the next period of the MFF through the European Defence Fund (EDF) are substantial and mark a real change in terms of financial resources available for European Research and Development. A first tranche of 500 billion euros have been allocated for 2019-2020, bridging the years leading up to the application of the MFF for 2021-2027.

The proposed defence-related budget items in the MFF include: 1) EDF of 13 billion euros; 2) European Peace Facility (EPC) of 10.5 billion euros²⁸; and 3) 6.5 billion euros earmarked for military mobility in the “Connecting European Facility”.

One purpose of the common funding of joint PESCO projects is to promote multilateral cooperation in the fractured European defence materiel industry, under competitive pressure from the USA, Russia, Israel and China. This in turn highlights the importance of harmonising European export control regimes. The Aachen Treaty mentions the need for France and Germany, which represent expansive and restrictive export regimes, to elaborate a common approach to defence exports. It should be noted that most

Franco-German defence materiel cooperation is pursued outside of the EU, for example in the form of a new generation of fighter aircraft, Future Combat Air System (FCAS). France and Germany agree on the importance that the project be so-called ITAR-free, i.e. exempt from American export policies codified in the International Traffic in Arms Regulations. The UK has launched its own initiative in the field, inviting Sweden and Saab to join.

“It should be noted that most Franco-German defence materiel cooperation is pursued outside of the EU [...]”

Parallel to the increase of common funds for CSDP, national defence budgets in Europe have augmented as the result of a deteriorating security situation. By 2017 Europe had become the fastest-growing region in real terms of defence spending in the world.²⁹ The EU 28 jointly spend some 235 billion euros on defence, corresponding to an average 1.34% of EU gross domestic product (GDP). This positions the EU as an entity after the USA and before China. On the list of main global defence spenders, France is the 6th largest and the UK is 7th, both with around 2% of GDP as envisaged by NATO. Germany is 9th, corresponding to 1.2% of GDI.³⁰ German defence spending will reach 1.5% in 2024. It would seem unlikely, both for economic and political reasons, for Germany to spend 2% of its GDP (or some 70 billion euros) on defence. That would make Germany the prime defence spender in the EU, raising concern amongst some of its neighbours. It may be more convenient for Germany, both for domestic and external reasons, to instead channel some of its defence efforts through the EU's common PESCO projects.

3.2.1 French disappointment?

In his Sorbonne speech in September 2017,³¹ President Macron proposed the creation of a European Intervention Initiative (EI2). The aim would be to enable better links and closer cooperation between the armed forces of European states that are willing and able to carry out international missions and operations.³²

EI2 has been interpreted as a French response to a watered down and inclusive PESCO project, as opposed to the coalition of more able and willing

member states as envisaged in the provisions for structured cooperation in the Lisbon Treaty. According to this analysis, France had to cede to German pressure. While there may be some merit to this analysis, the background to the French initiative appears to be more complex in nature. French representatives admit that they had a more ambitious vision for PESCO, encompassing some five to seven members states. Berlin insisted on inclusivity and the need to showcase unity in times of challenges to the EU. With more member states willing to join, it would be difficult to exclude them.³³ Furthermore, Berlin thought that special consideration had to be made to Poland, and consequently to NATO.³⁴ As a result, France was said to have had a change of heart rather than simply conceding to German pressures.³⁵

It is, however, difficult to prove that EI2, a form of cooperation regarding military operations, would constitute a French substitute for scaled-down PESCO projects regarding defence capabilities. It is more likely that France, normally an advocate of EU operations, this time favoured EU cooperation in the area of defence materiel but would have preferred to focus financial resources on a few projects central to France and Germany. Furthermore, EI2 includes the UK, a way of attenuating some of the negative aspects of Brexit, while nurturing the privileged Franco-British defence relationship encoded in the bilateral Lancaster Agreement of 2010. Strong bilateral defence ties between France and the UK constitute just one of several reasons why the UK is likely to retain deep functional security and defence cooperation with the EU.

In addition, France has enlarged its circle of collaborators by inviting Finland and Estonia, thereby stating its own strategic interest in the Baltic area. The French President has hinted at extending security guarantees to countries in the area, causing irritation in Berlin: if anything should be done, it should be done jointly.³⁶ Finally, France prioritises its strategic relationship with the two other P5 members of the UN SC: the USA and the UK.³⁷ France has a close strategic and operational partnership with the USA in the Sahel, the Levant, Iraq, the Indo-Pacific and the nuclear area. An emphasis on EU-only arrangements can be useful in some areas but counter-productive in others, as they may be detrimental to the Franco-American strategic partnership, according to Paris.³⁸ French attention to American concerns is worth noting.

4 Economic matters

While Germany and France agree on the need for greater European sovereignty and may find some common ground regarding security and defence policies, agreements on economic matters are more difficult to reach. Indeed, they impinge more directly on national sovereignty and have visible implications for resource allocations within individual member states. France and Germany represent different economic models but share a general understanding of the urgent need to address existing flaws in the architecture of the eurozone before a new economic downturn tests its resilience. Positions have evolved since the Greek crisis and cannot be cast in simplistic terms of pro- or anti-austerity policies.

“[...] agreements on economic matters are more difficult to reach.”

French and German views do, however, differ on the specifics regarding:

1. The right ways in which to promote social, economic and financial convergence between the 19 member states of the eurozone;
2. The meaning of financial solidarity in case some come under pressure;
3. The shape of safeguards to be put in place in order to manage future shocks to the banking system that could result in a run on the euro.

