

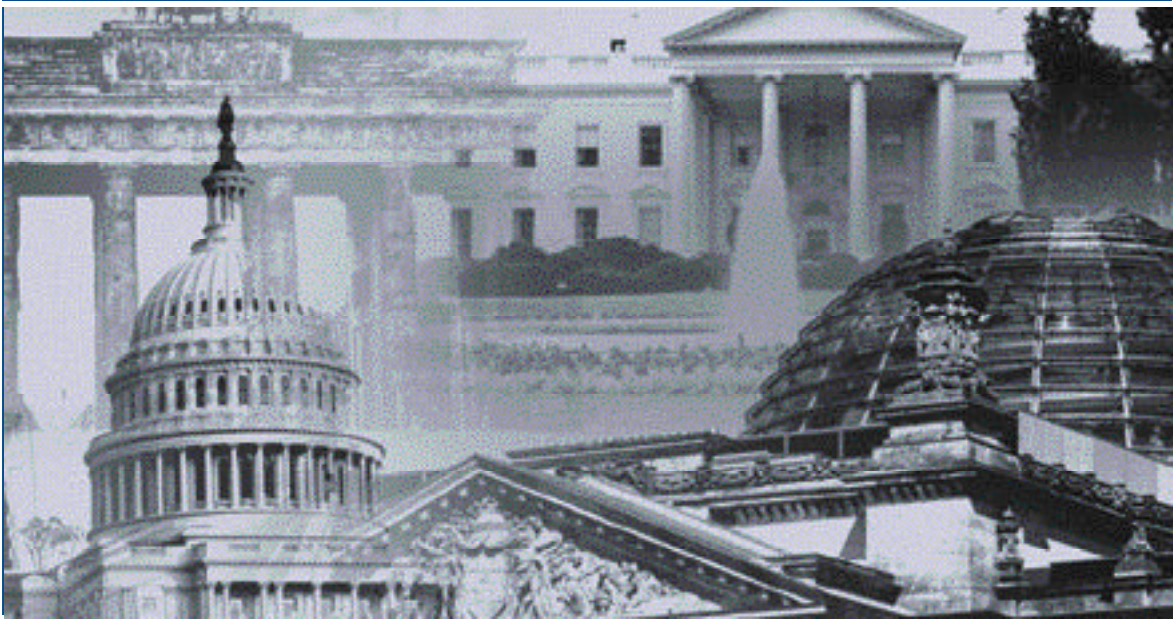


PROSPECTS FOR THE
FRANCO-GERMAN RELATIONSHIP:
THE ELYSÉE TREATY AND AFTER

Robert Graham, Haig Simonian

The American Institute for Contemporary German Studies

The Johns Hopkins University



AICGS POLICY REPORT #4



PROSPECTS FOR THE
FRANCO-GERMAN RELATIONSHIP:
THE ELYSÉE TREATY AND AFTER

Robert Graham
Haig Simonian

AICGS POLICY REPORT #4

The American Institute for Contemporary German Studies (AICGS) is a center for nonpartisan, advanced research, study, and discourse relating to the Federal Republic of Germany, its politics, economy, culture and society. Founded in 1983, AICGS has been a premier source of research and analysis for the policymaking and policy-advising communities in the public and private sectors. Drawing on an international network of scholars and specialists, the Institute has consistently generated in-depth, nonpartisan assessments of Germany's policy choices and developments and their impact on the transatlantic dialogue.

Affiliated with the Johns Hopkins University, AICGS provides a comprehensive program of public fora, policy studies, research reports, and study groups designed to enrich the political, corporate, and scholarly constituencies it serves.

Executive Director: Jackson Janes

Board of Trustees, Cochair: Fred H. Langhammer

Board of Trustees, Cochair: Dr. Eugene A. Sekulow

The views expressed in this publication are those of the author(s) alone. They do not necessarily reflect the views of the American Institute for Contemporary German Studies.

©2003 by the American Institute for Contemporary German Studies
ISBN 0-941441-70-9

Additional copies of this Policy Report are available for \$5.00 to cover postage and handling from the American Institute for Contemporary German Studies, Suite 420, 1400 16th Street, N.W., Washington, D.C. 20036-2217. Telephone 202/332-9312, Fax 202/265-9531, E-mail: info@aicgs.org Web: <http://www.aicgs.org>

CONTENTS

Foreword.....	v
About the Authors.....	vii
INTRODUCTION.....	1
A LOOK BACK.....	3
THE IMPACT OF REUNIFICATION.....	5
WHERE ON FROM HERE: EU ENLARGEMENT.....	9
INSTITUTIONAL REFORM.....	11
DEFENSE.....	13
THE BILATERAL RELATIONSHIP: CULTURE.....	14
BUSINESS LINKS.....	15
CONCLUSION.....	17

FOREWORD

For over four decades, the Franco-German partnership has lain at the heart of European integration. Despite far-reaching geopolitical changes since 1989, France and Germany will continue to play a decisive role in shaping an evolving European Union. In the coming years, the EU must complete the complicated task of integrating the ten accession states agreed at the December 2002 Copenhagen summit into a larger institutional structure. Additionally, the EU will be faced with the multiple challenges of reforming its institutions, managing thorny budgetary trade-offs, and defining its role in the world. A revitalized Franco-German tandem could provide new momentum to the project of European integration. Alternatively, if the Franco-German relationship falters, Europe could be rendered rudderless, with profound consequences for transatlantic relations and for the ability of France, Germany, and the United States to cooperate in meeting the global challenges to their mutual security and well being.

