The rocky road ahead for the Franco-German reform drive
Leopold joined Open Europe in 2017 after working in think tanks in Brussels and London. His work focuses on EU-UK politics, Eurozone reform, migration policy, German politics and Russian influence in Europe.

Open Europe is a non-partisan and independent policy think tank. Our mission is to conduct rigorous analysis and produce recommendations on which to base the UK’s new relationship with the EU and its trading relationships with the rest of the world. We aim to ensure that Government policy and public debate is rational and well informed.

In the wake of the UK’s vote to leave the EU, our programme of research and consultation will focus particularly on:

- The UK’s new relationship with the EU, including trade, security and political cooperation.
- The most important opportunities for new trading relationships with nations outside the EU.
- Productive international cooperation across areas such as immigration, research and development, cross-border investment and financial services.

Our starting point is the promotion of democratically grounded economic, trade and investment policies which foster growth, employment and freedom under the rule of law. Guided by these free market and liberal principles, we are committed to an open Europe and an open Britain.
Macron, high expectations and the pushback

When newly-elected French President Emmanuel Macron set out his vision for EU reform at the Sorbonne in October last year,¹ the reactions were mixed.² To some, his decidedly pro-European agenda was reason for hope. To others, his desire to drive forward European integration in nearly every area was anathema. What was clear to all sides was that the ambition of his proposals meant they could only be achieved with sufficient support – most importantly from Berlin. Following Germany’s Federal Elections and the marathon coalition talks that resulted from it, Germany’s potential response to Macron’s vision is gradually becoming clearer.

The coalition agreement underpinning Chancellor Angela Merkel’s Grand Coalition CDU-CSU-SPD government explicitly engages with Macron’s reform agenda and calls for a European renewal with strong German involvement. However, many French ideas are either omitted or ignored. The document’s sections on European policy were designed to split the difference among its domestic audience rather than announce a tectonic shift in Germany’s strategy. The Social Democrats needed to convince their supporters to give the green light for another unloved coalition with Merkel’s conservative forces, and a pro-European agenda offered the right pretense.³ However, underlying German doubts, particularly on the Right, over issues such as the mutualisation of Eurozone debt have not suddenly disappeared.

Meanwhile, Germany also has to consider the wider European political landscape. In a letter published in March, a group of eight northern EU member states came out in clear opposition to some of Macron’s more wide-reaching reform proposals. Consisting of Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden, the group represents both old and new member states, Eurozone members and non-members. They demanded pragmatism and an “inclusive” process – a warning signal to Berlin that their support for a new round of Franco-German led integration cannot be taken for granted. Just days before, Dutch Prime Minister Mark Rutte had made similar points in a speech in Berlin. The inconclusive results of the Italian general election, which may well lead to a populist, anti-austerity government coming into power in Rome, signal further trouble on the road to meaningful Eurozone reform.

In light of these difficulties, it is questionable whether the Franco-German engine can ultimately deliver far-reaching reform. Many of the proposals initially promoted by Paris were dead on arrival in Berlin, some face substantial obstacles and there are only a few that are likely to materialise with relative political ease. For certain projects, such as a European military crisis force, France is already seeking solutions outside the EU.⁴ On some of the issues sketched out below, reform is long since overdue. With the continued rise of populist and Eurosceptic forces within the EU, and not least with the withdrawal of the UK, pressure on the EU to show its resilience and capacity to act looms even larger.

¹ Présidence de la République Française, “Initiative pour l’Europe – Discours d’Emmanuel Macron pour une Europe souveraine, unie, démocratique,” September 2017, for a full transcript. For key points see also Open Europe, “Macron’s push for a deeply integrated EU will face difficulties ahead,” September 2017.
² See Open Europe, “Visionary or Federalist: Europe reacts to Macron’s Sorbonne speech,” for an overview of European media responses.
³ See Open Europe, “German Social Democrats present their EU wish list” for more detail.
1. The first victims, or, what is dead already

1.1. Eurozone finance minister and budget

The first, and perhaps most prominent casualties among Macron’s ideas, is the proposal for a Eurozone finance minister to oversee a large, common budget. Berlin never really warmed to the idea, although Merkel initially indicated tacit support if the right conditions were met. Since then, her formula that “form must follow function” has meant a rejection of these wide-reaching reforms (which some argue necessitate treaty change) in favour of more low-key solutions such as developing the European Stability Mechanism into a European Monetary Fund. Berlin’s focus is on concrete improvements to the status quo - if possible through relatively small adjustments – rather than what it sees as structural experiments.

This mirrors the stance taken by the eight northern EU member states which urged a consensus on “need to have” reforms, instead of “nice to haves”.

1.2. Constitutional reforms

Macron’s grand plan to reform the EU’s institutional setup also hit an early dead end. His proposal for the introduction of transnational lists for the European Parliament – ideally as early as for the 2019 European elections – has been voted down by the very same institution. The European People’s Party, where Merkel’s conservatives sit, voted decidedly against it (the European party of her coalition partner SPD voted in favour). Even if the Parliament had approved, the proposal would most likely have been voted down by the European Council, where the delicate nature of electoral law means a decision in favour would need to be taken by unanimity. With several member states having declared their opposition to the transnational lists early on, this seems an unrealistic objective for the foreseeable future.