In discussions regarding the MFF, both countries agree in principle on the need to modernise the budget. Germany carefully monitors the percentage of EU GDP towards the MFF to be established and the eventual abolishment of rebates, while France defends the Common Agricultural Policy (CAP) against any cuts. Both France and Germany favour the introduction of conditionality, according to which the access to structural funds is linked to the respect for rule-of-law and the adherence to common migration policies. Some progress has been made in this regard, but changes are difficult to achieve in a short-term perspective and in view of the unanimity applied to decisions regarding the MFF.

In the following we shall turn to the issue of eurozone reform, including the creation of a eurozone budget, as well as the proper ways to deepen the banking union. We will subsequently describe negotiations concerning the MFF.

4.1 Eurozone reform: Improving the architecture

Many of the ideas discussed for the completion of a European Monetary Union (EMU) were already presented in the so-called Five Presidents' Report in 2015.³⁹ A fully fledged EMU would come into place by 2025, based on more binding convergence criteria. The Commission in its work programme for 2018 foresaw the transformation of the European Stability Mechanism (ESM) into a European Monetary Fund (EMF) under EU law. The EU budget would be given an EMU dimension with budget lines for structural reform assistance, a stabilisation function and a backstop for the banking union's resolution mechanism. By 2025, a European finance and economy minister would be created, possibly in the form of a Commission Vice President. The Commission was considering the introduction of majority voting in fields such as taxation.⁴⁰

As part of the debate on the future of Europe initiated in March 2017 with the Commission's White Paper on the Future of Europe,⁴¹ a specific Reflection Paper on the deepening of the EMU was presented.⁴² It elaborated on some of the themes presented in the Five Presidents' Report on the need to complete the EMU. The paper noted that a trend towards greater convergence in the eurozone during the first years of its existence had been broken by the economic and financial crisis after 2007. Underlying vulnerabilities in some member states pertaining to the financial sector, as well as a general loss of competitiveness, had been exposed. Divergences began to expand with the trend only slowly being corrected with the return of growth to the EU in 2016.

4.1.1 A eurozone budget

To the French president, the creation of a sizeable eurozone budget, based on its own sources of tax revenue, was essential to his pro-European presidential campaign in 2017. It represented a central point in negotiations with the new German government that eventually came into place in March 2018, six months after the 2017 German elections. By then, the drive towards deeper economic integration represented by Martin Schulz (at the beginning of 2017, the President of the European Parliament and later SPD's Chancellor candidate in the German elections) had given way to a more cautious mood in Berlin. The so-called New Hanseatic League, consisting of eight

fiscally conservative Northern European member states,⁴³ and encouraged by Germany, objected to the creation of new financial resources on top of already existing budgetary resources. Instead, they insisted on national responsibility for financial stability.

“[...] while the initial ambition had been to create a eurozone budget in the hundreds of billions of euros, single-digit sums now looked more likely.”

Negotiations between France and Germany in June 2018 produced the Meseberg Declaration, which lists numerous steps to be taken in order to “strengthen and deepen the Euro area further and make it a genuine economic union”.⁴⁴ At the December 2018 Euro Summit, compromises were made on some of the contentious issues, while solutions to others were postponed or simply folded into the overall negotiations on the MFF. Central to France was the decision to create a “budgetary instrument for convergence and competitiveness for the euro area”,⁴⁵ or a eurozone budget. However, while the initial ambition had been to create a eurozone budget in the hundreds of billions of euros, single-digit sums now looked more likely.

Although falling short of original ambitions to create substantial resources that could alleviate pressures on member states resulting from, for example, large-scale migration, the result was hailed in Paris as a major success and described by some in Berlin as a “huge German concession”. German civil servants described the envisaged eurozone budget as “OK”, albeit unnecessary because there was already a budget in place.⁴⁶

4.1.2 A stabilising function?

A joint Franco-German paper prepared for the Council meeting and building on the Meseberg Declaration stated that a eurozone budget could perform a stabilising function, especially as investments are often shed in case of pressure on national public finances.⁴⁷ The word “stabilising” was, however, absent from the Euro Summit formula. A proposal put forward by the Commission to create a stabilisation function in the order of 30 billion euros is being considered as a possible complement to the eurozone budget.

The features of a stabilisation function, including an unemployment insurance scheme, had been discussed at the ECOFIN meeting preceding the 2018 December Euro Summit, but no deal was reached and further deliberations were proposed.⁴⁸ To Germany, it was important that member states contribute to such a fund in good times in order to be able to draw from it in times of distress. This would shelter member states from the need to cut benefits in times of high unemployment, although the loans would have to be repaid. There should be no transfer union!⁴⁹

The eurozone budget in its current form does not contain any powerful counter-cyclical elements. The German Finance Minister and Vice-Chancellor Scholz in his speech at Humboldt University on 28 November 2018 declared that Germany could implement a sizeable national stimulus programme during the next crisis. This has been made possible by the fall of Germany’s public debt to 60% of GDP from 80% in the last crisis. Such a stimulus programme would benefit not only Germany, but also Europe, in the words of Scholz.⁵⁰ This represented implicit recognition that the state and use of the German surplus had ramifications well beyond Germany itself.

4.1.3 A Banking Union: Central to financial stability

The completion of the Banking Union has been a central matter for stabilising the eurozone and the EU as a whole in the case of renewed financial and economic disturbances.⁵¹ During the Greek crisis in 2012, the statement made by the Head of the European Central Bank (ECB) Mario Draghi that “the ECB is ready to do whatever it takes to preserve the euro”⁵² was essential to calming the markets. It would be more demanding to repeat the formula in the case of a destabilisation of (for example) the Italian banking sector, where so-called non-performing loans that are no longer served correspond to 11% of total loans. Italy is the eurozone’s third largest economy and its public debt, representing 130% of its GDP, adds to the sense of urgency of completing the Banking Union.