To mark the fortieth anniversary of the Elysée Treaty, Robert Graham, Paris Bureau Chief for the *Financial Times*, and Haig Simonian, Chief German Correspondent for the *Financial Times* in Berlin, take stock of this critical relationship, tracing its evolution over the past forty years and considering its prospects for the future. Graham and Simonian's analysis underscores the central role of France and Germany to the development of Europe, but suggests that the Franco-German relationship is still undergoing transformation due to changes in the post Cold War environment. The future development of Franco-German relations is clouded by uncertainty, amid strong elements of continuity.

This report is being published in conjunction with a conference, "Beyond the Elysée Treaty: The Future of Franco-German Relations," held on January 17, 2003 in Washington, D.C. The conference was organized by AICGS and the Center on the United States and France, the Brookings Institution, with the support and cooperation of the German Embassy and French Embassy in Washington, D.C., Lufthansa German Airlines, and the Robert Bosch Foundation.

Both the report and conference are part of a two-year effort of AICGS and the Brookings Institution to monitor and assess the implications of

changes in the Franco-German relationship for U.S.-European relations. The project involves a series of workshops with U.S. and European policy experts, publications and essays, and policy briefings to explore key issues in three areas: the European institutional reform debate and differing visions of Europe; economic policy; and foreign and security policy. The project is intended to provide ongoing analyses of important developments in Franco-German relations during this critical period of transition and to inform the American policy community about the implications for U.S. policy and transatlantic relations. The effort is made possible through the generous support of the Robert Bosch Foundation. The project and this publication are part of the Institute's on-going research on the role of "Germany in Europe" and on the broader transatlantic relationship. We hope this report will help to inform the ongoing debate on the future of U.S.-European relations.

Cathleen S. Fisher
Associate Director
AICGS

ABOUT THE AUTHORS

Robert Graham is the Paris Bureau Chief for the *Financial Times*. He is the FT's longest serving foreign correspondent whose postings include Madrid, Rome, and Tehran. Over the past thirty years he has reported from most parts of the world on an extensive range of topics that have reflected the FT's evolving interests round the globe—from Middle East oil politics to Latin American debt, from the creation of Bangladesh to Czechoslovakia's "velvet" revolution. He is the author of two critically acclaimed books—*Iran: The Illusion of Power*, which foreshadowed the Shah's downfall; and *Spain: Change of a Nation*, which charted the transition to democracy from the Franco regime. The main factors influencing Graham's coverage of France and Europe are the impact of the euro on growing cross-border mergers, the changes in the crucial Franco-German axis as well as transatlantic frictions over trade, security, and EU enlargement issues.

Haig Simonian studied Philosophy, Politics, and Economics at Oxford, where he stayed on to write a doctoral thesis on Franco-German relations at St. Antony's College, subsequently published by Oxford University Press. After a brief and unhappy stint as an investment banker, he went into journalism in 1984, working alternatively for *The Economist* and the *Financial Times*. He was in Frankfurt in the late 1980s covering finance for the FT, then in Milan for four years following Italian business. After a brief return to *The Economist* as its Paris-based European Business Correspondent, he went back to the FT first as motor industry specialist and, since March 1999, as Chief German Correspondent, based in Berlin.

INTRODUCTION

Sometimes the Franco-German motor irritates people (in Europe); and one hears or reads such and such a criticism on the subject as though there was a will to act in a hegemonic way, forcing everyone else to accept what France and Germany decided together. This could not be further from our thoughts and behavior.

Since the creation of the European Union, when we began as six member states, experience has always shown that when France and Germany got along together, the construction of Europe progressed—with greater or less difficulties. But it nevertheless developed.

On the other hand, if France and Germany could not get along, the construction of Europe quite simply stopped. Our partners could see this perfectly well for themselves. Thus while they sometimes were upset to see the Franco-German motor acting in too dynamic a fashion, once this motor ran out of steam or broke down for one reason or another, they would rush to us saying: “but why are you letting this happen—it is your responsibility: you can’t do this!” They know full well how things are: that it is not a political problem but a mechanical one. The construction of Europe stops if we can’t get along.

(Jacques Chirac press conference, Nantes, November 23, 2001 following the 78th Franco-German summit.)

Viewed from any perspective, the reconciliation between France and Germany after two bitter world wars has been a remarkable chapter in European history.

The close working relationship established between the continent’s two biggest nations has been at the heart of Europe’s prosperity and stability for the past five decades. It has also been the driving force first behind the creation of the European Economic Community, the subsequent European Union, and the commitment to monetary union leading to the introduction of the euro.

Most recently the Franco-German entente was instrumental in clearing the obstacles to agreement at the historic Copenhagen summit in December

2002, which paved the way for the bold—and still uncertain experiment that will enlarge the EU from fifteen to twenty-five members, embracing the eastern European countries of the old Soviet Bloc.

But the relationship has rarely been easy between these two nations that enjoy such divergent histories and possess such opposite political systems. Postwar Germany opted for a parliamentary democracy within a federal system that devolved considerable power to the *Länder*. The French Fifth Republic created a presidential system, a sort of republican monarchy, in a highly centralized state.