The long-term goal is to transform the European Stability Mechanism (ESM), the vehicle for assisting eurozone governments that find themselves in difficulties, into a European Monetary Fund (EMF) framed on the International Monetary Fund (IMF). The necessary short-term measures to get

there are, however, often controversial, with debates centring on relationship between public (sovereign) and private debt and the proper sequencing between the sharing and reduction of risks.

Considerable progress regarding the deepening of the Banking Union has been made thanks to the creation of a so-called Single Supervisory Mechanism (SSM) to supervise banks, a Single Resolution Mechanism (SRM) for crisis management and regulatory reforms aimed at making Europe's banks more resilient. Crisis management is backed up by the Single Resolution Fund (SRF), which is funded by the banks and should reach its target level of at least 1% of the covered deposits of all credit institutions within the Banking Union by the end of 2023. At this point in time, however, the SRF is still short of the resources deemed necessary to cushion the effects of a major banking crisis.⁵³ The Commission has proposed that the future EMF should serve as a backstop by providing a credit line or guarantees to the SRF as a last-resort insurance if resources available in the SRF are insufficient, thus emphasising the need to complete the SRF. The future arrangement, with its bail-in elements, would ensure, in the words of the German Finance Minister and Vice-Chancellor Scholz, that when the next crisis happens, it will not be the taxpayers who ultimately foot the bill, but the institutions that caused the crisis and their shareholders.⁵⁴

4.1.4 Euro Summit compromise

Discussions on a boost to lending options available for the ESM have centred on the right balance to be struck between risk reduction and risk sharing. Germany has emphasised the need for early risk reduction, in particular with regard to non-performing loans. Disagreements remain regarding whether the eurozone should impose losses on investors by insisting on restructuring the sovereign debt of governments applying for aid in a crisis. The so-called New Hanseatic League had in a paper called for the ESM to be given authority to assess the financial health of eurozone economies, powers that are currently held by the Commission. Formal tests of a government's debt sustainability and ability to repay will be made before aid is provided, mimicking the IMF's functions. Paris retorted that France and Germany had already agreed to an increased role for ESM, but that demands for debt restructuring as a condition for access to rescue funds would be unacceptable.⁵⁵

Given that no quick solution to the problem is likely to be found, a prolonged period of debating the right form of sequencing between risk reduction and risk sharing can be expected. The formula agreed at the 2018 December Euro Summit was:

1. We endorse the terms of reference of the common backstop to the Single Resolution Fund (SRF), which set out how the backstop will be operationalised, and anticipated provided sufficient progress has been made in risk reduction, to be assessed in 2020.
2. We also endorse the term sheet on the European Stability Mechanism (ESM) reform. On that basis, we ask the Eurogroup to prepare the necessary amendments to the ESM Treaty (including the common backstop to the SRF) by June 2019.
3. We look forward to the final adoption of the Banking Package and the non-performing loans (NPL) Prudential Backstop preserving the balance of the Council compromises. We call on advance work on the Banking Union and for ambitious progress by Spring 2019 on the Capital Markets Union, as outlined by the Eurogroup report to Leaders".⁵⁶

Governance issues related to the so-called backstop function animate Franco-German discussions. In the case of a financial crisis, decisions may have to be made overnight, a reason for delegating decision-making from the political ESM Board of Directors to the Managing Directors, in the view of France. Germany, anxious not to bypass the Bundestag and to infringe on relevant constitutional rulings, favours the political ESM Board of Directors. Compromises are sought through formulas for delegating authority from the Board of Directors to the Managing Directors.

According to plans to jointly develop a system of guaranteeing bank deposits, the European Deposit Insurance Scheme (EDIS) is essential to reinforcing the EMU. However, the format for doing so, again centring on risk sharing/reduction, represents another bone of contention between Germany and France. In Berlin, observers point to internal French divisions on the matter, with supposedly healthy French banks opposing the proposed scheme on the grounds that they would not want to expose themselves to risks emanating from the Italian banking sector.

Germany and France agree, jointly with the euro group, on the need to strengthen the international role of the euro, another manifestation of the call for greater European autonomy and sovereignty. The weight of the Euro area, representing 12% of World GDP and 36% in terms of global payments, calls for such a development.⁵⁷ In comparison, it can be noted that the US dollar corresponds to 40% of global payments. Rising tensions with the Trump administration regarding trade issues and the imposition of secondary sanctions resulting from US sanctions against Iran are said to render this all the more important. Through its Foreign Minister Heiko Maas,⁵⁸ Germany has proposed the creation of a European independent special payment channel, the so-called special purpose vehicle (SPV) to safeguard trade with Iran. The UK, France and Germany have jointly launched a special payment mechanism called the Instrument in Support of Trade Exchanges (INSTEX). It is expected to receive the formal endorsement of all 28 EU members.⁵⁹

“Germany and France agree, jointly with the euro group, on the need to strengthen the international role of the euro [...]”

4.2 A common tax base?

The Meseberg Declaration had proposed that resources for the budget would come from national contributions, allocation of tax revenues and other European resources. More specifically, it declared that France and Germany would jointly support and accelerate the European project to harmonise the corporate tax base in Europe and to reach an EU agreement on fair digital taxation by 2018. In the end, Germany and France could only agree on a 3% tax applied to advertising revenues while postponing the tax on data sales. In the meantime, one should strive for a global agreement in the framework of the Organisation for Economic Co-operation and Development (OECD) with the wider aim to agree on an international minimum level of taxation. Short of such an agreement, the EU would revert to the issue in 2021.

In Paris, the conclusion was drawn that the Germans had not made up their minds regarding the taxation of American technological giants and that they feared wider repercussions with the

Americans, threatening to slam 25% tariffs on the sales of German cars. This was, unsurprisingly, denied by Berlin, pointing to difficulties of harmonising European taxes.⁶⁰ Resistance on the part of the Nordic member states, including Sweden, which have defended the principle of taxing headquarters instead of sales, contributed to the lack of overall agreement at the end of 2018, as had been foreseen by the Meseberg Declaration.

Germany and France support the Commission's proposal for a common corporate tax base in the EU with the aim of preventing companies from taking advantage of differing tax rates in Europe. France had suggested the introduction of a financial transaction tax that could contribute to financing the EU's budget. The German Finance Minister and Vice-Chancellor Scholz declared that Germany was prepared to support the French version of a financial transaction tax across the entire EU. For the purpose of greater social cohesion in the EU, Germany stated its readiness to discuss a basic social system and the introduction of a European legal framework of minimum wages corresponding to at least 60% of the national medium wage. This would be a means of delivering on the European Pillar of Social Rights.⁶¹

4.3 The MFF: A solution during the German Presidency?⁶²

The EU's next long-term budget will cover the period 2021-2027. Discussions centre on issues such as the size of the budget, the transfer of some resources away from agriculture and structural funds to migration and external security, and the eventual imposition of so-called conditionality, linking resource allocation to the adherence to common policies on the rule-of-law and migration.

In May 2018, the Commission presented “A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027”,⁶³ capturing in its title the political priorities described at the beginning of this analysis. According to the proposed timetable, maximum progress on the MFF was expected at the European Summit to be held in Sibiu on 9 May 2019. A final agreement should be reached (with an expected new Commission in place) at the European Council in October of the same year.

As indicated earlier in this analysis, Berlin fears that Germany will be expected to make up for part of the loss of British contributions towards the

MFF, corresponding to around 7-10%, or some 10-15 billion euros. The general view presented by the Commission is that the loss should be covered by a mixture of cuts to the budget and new contributions. According to the pessimistic assessment made in Berlin, the first substantial discussion on the MFF would be held at the Council meeting in February 2020, with a final decision being made at the European Council in October 2020 during the German Presidency.⁶⁴

4.3.1 German priorities

German priorities in negotiations over the MFF are described as: 1) The size of the next seven-year budget; 2) the connection to policies; and 3) the shift to new policy areas such as migration and external security.⁶⁵

In negotiations with France, the first point is of paramount importance to Germany. According to the Commission's proposal, the next MFF would be worth some 1,161 billion euros (in commitments, 2018 prices), corresponding to 1.14 % of the EU 27 gross national income (GNI).⁶⁶ This represents an increase relative to the current figure of 1.04%. To this amount should be added the so-called Juncker plan of 315 billion euros in investment and the European Investment Bank. Berlin is trying to guess how low the French are prepared to go, with the span of negotiating positions ranging from 1.0% (the German starting point, although the Chancellor is said to be flexible) to 1.3%. The differences may look small, according to German observers, but the German yearly contribution could vary between 30-50 billion euros. Germany has been generous, in the view of Berlin, regardless of political regime, but what if resources are becoming constrained? Germany's internal costs for renewable energies could amount to 30 billion euros and for migration/integration to 20 billion euros.⁶⁷

4.3.2 French priorities

In Paris, one points to the fact that France is a net contributor to the MFF and is in that sense like-minded with the fiscally restrictive Nordic countries, at least if the Finance Ministry (well-represented in the Prime Minister's office, Matignon) were to have its way. The French President had, in his landmark Sorbonne speech in September 2017, endorsed the idea of modernising the EU budget with more resources dedicated to areas such as defence and migration. The proposals

for MFF put forward by the Commission reflect the modernising mood, but CAP (part of "Natural resources and environment") still corresponds to 30% of the total budget, while regional policies (under the title of "Cohesion and values") make up 35%. The Commission had proposed cuts in the order of 15% and 10%, respectively.⁶⁸

"A subset of Franco-German negotiations concerns the size of the rebates supposed to disappear as the UK leaves the EU."

France continues to prioritise the CAP and resists the idea of any cuts. Germany is described as a "passager clandestine" (or clandestine free-rider) on the issue as many German farmers benefit from the fund. Berlin complains that the German and French ministries for agriculture have teamed up in a joint position on the need to defend the CAP. It is in this context important to note that national positions on different policy areas at this point should be regarded as a jockeying for positions by individual ministries, rather than solidified national positions that may emerge only in the final stages of negotiations when heads of government become involved.