On occasions there have been attempts to set up other alliances involving different balances of power within Europe. These revolved around the incorporation of Britain: either at the level of a Franco-British partnership or with all three coordinating more tightly. But Britain's ambiguous attitude towards European integration, combined with its strong Atlantic links, have invariably frustrated such ventures.

Even on such a sensitive issue as defense, the Franco-German alliance has survived a fundamental difference of view towards Nato. Successive French governments have never completely revoked General de Gaulle's withdrawal in 1966 from Nato's military structure. By contrast, Germany has remained a loyal member, grateful for the U.S. protective umbrella over Europe.

Yet can this relationship be sustained into the twenty-first century?

The EU has entered a new phase with enlargement. Probably, membership will extend beyond the ten accession countries agreed at Copenhagen and could well embrace Muslim Turkey, whose heartland is in Asia. Berlin and Paris share no common vision of how this polyglot EU should evolve. In the necessary overhaul of the EU's institutional architecture, France approaches reform from a "sovereignist" stance, Germany as a federalist. Enlargement itself has produced a vastly altered geographical locus within Europe for the two countries.

Germany does not share France's muscular view of Europe as a future counter-weight to U.S. hegemony on international security issues. Their two economies, though interdependent as trading partners, have been moving at different speeds; and the old equilibrium, whereby the German economic powerhouse balanced the weight of French international diplomacy and its nuclear deterrent, is shifting.

Germany is hobbled by the financial burden of reunification, proving less able to restructure its economic model and becoming more self-absorbed in unstable coalition politics. France has adjusted better to monetary union, been more adept at understanding the impact of globalization, and has refined its presidential system to encourage strong government. Yet France is reluctant to see Germany's role as the paymaster of the EU end—especially if it is at the expense of French farmers.

For the bilateral “motor” to continue functioning effectively, such divergences need to be bridged at a time when the personal chemistry between the two countries' leaders is less favorable than ever. Moreover, the Franco-German alliance has always been a top-down affair, an act of political will with scant involvement of the general public on both sides of the Rhine. On the “soft” cultural and social side, the link is weaker than the intensity of bilateral political contacts suggests.

So, as France and Germany prepare to celebrate the fortieth anniversary of the signing of their formative Elysée Treaty with fresh pledges of mutual esteem, it is more than ever appropriate to examine whether their relationship has reached its limits and ask whether form will triumph over substance.

A LOOK BACK

To understand the nature of the Franco-German bond and assess its ability to adapt to this new environment, it is essential to look back at the development of the relationship in the complex politics of postwar Europe.

With Germany recovering from wartime destruction in territory still occupied by the allies and a political renaissance in its infancy, the onus was on France to forge a new relationship with its former enemy and occupier.

France could have accorded a secondary role to this axis, with more emphasis on a “*directoire*” with Britain to manage with the United States the stability of Europe divided by the Cold War. But French politicians regarded Britain as too Atlanticist; and Washington was unwilling to treat France as a trusted partner. Thus, a reinforced relationship with Germany became a diplomatic and political necessity for Paris.

The idea of developing closer links with Germany was carried forward by the visionary ideals for European integration proposed by Jean Monnet, the effective father of the European Union. Monnet recognized that only by working together and creating a community of interdependent economic interests could the terrible scars of Nazism begin to heal and peace be assured for future generations.

The combination of France's international and military status, embodied in the permanent French seat on the United Nations Security Council, alongside Germany's revived economy, provided an unquestioned force for leadership in continental Europe.

The Elysée treaty of 1963 set the seal on what was a marriage of reason, not the heart. Sentiment did not enter this mutually advantageous trade-off. Germany was allowed to shake off its wartime guilt and reinforce the democratic credentials of the Bonn-based Federal Republic through closer alliance with France. In return France could play the senior diplomatic partner and set the agenda of the nascent EEC. The division of Germany with the East behind the Iron Curtain also meant that the two countries' populations were roughly equivalent and ensured that Bonn looked west towards Brussels and Paris.

The match between the oddly-paired imperious Charles de Gaulle and the worldly-wise Konrad Adenauer, the German chancellor, set the tone for their successors. Where differences arose, Germany was usually willing to cede to a France, ever ready to raise its voice. It was de Gaulle, for instance, who vetoed Britain joining the EEC; and again it was his successor Georges Pompidou who negotiated London's final entry in 1973.

The Franco-German "motor" was much in evidence over the next twenty-five years as integration evolved. The original balance in the trade-off remained largely unaltered, even though France's international weight declined and German influence over monetary matters increased.

The ideology of the respective French and German leaders mattered less than might have been imagined. When François Mitterrand became president in 1981 as the candidate of the left, his nationalization policy ran counter to the trend across Europe. But this did not prevent him from enjoying a close rapport with Helmut Kohl, the German chancellor, a conservative Christian Democrat.

The two men's commitment to monetary union provided a route map for Europe during the 1990s. It survived Mitterrand's 1995 departure from his 14-year tenure in the presidency and gave the appearance of the Franco-German motor still driving Europe.

But behind this façade, the Franco-German relationship underwent a profound mutation that could not be easily compensated by personal chemistry between leaders.

THE IMPACT OF REUNIFICATION

German reunification profoundly altered the bilateral balance in ways that were not all apparent at the fall of the Berlin Wall.

French politicians could no longer pretend France and Germany had the same size of population. Germany acquired almost 17 million additional people, bringing its total to 82 million against 60 million in France. Sooner or later, this imbalance had to be reflected in voting rights within the European Union's institutions.