A subset of Franco-German negotiations concerns the size of the rebates supposed to disappear as the UK leaves the EU. France would like to see them abolished while Germany is seeking compensation as the change will disproportionately affect it. France says that it recognises the problem and is prepared to establish a formula for burden-sharing in the form of a lump sum in the order of 5 billion euros, rather than an institutionalised rebate. It is, in the view of French observers, important to treat Germany fairly in order to facilitate the financial burden falling on German shoulders as a result of Brexit. For Germany, the question of compensation for lost rebates is linked to the possibility of modernising the EU budget, the topic of the following section. The greater the modernisation, the less Germany will insist on full compensation for the abolishment of rebates, seems to be the underlying logic.⁶⁹

Another issue on the Franco-German agenda pertains to administrative expenditures (part of the item "European public administration", 7% of the budget). Here, France holds the tougher line and

would like to see reductions as a means of finding savings in the budget, while Germany merely asks for limitations. Security/defence correspond to 2% of the budget. This contains the European Defence Funds (EDF) discussed in Section 3 of this analysis.⁷⁰ Paris, in addition, prioritises the so-called European Peace Facility (EPF) (proposed to increase from 3.5 billion euros to 10 billion euros, but outside the budget) on the grounds that Africa will continue to absorb substantial EU resources dedicated to the EU's external affairs.

4.3.3 Structural funds and conditionality

Germany would like to have seen a shift in resources from traditional items to new, modernising items, but the proposed changes have been financed through additional resources allocated to the MFF on top of the budget. This should, however, not come as a surprise, because this is the *modus operandi* of the EU. Major posts in the budget are the result of agreements being reached over years, often reflecting the interests of newcomers to the EU. It is consequently difficult to achieve major changes in short periods of time.⁷¹ The fact that the budget is adopted by unanimity voting further contributes to slow progress.

Disappointment reigns in Berlin in view of what is perceived as a missed opportunity. Germany now stresses the importance of modernising the way the cohesion funds are spent through the establishment of a linkage between the budget and economic coordination. Country-specific recommendations should be put in place concerning (for example) pension systems and the flexibility of the labour market, and the results should be linked to the European semester. In the current system, member states receive their money, spend it and report back on national structural programmes that they have elaborated. But this does not add up to policies, according to German representatives.⁷²

Berlin would nevertheless like to see incentives rather than punishment being put in place in order to promote modernisation, in line with proposals advanced by the Commission. The hope is that the introduction of a "structural reform delivery tool" will strengthen the connection between the budget and macro-economic policies over a period of 10-20 years. In addition, respect for the rule-of-law has been introduced as an element of conditionality. Berlin would also like to see migration policies added to the list. In spite of a less stringent

conditionality than Germany had sought, and the perceived lack of effectiveness in the application of structural funds, cohesion funds are considered largely beneficial to European (including German) business investments made in Central and Eastern Europe.⁷³

France and Germany seem to be broadly aligned on issues concerning conditionality. Nevertheless, Paris perceives a linkage between the conditionality in the application of structural funds, and the strive for tax and social convergence in the eurozone. The amount received by Hungary from structural funds roughly corresponds to tax reductions introduced by the Hungarian government. "Is the EU subsidising Hungarian tax cuts through its structural funds?" This is the rhetorical question being asked in Paris. The EU's structural funds are supposed to diminish differences between the West and the East, but the pressures applied in the form of conditionality are not very efficient, according to Paris. It is generally a French priority to keep Italy on the right side in MFF negotiations and to prevent populist affinities from trumping good policies.

"Both Paris and Berlin seem resigned to modest expectations with regard to the introduction of conditionality in the MFF."

Both Paris and Berlin seem resigned to modest expectations with regard to the introduction of conditionality in the MFF.

5 The Aachen Treaty: Adjusting the bilateral relationship to the 21st century

On 22 January 2019, the German Chancellor and French President signed the Aachen Treaty in the German city of Aachen, or Aix-la-Chapelle in French. In the 9th century, this was the seat of King Charlemagne and centre of the Holy German Empire. Today it is a symbol of a unified Europe.

The Aachen Treaty updates the Élysée Treaty signed in 1963, with the purpose of solidifying reconciliation between the wartime enemies (West) Germany and France. To this aim, border regions between the two countries are integrated, military forces joined, the convergence of socio-economic

models sought in the context of European integration, cultural exchanges intensified, common institutions strengthened, and so forth. The new Treaty brings bilateral cooperation to a new level, and most importantly places it in the current context of tackling internal and external challenges to the EU.

“The new Treaty brings bilateral cooperation to a new level, and most importantly places it in the current context of tackling internal and external challenges to the EU.”

The text provides general political guidance for joint Franco-German executive powers to elaborate a working plan for the translation of guidelines into concrete proposals. Some of the new elements have already been considered in this text. Among the more salient ones are proposals in the field of security and defence, bilateral security guarantees in the context of NATO's Atlantic Treaty and the EU's Lisbon Treaty, the search for a common approach to export policies for defence material, and the centrality of the already existing Franco-German Defence and Security Council as an instrument of closer coordination between national policies and positions.

France and Germany are joined by a multitude of bilateral institutions, stretching from governments, via parliaments, to border regions and schools. Germany and France have, for example, tied themselves together through the exchange of large numbers of secondments to each other's respective ministries. Ideally, this should provide the early-warning system of diverging opinions to be nipped in the bud. All too often, however, the presence of secondments seems to make capitals complacent in the conviction that the position of the other capital has automatically been absorbed. Secondees, on the other hand, often try too hard to blend into the other country's identity and positions. It is of course impossible for an outsider to assess the real state of affairs, but these were the impressions described by some interviewees.

Franco-German negotiations cover vast areas of complicated and interlinked issues central to the development of what is arguably the world's most complicated institution, the EU. It should therefore

come as no surprise that the two negotiating parties at times find it difficult to cut through the haze of the counterpart's seemingly incomprehensible thinking and institutional set-up. Furthermore, and as indicated in this analysis, France and Germany are no political monoliths, but struggle to identify and reach compromises within the national context. During the interviews in Paris and Berlin, both French and German representatives complained about the difficulty of reading one another. Some even argued that the other party was playing its institutional system against them in negotiations, and were surprised when they were informed that similar views had been expressed in the other capital.

6 Conclusions

France and Germany share the conviction that external and internal pressures require them to assume greater responsibility for protecting and deepening European integration. They agree on the need to affirm European sovereignty in a more contested world. Germany leads in pushing for greater efficiency in external policies through the institutional rewiring of the EU. France protects national autonomy regarding decision-making on security matters and deflects German demands for sharing its seat on the UN SC. Both France and Germany realise the need for Europeans to assume greater responsibility for European security, but have differing interpretations of the concept of European strategic autonomy.⁷⁴

They agree, for example, on the importance of protecting the European Defence Industrial and Technological Base (EDTIB) in view of increased global competition⁷⁵ and the need to strengthen the international role of the euro. European inaction during the wars in the former Yugoslavia taught Europeans the lesson that they should be able to act on their own. France emphasises the importance of European emancipation in general, while Germany, attentive to Central and Eastern European views, is anxious not to precipitate diminished American engagement. It would, nevertheless, be wrong to ascribe Franco-German differences to traditional pro- and anti-Gaullist positions, where European autonomy and trans-Atlanticism are perceived as mutually exclusive. A changing context instigates both French and German positions to evolve.

In the economic area, both countries are united in the realisation that the architecture of the

eurozone should be strengthened before a new economic downturn or financial crisis originating, for example, in the Italian banking sector results in a run on the euro. Classical differences remain with regard to the right balance to strike between risk-sharing/risk-reduction in the banking sector. Progress regarding decisions on the proper sequencing between the two in deepening the Banking Union is slow. France would like to have seen a large eurozone budget that could shift resources in case of, for example, a migration crisis affecting a member state. The rather limited eurozone budget now envisaged contains no ambitious stabilising element. It should be noted that current arrangements are a work in progress and that Germany, while resisting features of a transfer union, agrees in principle on the need for counter-cyclical policies.

France and Germany are in general agreement on the need for tax policies and tax bases to converge, both as a means of improving the euro architecture and to avoid nefarious tax competition between member states. However, in the attempt to tax American technological giants, France and Germany could only agree on taxing advertising revenues, referring the further elaboration of tax policies on data sales to the OECD with the caveat that the EU would return to the issues in the absence of international agreement. The issue is complicated, but it is fair to assume that German vulnerability in view of eventual American tariffs on German cars also played a role in German calculations.

In negotiations over the MFF, Germany carefully watches the percentage of EU GDP to be determined, but seems resigned with the prospect of having to pay up for a major part of the hole expected to be left by the British. The fate of the rebates is a subset of this issue, with France and Germany debating the proper way of giving the latter a fair deal. While some modernising elements in the form of external security and migration have been added to the budget, CAP (defended by France) and structural funds remain the bulk of resources. Elements of conditionality linked to the rule-of-law and migration have been introduced, but both Berlin and Paris have limited expectations when it comes to the ability to achieve short-term improvements in these areas.

France and Germany have in principle, and increasingly forced by social developments,

recognised the need to square greater European global competitiveness with the importance of securing social cohesion. Continental models centre on the definition of the proper level of minimum wages as part of national medium wage.

“What seems clear, however, is that Germany is unlikely to pick up the integrationist banner and confront its opponents in the same direct manner as France.”

The campaign for European elections in May 2019 is sometimes described as an emerging battle between integrationist and pro-European forces headed by France and its President, with populist and nationalist forces lining up on the other side with a programme to change the EU from within. Their numbers in the next European Parliament are likely to increase, but are difficult to ascertain at this point. It is debatable whether it is wise for the French President, now distracted by domestic policies, to assume the challenge presented to him by representatives of the other side of the divide, or whether to accept that the divide be fortified.

What seems clear, however, is that Germany is unlikely to pick up the integrationist banner and confront its opponents in the same direct manner as France.⁷⁶ While tacitly approving of the need to clarify positions and make progress on EU matters (albeit not always agreeing with France on the appropriate ways to do so), Germany expects itself to be left with the post-election task of assembling dispersed members of the flock, some of which can be found in its immediate Central and Eastern European neighbourhood. The coming months will clarify the contours of Europe's political landscape and the roles to be played by France and Germany. How they do that will matter greatly to the rest of the EU's member states.

Objections have been raised against the weight of France and Germany (and the UK) in internal EU affairs. The importance of capitals at the expense of common EU institutions is another point of discontent. There are two ways of looking at this: as a predestined march towards the establishment of a more pronounced hierarchy of nation states within the EU, as a new Concert of Europe, or as a natural aspect of the reorganisation of the EU

resulting from the combination of external and internal shocks, some of which concern policy areas such as fiscal matters and migration, where EU competencies have not yet been fully established and where the initiative resides with capitals. Furthermore, global society is currently undergoing a counter-reaction to negative aspects of globalisation, where nation states attempt to regain some control. Some of this is natural, while part results in nationalism and xenophobia. Finding the correct political answers to concrete problems will be at the heart of overcoming the current turmoil in and outside the EU.

This analysis sides with the latter form of interpretation. In this case, instead of fearing the strength of France and Germany, one should fear their failure to reach an understanding concerning central EU affairs. It is true that Franco-German understanding is insufficient to carry the whole of the EU. This makes it all the more important for other member states to raise their voices in the search for solutions that can eventually be translated into common policies to be implemented by common EU institutions. We are, for better or for worse, going through a formative period of European and global affairs.