Likewise, the geo-strategic positions of France and Germany in relation to the other members of the EU began to change. The collapse of the Soviet Bloc and the incorporation of East Germany into the EU—coupled with the demands of other eastern European countries to join this club—shifted the focus eastwards. The transfer of the German capital to Berlin, just 80 kilometers from the Polish frontier, almost automatically shifted the center of European gravity—even before the EU enlargement process began.

The end of the Four-Power military presence in Berlin united the divided city, closed the book on postwar occupation, and marked the coming of age of the new democratic Germany. Four decades after the defeat of Hitler, Germany had paid its dues to Europe, especially to France, and was ready to play a less guilt-ridden role. France for its part could no longer leverage this guilt to its diplomatic advantage.

But reunification required a huge transfer of resources from western to eastern Germany. The sums involved were so large that Germany could no longer bankroll the EU's budget as it had done since the Treaty of Rome. The chief beneficiary of German largesse over the years had been French agriculture. The Germans therefore became much stronger advocates of

reforming the Common Agricultural Policy (CAP) and reducing their own budgetary contributions—putting the French on the defensive.

Massive German spending to incorporate and modernize a backward former Communist state enormously complicated macro-economic management for the French, who had accepted to follow German monetary policy. At the central bank level, the Bundesbank and Banque de France shared similar views on the pursuit of orthodox monetary policies. But while French leaders disliked the rigidity dictated by the Bundesbank and wanted some political control over monetary policy, German politicians were far more ready to accept policies that were long familiar.

German domestic budgetary constraints were to prove a major handicap in enhancing bilateral military cooperation, both in terms of joint armaments programs and developing a rapid reaction force. The postwar German constitution limited military action to defensive measures in the Nato theatre—profoundly affecting the doctrine of the German armed forces, while simultaneously fostering a strong anti-war sentiment on the left and among German youth. The collapse of Communism tended to enhance anti-militarist sentiment, both through the incorporation of the pacifist-minded eastern Germany and notably after the Greens entered government in 1998.

While Mitterrand remained in office, his long-standing personal relationship with Kohl kept the Franco-German couple going with only minor friction. But the advent of Jacques Chirac in the French presidency signaled a more turbulent era. By formation Chirac was a Gaullist with limited enthusiasm for European integration. An opportunist by nature, he shared little affinity with the visionary approach to building a better Europe believed by both Mitterrand and Kohl.

Franco-German tensions surfaced more openly after 1997, when a Socialist-led coalition under Lionel Jospin won the French general elections. This forced a “cohabitation” in which the president, lacking control of parliament, surrendered all but nominal executive power to Jospin. Germany now had to deal with a disruptive “cohabitation” that lasted for five years. Even at a formal level, the relationship worked badly.

The frustrations of cohabitation were fully exposed when Schröder became chancellor in 1998. In theory, Jospin’s coalition government was politically close to that of Schröder: both contained Greens for the first time and each

was committed to a social agenda. Yet the two men's personalities and priorities were poles apart.

Left alone, Jospin and Schröder might have developed a better relationship. But Chirac could not resist the temptation to interfere. At crucial EU summits, the French president never failed to pull rank as head of state to act and speak in the name of France.

As a onetime agriculture minister with a constituency deep in rural France, Chirac was particularly forthright defending French farming. During the German rotating presidency of the EU at the Berlin summit in 1999, a still inexperienced Schröder was brow-beaten by Chirac who succeeded in stalling German-backed CAP reforms.

The same bulldozing tactics were used by Chirac with Schröder over the choice of president for the new European Central Bank. Chirac insisted on the honoring of a formal Kohl-Mitterrand understanding that, in return for the ECB being located in Frankfurt, a Frenchman should head the new institution.

The ECB affair highlighted Chirac's determination, grudgingly supported by Jospin, to preserve French parity with Germany. This was even more evident at the EU summit in Nice in December 2000, when France held the presidency.

Here the stakes were much higher. EU leaders were preparing the ground for institutional reform to make way for an enlarged union that would expand membership to twenty-seven from fifteen.

In practical terms EU leaders had to find a formula that permitted a revised weighting of states' votes in the European Council, the key executive institution. This meant ensuring that a group of small states could not club together to outvote the big members. It also meant recognizing Germany's greater weight through being the EU's most populous state—both within the Council and in seats at the European Parliament.

No one but France disputed such logic. For France, and Chirac in particular, recognizing Germany as *primus inter pares* in an enlarged EU undermined French supremacy in continental Europe. Chirac was so anxious to prevent this happening that he badly misread the mood at Nice. Schröder had not forgiven Chirac for the way he had ridden roughshod over

German views at Berlin two years earlier. The smaller states resented poor French preparation and Chirac's high-handedness.

The result was one of the EU's biggest summit fiascos: the French presidency had to backtrack on its parity proposals and accepted with ill-grace greater German weighting in the Council than France, Italy, and the UK—the other big countries. Fifty-five years after the end of the war, and almost four decades on from the Elysée treaty, Germany's greater population, size, and economic weight were finally recognized by France.

To repair relations with Germany, Chirac organized an informal dinner with Schröder the following month. From this evolved the so-called "Blaesheim" formula—named after the Alsatian town where the two leaders met. They agreed to build on the bi-annual summits enshrined in the 1963 treaty by holding informal top-level meetings every six weeks.

The effort to revive the flagging Franco-German motor reflected concern that, without German support, French initiatives in the EU risked being stillborn. But the Blaesheim process soon fell victim to electoral timetables. Electioneering for the French presidential and parliamentary elections during the first half of 2002 paralyzed policy initiatives from mid-2001. Much the same occurred in Germany, where parliamentary elections were held in September 2002.

The French elections swept away cohabitation. Furthermore, constitutional changes, cutting the presidential term to five years and holding simultaneous parliamentary elections, removed the likelihood of a cohabitation recurring. Re-elected at the head of a strengthened French executive, Chirac set about making a revived Franco-German axis the centerpiece of a more assertive foreign policy.

Schröder was also looking to revive relations. Elected partly on the back of his vigorously anti-war stance towards Iraq, the victorious chancellor found himself ostracized by President George W. Bush in Washington. Not only had Schröder offended Bush through his forceful election rhetoric, perceived as anti-American in the White House, an acutely embarrassing comparison by his justice minister of the U.S. president's policy to Hitler's was viewed as a personal affront.

Schröder needed to build bridges abroad in a hurry—especially as his energies were being absorbed at home rebuilding the coalition with his now more powerful Green partners. France was the obvious stepping-stone.

To the surprise of the EU, Chirac in November 2002 persuaded Schröder to drop a second attempt to reform EU agricultural spending before 2006. At one stroke the biggest potential thorn in the relationship was removed. In so doing, the success of the EU enlargement summit at Copenhagen a month later was assured—and proved once again that, without France and Germany working together, the EU could not move forward.

But the agreement was less a meeting of minds than the product of a domestically weakened Schröder unwilling to do battle with Chirac over agriculture—a battle that risked poisoning relations on a range of issues. The deal on agriculture was most unsatisfactory in terms of addressing the high cost of farm subsidies, their unfair distribution, and the exclusion of developing country produce. The real problems were postponed to the politically distant 2006 by a pact “to-agree-not-to-disagree.”

In many respects, the gap over farming was indicative of other wide differences between France and Germany: their positions, for example, over how an enlarged Europe should evolve—more federal or more inter-governmental—remained wide and unresolved. Substantial differences also continued on economic governance of the euro-zone; and plenty of irritants were ready to rear their head, especially in the sphere of cross-border industrial projects. It appeared an unsteady platform for the future.

WHERE ON FROM HERE: EU ENLARGEMENT

With the EU facing the arrival of ten new members in May 2004, the pressures on France and Germany to work together are greater than ever. Yet at the same time, the acknowledged imbalances and unresolved issues between them would appear to create significant barriers to meaningful bilateral progress.

Are there any alternatives? Tony Blair, the British prime minister, has proposed the idea of a tri-partite “directorate” to manage the unwieldy enlarged Europe. This suits the British view that the EU Commission should be subordinate to the main governments and provides the opportunity for Europe’s dominant powers to coordinate. Chirac has clearly been tempted by the idea, as has, more discreetly, Schröder.

Yet the old objections regarding Britain persist so long as the London puts off a decision on joining the euro. If the UK were to join, then its credentials as

a “true” European would be reinforced and make tri-partite partnership both more likely and probably more desirable for the functioning of the EU. Italy beginning to punch its diplomatic weight would also alter the balance of the Berlin-Paris duo. Further down the road, with Polish entry and a strong Spanish voice, other permutations are possible among the middle-ranking players.

In the short term, however, it is hard to see an alternative to the drive by France and Germany to maintain a special relationship to provide the critical mass of movement within the EU.

But, whatever the combinations, the era of vision has gone from the European construction, replaced by a more selfish defense of national interests. Chirac for one is willing to exploit German introspection and—at least short-term—weakness to French advantage. Meanwhile the big issues that remain on the agenda will continue to put the Franco-German relationship under uncommon strain.

First, enlargement will affect the two countries differently. On the German side, the EU’s eastward expansion fulfills long-standing ambitions to underpin the return to democracy and market economics in neighbors and near-neighbors previously closed off by the Iron Curtain. Germany has already been generous in welcoming former East Bloc immigrants and spearheaded EU investment in the accession countries.

The arrival of 75 million additional EU citizens offers immense opportunities for German business, while the geographic shift in the EU’s dimension is principally to Berlin’s benefit. Enlargement remains a sensitive political issue, but its virtual inconspicuousness in the 2002 German election campaign reflected cross-party understanding that the advantages more than outweighed the domestic problems potentially caused by the free flow of labor and higher immigration.

French attitudes towards enlargement have invariably been more mixed—primarily because of the geo-political shift in the EU’s balance and the inevitable tilt towards Germany at its center. For France, enlargement is less an opportunity and more a risk. Policymakers are infused with a defensive mindset towards the new members. French politicians accept a Hungary or a Poland as part of the European cultural heritage, but they view their admission to membership of the EU club more as the fulfillment of a historical obligation. Domestic opinion remains ill-informed and largely hostile to the new members.

The new economies are seen as sources of French industrial relocation; and unions fear a flood of cheap labor.

Enlargement also spotlights longstanding, and growing, differences in the two countries' populations that are likely to pull them further apart in the years ahead. A significant number Germany's 8 million immigrants originate from central and eastern Europe. The proportion is likely to grow and, with the ease of communications and travel, Germany's tendency to look eastwards will be reinforced.