End notes

¹ The author is immensely grateful to civil servants in government offices, EU institutions and analysts in think tanks for having taken the time to explain the position of respective countries and institutions. The Swedish Embassies in Paris and Berlin and the Swedish Permanent Representation to the European Union were helpful in providing analytical background and facilitating contacts. Interviews were semi-structured with similar sets of questions being asked to individuals with roughly the same sorts of responsibilities in order to allow for comparison. Interviews were made for background and not for quotation. Altogether, 20 interviews were made. In Paris, 10–11 October 2018: Ministry for Europe and Foreign Affairs, Ministry of the Economy and Finance, Ministry for the Armed Forces, Cabinet of the Prime Minister, The French Institute for Foreign Affairs, IFRI, The European Institute for Security Studies, EUISS, The Swedish Embassy. In Berlin, 12–13 November 2018: Federal Ministry of Finance, Federal Foreign Office, Konrad-Adenauer-Stiftung, The German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik, SWP), The Swedish Embassy. In Brussels, 26–27 November 2018: the EU institutions, the Swedish Permanent Representation to the European Union. In Stockholm, June 2018: Swedish Government Offices. It was a rewarding exercise, as hopefully reflected in this analysis. Any misunderstandings are, of course, the author's own responsibility.

² The European Coal and Steel Community (ECSC) was created after World War II to regulate industrial production under a centralised authority. It was formally established in 1951 by the Treaty of Paris, signed by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. The ECSC was the first international organisation to be based on the principles of supranationalism, and initiated the process of formal integration, which ultimately led to the European Union. The ECSC was authored by Jean Monnet, a French political economist and diplomat, and proposed by French foreign minister Robert Schuman on 9 May 1950 as a way to prevent further war between France and Germany.

³ German Federal Government (2018). *Meseberg Declaration. Renewing Europe's promises of security and prosperity*. <https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806>

⁴ French Ministry of Foreign Affairs (2017). *President Macron's Initiative for Europe: A sovereign, united, democratic Europe*. <https://www.diplomatie.gouv.fr/en/french-foreign-policy/european-union/events/article/president-macron-s-initiative-for-europe-a-sovereign-united-democratic-Europe>

⁵ Gutschker, Thomas and Lohse, Eckart (2018). Kanzlerin Merkel im Gespräch. Europa muss handlungsfähig sein – nach außen und innen. *Frankfurter Allgemeine Sonntagszeitung*, 3 June.

⁶ Interviews in Berlin, November 2018.

⁷ The Normandy format is a diplomatic group of senior representatives of Germany, Russia, Ukraine and France, negotiating ways and forms for ending the war in eastern Ukraine and to continue sanctions against Russia.

⁸ Interviews in Brussels, November 2018.

⁹ European Commission (2018). *State of the Union 2018 – Annual State of the EU address by President Juncker at the European Parliament*. https://ec.europa.eu/commission/priorities/state-union-speeches/state-union-2018_en

¹⁰ Interviews in Paris, October 2018.

¹¹ Interviews in Stockholm, June 2018; Statsrådsberedningen (2018). Fakta-PM om EU-förslag 2018/19:FPM13; Utrikesutskottet (2018). Utrikesutskottets utlåtande 2018/19:UU4 om Kommissionens arbetsprogram.

¹² Interviews in Berlin, Ibid.

¹³ Wintzek, Olaf and Rieck, Christian E. (2018). *Brussels' new telephone number? – How a European Security council could strengthen EU foreign policy*. Berlin: Konrad-Adenauer-Stiftung, August.

¹⁴ Delattre, François (2018). France and Germany will fight to preserve multilateralism. *Financial Times*, 12 August.

¹⁵ Interviews in Berlin, November 2018.

¹⁶ Ibid.

¹⁷ Interviews in Paris, October 2018.

¹⁸ European Commission (2018). *State of the Union 2018*. Ibid.

¹⁹ "A secure Europe in a better world", European Security Strategy, Brussels 12 December 2003.

²⁰ Operation Concordia in the Republic of Macedonia, to be followed by another six operations in Africa (Artemis, RD Congo, Chad/CAR), the Balkans (Althea in Bosnia-Herzegovina), the Indian Ocean (Atalanta) and the Mediterranean (Sophia). Three of them are still running: Althea, Atalanta and Sophia.

²¹ The military posture is called Enhanced Forward Presence.

²² European Commission (2016). *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy*. http://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf

²³ Ibid.

²⁴ European Commission (2017). *Reflection paper on the future of European defence*. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-defence_en.pdf

²⁵ French government (2018). Discours du Président de la République à la conférence des Ambassadeurs, 27 août 2018, <https://www.gouvernement.fr/partage/10454-discours-du-premier-ministre-a-la-conference-annuelle-des-ambassadeurs-et-des-ambassadrices>

²⁶ Council of the European Union (2017). *Council conclusions establishing Permanent Structured Cooperation (PESCO) and determining the list of Participating Member States*, 8 December. <http://data.consilium.europa.eu/doc/document/ST-15511-2017-INIT/en/pdf>

²⁷ Council of the European Union (2018). Permanent Structured Cooperation (PESCO) updated list of PESCO projects - Overview - 19 November 2018. <https://www.consilium.europa.eu/media/37315/table-pesco-projects-updated.pdf>

²⁸ The sum represents a proposed increase from the current 3.5 billion euros. EPC is meant to finance the so-called Athena mechanism that covers part of the costs of the EU's operations, the smaller sum, and support operations carried out by the AU and other regional organisations. It is situated outside of the budget due to its defence implications.