The big Turkish community that has grown up in Germany due to the country's former reliance on Turks for labor is also bound to color the attitude of any German government to the controversial issue of Turkish EU membership. At the recent Copenhagen summit, Schröder adopted a common stance with France over how and when to start admission talks with Ankara. Both France and Germany were hostile to any assessment of Turkey's ability to meet the admission criteria before December 2004—a position that carried the day. They shared worries over Turkey's democratic credentials, its Islamic nature, and the weakness of its geographical claim to being "European."

But their hostility to Turkey came from different angles. Germany was to some extent colored by the concerns about the reaction of its own Turkish *Gastarbeiter*. France focused on the signal that would be sent to the 5 million Muslims on French soil. Most are of North African origin, from its former colonies in Algeria, Morocco, and Tunisia. Indeed, France's substantially different immigrant mix, reflecting its colonial past, makes for a contrasting point of reference to Germany's eastward pull. For the French, it is the Mediterranean, and particularly North Africa, that are the more immediate points of reference.

INSTITUTIONAL REFORM

Enlargement, and the associated need to revise and streamline the EU's institutional structures, also highlight long standing differences over institutional reform.

The reform process is now being discussed by the European Convention, where Chirac and Schröder are coordinating as many joint positions as possible.

Chirac has made no secret of his preference for inter-governmental relations to resolve issues, rather than leave them to the Commission in Brussels, a view shared with Britain and Spain. The French president feels the steady transfer of European law-making and regulation to the commission in Brussels has gone far enough. His main idea is to replace the system of rotating national presidencies running the European Council with the appointment of a permanent president to be chosen by the EU governments: one backed, what is more, by a foreign affairs minister for Europe.

Chirac has also supported the principle of “enhanced cooperation” between member states, which would permit nominate groups to be formed to integrate more closely on specific issues—such as economic policy and defense.

By contrast, the Schröder line—and more so that of Joschka Fischer, his articulate Green foreign minister—favors a reinforcement of the Commission, along with more powers for the European Parliament and greater accountability of EU leaders in the Council. Part of such accountability would be the prerogative of the European Parliament to choose the new president of the European Council. There would also be more qualified majority voting in the Council, a move that would give more weight to the small countries and allow fresh alliances to be formed on specific issues.

This has found favor with France on a limited basis, on economic policy for the euro-zone, on justice and home affairs. But France would oppose any extension to defense and foreign policy. In a common paper for the Convention on economic governance, the two countries recently endorsed the idea of a president to head the euro-group, backed tax harmonization, and talked vaguely about common eventual representation in multilateral financial institutions. But France seems unlikely to forego its individual presence at the International Monetary Fund and World Bank.

While the chancellor appeared during his weakest phase in November 2002 to edge closer to the Franco-British view on the relative powers of Council and Commission, the German position was so hedged as to leave open just where Berlin will ultimately place its weight. As matters stand, Schröder’s position is highly ambiguous. The chancellor has appeared willing to entertain French wishes for a reinforced Council president. But he has also expressed the desire for a stronger Commission, perhaps via a directly elected president—a position firmly supported by parliamentarians in his Social Democratic party.

Such uncertainty raises the real possibility that agreement on institutional reform between Berlin and Paris will only come via an awkward compromise. Given the composition of the Convention, there is no guarantee their formulas will be those finally endorsed by the EU leaders.

DEFENSE

Defense is the other area of gaping differences in French and German positions. France remains a nuclear power with a tradition of overseas involvement. In the breadth of its military capabilities, only the UK in Europe possesses greater operational capacity and a bigger defense budget. Indeed the recent boost in French defense spending was to benchmark the UK, with which it agreed in 1998 at St. Malo to coordinate more closely on European defense. Unlike Germany, France has abolished conscription—a move decided by Chirac without consulting his partners across the Rhine.

The scene in Germany is significantly different. As a contribution to creating a credible European defense capability, Berlin has agreed to create a joint rapid reaction force with France. The project has been since joined by the UK; but Germany has been slow in implementing its side of the deal.

Germany continues to give defense spending low priority in an increasingly stretched budget. This makes it unlikely that Germany will play a proper part in operational capability out of the Nato area. Moreover, constitutional constraints on such operations will allow scope for parliamentary dissent, which will inhibit the hands of the government—as the recent Iraq-related rumblings have demonstrated.

Even after 2000, when EU leaders agreed to develop the nascent three country force into a European rapid reaction capability, France was out on a limb as to how this force should be used. French politicians wanted a truly “European” command structure, separate from Nato, so as to be free from U.S. stewardship.

The German government, always a strong Nato supporter, has been lukewarm to any such separation from the alliance. Like other EU members of Nato, the Germans have preferred that the European rapid reaction force be part of the alliance and simply change hats when the

occasion required—such as when the United States did not wish to become involved in an affair that purely concerned Europe. Only in this way would it be compatible with the construction of a “European” force that would also retain the benefits of the U.S. global military umbrella.

THE BILATERAL RELATIONSHIP: CULTURE

Even if the glaring Franco-German divergences can be bridged at the level of leaders, little is being done to address the weak under-belly of the relationship. The warmth and intensity of contacts between president, premier, chancellor, and officialdom are not reflected at more mundane levels.

Immense effort and expense has been devoted over the years to cultural exchanges, from school and university programs to individual interest groups. But the result has tended to be one-sided. The proportion of French students learning German remains far smaller than those studying French in Germany—especially if the German-speaking community in Alsace and eastern France is excluded.