²⁹ International Institute for Strategic Studies (2018). *Strategic Survey 2018: The Annual Assessment of Geopolitics*. London: IISS.

³⁰ Stockholm International Peace Research Institute (2017). *Trends in World Military Expenditure*. Fact Sheet. Stockholm: SIPRI.

³¹ French Ministry of Foreign Affairs (2017). *President Macron's Initiative for Europe: A sovereign, united, democratic Europe*. <https://www.diplomatie.gouv.fr/en/french-foreign-policy/european-union/events/article/president-macron-s-initiative-for-europe-a-sovereign-united-democratic-europe>

³² According to the Letter of Intent between the defence ministers of Belgium, Denmark, Estonia, France, Germany, the Netherlands, Portugal, Spain and the United Kingdom.

³³ Interviews in Paris, October 2018.

³⁴ Interviews in Berlin, November 2018.

³⁵ Interviews in Paris, October 2018.

³⁶ Interviews in Berlin, November 2018.

³⁷ Winter, Gaëlle (2017). *Garantir l'ambition d'une relation franco-allemande de défense plus étroite*. Décembre 2017. Paris: Fondation pour la Recherche Stratégique.

³⁸ Interviews in Paris, October 2018.

³⁹ President of the European Commission Jean-Claude Juncker, President of the European Council Donald Tusk, President of the Eurogroup Jeroen Dijsselbloem, President of the European Central Bank, ECB, Mario Draghi, President of the European Parliament Martin Schulz.

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- ⁴² European Commission (2017). *Reflection paper on the deepening of the economic and monetary union*. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf
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- ⁴⁵ European Council (2018). Euro Summit meeting (14 December 2018) – Statement, EURO 503/18.
- ⁴⁶ Interviews in Paris, October 2018, and Berlin, November 2018.
- ⁴⁷ Chazan, Guy and Khan, Mehreen (2018). Merkel and Macron make eurozone budget breakthrough. *Financial Times*, 16 November.
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- ⁴⁹ Interviews in Berlin, November 2018.
- ⁵⁰ Federal Ministry of Finance (2018). *It is in our own interest to ensure that Europe is strong, sovereign and fair*, keynote speech 28 November 2018 by German finance minister and vice-chancellor Olaf Scholz on Europe at the Humboldt University in Berlin. <https://www.bundesfinanzministerium.de/Content/EN/Reden/2018/2018-11-28-Europe-speech-HU-Berlin.html>
- ⁵¹ The Swedish Government has appointed a public review, asked to report by November 2019, of the consequences for Sweden of eventually joining the Banking Union, and follows closely the development of a Capital Markets Union.
- ⁵² European Central Bank (2012). Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London 26 July 2012, <https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html>
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- ⁶¹ Federal Ministry of Finance (2018). *It is in our own interest to ensure that Europe is strong, sovereign and fair*, Ibid.
- ⁶² For background on the EU-budget, see: Eriksson, Jonas (2018). *EU:s budget: historia och framtid*. Stockholm: SIEPS; Kaiser, Robert and Prange-Gestöhl, Heiko (2017). *The Future of the EU budget. Perspectives for the Funding of Growth-Oriented Policies post-2020*. Stockholm: SIEPS; Kölling, Mario (2017). *Policy conditionality – a new*

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⁶⁴ Interviews in Berlin, November 2018.

⁶⁵ Ibid.

⁶⁶ Statsrådsberedningen (2018). Den fleråriga budgetramen 2021–2027. Fakta-PM om EU-förslag 2017/18:FPM99.

⁶⁷ Interviews in Berlin, November 2018.

⁶⁸ European Parliament Think Tank (2018). *The Juncker Commission's ten priorities*, Ibid.

⁶⁹ Sweden, a net contributor and receiver of rebates, advocates a limit of 1% of EU GDP to the budget and the retention of rebates. Short of this, Sweden's contribution is expected to increase with 15 billion kronor, or 35%, on a yearly basis.

⁷⁰ All figures concerning the MFF are derived from European Parliament Think Tank (2018). *The Juncker Commission's ten priorities*, Ibid.

⁷¹ Eriksson, Jonas (2018). *EU:s budget: historia och framtid*. Stockholm: SIEPS.

⁷² The European Semester provides a framework for the coordination of economic policies across the European Union. It allows EU countries to discuss their economic budget plans and monitor progress at specific times throughout the year.

⁷³ Interviews in Berlin, November 2018.

⁷⁴ Fortunately, there are no formal EU definitions of the seemingly overlapping concepts of “strategic autonomy” and “European sovereignty”. This analysis has sought to highlight examples of the pragmatic implementation of the concepts rather than aiming to clarify the existing and possibly premeditated “strategic ambiguity” reigning in this area. Moravcsik's concepts of “delegated sovereignty” to supranational institutions and “pooled sovereignty” to intergovernmental bodies as a means of governments to tie domestic actors' and future governments' choices have become central to describing the EU's development (see Andrew Moravcsik (1999). *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht*. London: UCL Press.).

⁷⁵ France and Germany have presented an industrial strategy. Chazon, Guy (2019). *Altmaier urges EU to protect technology from Chinese Rivals*. Financial Times, 17 November. <https://www.ft.com/content/6757ca9a-3048-11e9-8744-e7016697f225>

⁷⁶ President Macron's publication of the article “For European renewal” in 30 European newspapers on 4 March, 2019, represents an example of this. Élysée (2019). *For European renewal*. <https://www.elysee.fr/emmanuel-macron/2019/03/04/for-european-renewal.en>