Sponsored schemes and school exchanges aside, the popular relationship remains one sided. French people show little interest in visiting Germany, while German visitors continue to comprise an important segment of France’s 60 million annual foreign tourists. Language school romances aside, mixed marriages remain relatively infrequent, while divorce is a serious source of friction since German divorce laws permit child custody arrangements that have produced bitter cross-frontier legal squabbles.

Such limited contacts barely reflect the amount of time and energy invested by the two governments in trying to foster mutual interest and understanding. Programming on the Arte joint television channel, for example, is widely admired among intellectuals. But its very sophistication excludes mass appeal and fails to break down persistent national stereotypes.

Here Germany has worked hard and honestly to face the past and erase the unpleasant memories of wartime occupation. Yet French misgivings about Germany, certainly among the older generation, persist. The memorials to the dead in two world wars are prominent in every one of France’s 36,000 towns and villages. The Alsace region has changed hands three times in less than 150 years through armed conflict.

French military industries have been located as far as possible from the threat of German invasion—notably in the Massif Central around Clermont Ferrand or deep in the southwest. The French military was even wary for strategic reasons of allowing a fast train line (TGV) between Paris and Strasbourg on the German frontier right up until the late 1980s. Strasbourg city airport is, significantly, still run by the armed forces.

BUSINESS LINKS

As neighbors and developed industrial economies, France and Germany have not surprisingly developed over the years into close trading partners. Over the past three decades, France has consistently been Germany's main trading partner, a position broadly reciprocated on the French side.

But the interlinkage in trade has yet to be reflected in broad-based cross-border corporate cooperation and consolidation. Indeed the performance has been rather disappointing. With rare exceptions, neither side has been willing to see control of "strategic" sectors pass beyond national frontiers. In many cases, the focus has been more on the United States, the UK or even the Benelux countries than across the Rhine. If anything the spirit of cross-border consolidation which prevailed to a limited degree in the run-up to the introduction of the euro has faded.

A major step was taken in the formation in 2000 of the EADS aerospace consortium that saw DaimlerChrysler become the German stakeholder alongside French state and private interests in a consortium responsible, among others, for Airbus commercial airliners and the development of military transport aircraft.

But even here, it has been a rocky relationship. Daimler's preference was for an alliance with British Aerospace: only the latter's concern about control and pull towards the United States thwarted a likely Anglo-German deal. The eventual decision to form EADS with France was partly political, with strong encouragement from the French and German governments.

In subsequent management there have been frequent clashes of corporate culture with French executives seeking to gain control. A tug-of-war has developed between Hamburg and Toulouse over responsibility for new Airbus projects. And matters have been exacerbated by Germany cutting its orders

from seventy-three to a maximum of sixty for the new A400M military transport aircraft. The reduction has not only soured political and defense relations, but also further complicated the delicate balance in EADS.

Telephony has proved even less fruitful. The two governments sponsored an alliance with cross-shareholdings between Deutsche Telekom and France Telecom in the mid-1990s as the two state groups faced an unbundling of their respective monopolies. But as the fixed line and mobile phone market opened up, the two groups found themselves pursuing competing strategies, and the relationship quickly deteriorated as Deutsche Telekom spurned its potential French partner to seek an—ultimately fruitless—expansion in Italy.

In energy, where both countries have been obliged by Brussels to begin opening up their markets, mutual suspicion remains. The Germans view EdF, the French state former electricity monopoly, warily for wanting to break into the German market; France remains open in principle but closed in practice.

More generally, both policy and public sentiment is wholly different regarding nuclear power on either side of the Rhine. Germany under the Schröder government has opposed nuclear power, while France remains 75 percent dependent upon nuclear energy for electricity generation. Political sensitivities in the chancellor's "Red-Green" coalition meant Germany even failed to honor for almost two years between 1998 and 2000 a nuclear waste reprocessing contract with France. The return to Germany of reprocessed waste is likely to remain a source of friction for years.

The best examples of cooperation have been in less controversial or "strategic" sectors—notably chemicals and pharmaceuticals. Here the merger of Hoechst and Rhône Poulenc to form Aventis—symbolically headquartered in Strasbourg—appears a real success both in terms of management and in achieving the synergies required for a globally competitive chemicals giant.

But, even in the handful of success stories, it is worth remembering the language of business has become English and the principles of economic governance have tended to be more Anglo-Saxon than French or German.

That drift to an Anglo-Saxon business model has been particularly pronounced in finance. For all the ambitions of Frankfurt or Paris, the financial center for Europe remains the city of London. If anything, the French and German financial centers compete against each other for the role of major

second player in Europe, whether in terms of transaction volumes or for financial engineering skills. Indeed, should Britain continue to stay outside the euro-zone and Frankfurt push to consolidate its position through the presence of the ECB, the likely loser—and hence source of greatest resistance—will be Paris.

As in industry, in finance too, the main stock markets of France and Germany have looked elsewhere for partners. Frankfurt's now quoted Deutsche Boerse initially tried to merge with the London Stock Exchange; Paris has proved more successful joining forces with its Benelux neighbors.

CONCLUSION

The respective financial roles of Frankfurt and Paris point to an interesting and growing paradox between the two countries—and one that may also help to determine the broader nature of the relationship for the future.

The German economy's sluggish growth for much of the past decade (the reunification boom apart) and its inability to overhaul outdated socio-economic models appears to be reversing traditional roles. Germany, not France, is beginning to look the weak economic link in the partnership. Even benchmarks like the German government's Bund appear under threat of losing their reference status in Europe, possibly to the benefit of French government securities.

So is the more dynamic and better-performing French economy about to rob Germany of the euro-zone's economic leadership? And might that to some extent counterbalance the inevitable advantage Germany gained in the bilateral relationship after reunification?

With its current difficulties in meeting the stability pact criteria on the size of its budget deficit and public debt, Germany has ceased to be the model pupil in Europe's economic class. Direct inward investment is declining as investors are discouraged by the high price of labor and crippling non wage costs, along with the growing appeal of soon to be EU-members just across the eastern border.

If German surrenders the economic leadership of Europe, this would undermine a central pillar in the traditional equilibrium of the entente.

But France too is constrained by a heavy spending budget and high debt ratios. Public spending remains, at over 53 percent of gross domestic product,

more than 10 percentage points above the G7 average. France, too, is losing investment to cheaper neighbors.

Indeed, if the two countries fail to tackle the structural rigidities of their economies, yet insist on acting as the joint helmsmen of the eurogroup, this could prejudice the euro. Peer-group pressure between Berlin and Paris could work to encourage reform, but it could also be a double-edged weapon: the refusal of one to adapt encourages the other to stay locked into the status quo.

Another curious emerging paradox can be seen in France and Germany's respective attitudes towards the ever-crucial transatlantic relationship. The German elections led Schröder to break one of the postwar nostrums of German politics: loyalty to the United States within and without Nato. By refusing to let Germany be party to any U.S. military venture in Iraq even when UN endorsed, and criticizing U.S. policy, the chancellor took on the contrarian role traditionally associated with France.

By contrast, France has adopted a more flexible and subtle stance in dealing with Washington. The new center-right administration recognizes that open confrontation risks being counter-productive and has made a point of softening the anti-French sentiment prevalent in the Bush administration. This firm but softer approach has been evident at the UN over Iraq. Furthermore, unlike Germany, France has signaled a willingness—albeit in private—to go along with a military intervention in Iraq if endorsed by the UN security council.

With tensions over Iraq rising, an acid test of the bilateral relationship will come shortly as first France, then Germany—which has just taken a non-permanent seat on the security council—chair that body in January and February 2003 respectively. Behind the scenes diplomacy over assuring Germany chairmanship of the key Iraq sanctions committee—a German aim opposed by Washington—points to the possibility of close bilateral cooperation during the two European partners' joint period on the security council. But the diplomacy of both countries will be stretched to the utmost if Washington pushes for war.

The different approaches of Berlin and Paris to the Iraq crisis reflect the increasing role of domestic electoral pressures on decision-making. The Schröder position on Iraq was driven by electoral politics, and the need to appease the Greens. These pressures are stronger and will continue to be so

in Germany where coalitions—and probably weak ones—will be the order of the day.

In France, by contrast, the recent constitutional changes have reduced, if not eliminated, the chances of another cohabitation and, as a result, have produced a much stronger executive. This automatically strengthens the hand of French policymakers and allows for more coherent pursuit of policy itself.

In turn, this suggests France may re-establish its position as the uncontested dominant partner in the Franco-German entente, especially in foreign and defense policy, but perhaps in other areas, too. So long as Germany accepts such a French lead, then the alliance will probably work. Equally, if Germany wishes to assert itself, the prospects for friction could be greater because the two nations share contrasting views of the wider world.

Here, France remains committed to a global projection of its power, albeit on a much more modest scale than the United States. As French diplomats like to say, Germany subscribes to the view of Europe being a “grand version of a greater Swiss Federation”—essentially neutralist towards the outside world.

This is the precise opposite of how French politicians on both the right and left view Europe’s role. Instead they envisage the EU evolving from being the world’s largest economic grouping into a political and military power capable of balancing the United States.

But, as often in the history of France-German relations, the uncertainty lies on the German side. The tendency there has been towards growing self-assertion, based on established economic muscle and declining wartime guilt. But, as instances such as Iraq show, domestic political considerations and historical legacies can still conspire to upset conventional wisdom and demonstrate that, in Franco-German relations, the one constant, if any, is unpredictability and the scope for surprise.

AICGS POLICY REPORTS

#1. Martin, Philip, Hans-Dietrich von Loeffelholz, and Thomas Straubhaar. *Managing Migration for Economic Growth: Germany and the United States in Comparative Perspective*. Washington, D.C.: AICGS, 2002.

#2. Krause, Joachim. *Prospects and Limits of Transatlantic Arms Cooperation in Extended Air Defense: The Case of MEADS*. Washington, D.C.: AICGS, 2002.

#3. Stent, Angela. *A New Security Agenda for U.S.-German-Russian Relations: Interim Report*. Washington, D.C.: AICGS, 2002.

#4. Graham, Robert and Haig Simonian. *Prospects for the Franco-German Relationship: The Elysée Treaty and After*. Washington, D.C.: AICGS, 2003.



The American Institute for Contemporary German Studies

The Johns Hopkins University

*1400 16th Street, N.W., Suite 420
Washington, D.C. 20036-2216*

*Phone: 202.332.9312
Fax: 202.265.9531
Web: www.aicgs.org*