The idea of reducing the size of the European Commission has run into a traditional EU problem – no one likes to lose influence. The Lisbon Treaty, which came into force in 2009, had already tried in vain to limit the number of Commissioners to two thirds of the number of member states. It was one of the reasons that led the Irish to reject the treaty in a first referendum. Macron’s latest proposal of cutting twelve Commissioner posts would mean twelve fewer countries being represented each term, an unpalatable prospect in most national capitals. The idea never received any visible support from Berlin, perhaps also because Macron had added to his proposal the suggestion that it should be the EU’s founding members who gave up their Commissioners first. Ironically, this was one of the few reform points where the German Free Democrats (FDP) were in line with Macron.

---

2. The difficult items

2.1. Transforming the European Stability Mechanism into a European Monetary Fund

The planned transformation of the European Stability Mechanism (ESM) – the Eurozone’s bailout fund – into a fully-fledged European Monetary Fund (EMF) faces the problem that nearly everyone wants it to happen, but opinions diverge dramatically if you ask how it should be done. Will the EMF be controlled by the European Parliament (as demanded by the European Commission, Macron and arguably in Germany’s coalition agreement), or by national governments, as demanded by northern member states? The current ESM is an intergovernmental mechanism outside European law, with decisions taken by unanimity. Crucial questions about the exact tasks and aims of the EMF remain unanswered. Would it ensure greater market discipline (as Berlin hopes), or be primarily a tool for risk-sharing? Should it perhaps even act as a backstop for the Banking Union’s Single Resolution Fund, as proposed by the European Commission? Even Christine Lagarde, head of the International Monetary Fund, intervened in the debate, arguing for a “central fiscal capacity” for the Eurozone.

Bridging these divisions will be difficult. Northern member states are likely to stick to their red lines on keeping control with national governments and ensuring that risks are minimised first, mutualised second, if at all. Other states, such as Italy, may reject additional fiscal conditions put on them. Paris and Berlin, if they want to succeed, will not only have to compromise between themselves, but between opposing blocks around them. No easy task, but perhaps just doable for ‘Mercron’.

2.2. Finalising the banking union

The establishment of a banking union has long been seen as a necessary step in securing the long-term stability of the Eurozone. There already is a joint supervisory mechanism for banks within the EU (with responsibilities shared between the European Central Bank and national authorities) and a resolution mechanism in case major banks come into trouble. Now both Paris and Berlin have been calling for a third pillar to be put into place, a fund that guarantees (parts of the) banks’ deposits. While there is general agreement among Germany, France and other member states that this backstop is needed, there is very little agreement on the details of it. This comes as little surprise, since this final pillar ultimately is where governments must put their taxpayers’ money on the line, setting out who will be liable for what.

Many northern states (and a good portion of German conservatives) are pressing for further risk reduction measures before putting their signature to any potential mutualisation of debt as part of the backstop. The unclear political situation in Italy, the country with the second largest public debt in the EU, doesn’t help ease their concerns. It is unlikely that we will see a big leap forward in this area anytime soon. But if Berlin can convince itself and others that pooling more risk will be worth it in the long run, perhaps a compromise can be reached.

2.3. Improving the EU’s military capabilities

Macron’s push for the EU to become a more serious military actor has taken some small steps. While there is no dedicated EU military budget yet – a proposal promoted by France, which also has supporters in the current German government – the European Defence Fund is a first step to pooling (financial) efforts at the European level. The recent German endorsement for loosening decision-making rules on EU foreign policy (from unanimity to qualified majority)
would be a major development towards European federalism in this area. Moving away from unanimity in this field was also recently backed by Guy Verhofstadt, leader of the Alliance of Liberals and Democrats (ALDE) in the European Parliament, when he criticized the EU’s inability quickly to agree a common response to the assumed Russian poisoning of former agent Sergei Skripal. However, the idea still faces a lot of pushback from other member states.

However, Macron’s desire for an integrated European military intervention force – a closely integrated military force made up of a small group of motivated member states - was cut short. German Defence Minister Ursula von der Leyen has said she supports the creation of such a force in principle but Germany has pushed for a wider and shallower PESCO (Permanent Structured Cooperation) including 25 of the EU27. Many of these member states have neither the capacity nor the willingness to contribute to such a force, rendering PESCO ill-fitted to serve as the right framework for it. Still, PESCO already moved ahead on its first 17 other projects, including a European Medical Command and upgraded maritime surveillance.

France has now intensified its push for a European military intervention force to be created outside existing EU frameworks, a topic already raised during the recent Franco-British summit at Sandhurst. Establishing this force outside EU structures would mean that cooperation between Western Europe’s two biggest military players, France and the UK, could continue more smoothly post-Brexit. Paris has reportedly already held a working group on the project with potential partners in March, and has been in touch with Germany, Denmark, the UK and others on the project. While there is talk of a launch ceremony as early as June this year, much remains unclear about the actual structure and functioning of this force.

But talk about reforming EU foreign and defence policy has been around for ages, and real progress is often small.

2.4. Reforming taxation

One of Macron’s projects that recently received another push, and actually may materialise in the near future, is digital taxation at the European level. While the plan is primarily aimed at ensuring that (mainly American) tech companies are properly taxed, it may potentially also offer a convenient way to supply additional, own resources, for the EU budget. The battle over whether such a tax would be placed at the European or national level is not yet decided. The idea is mentioned in the German coalition agreement, and has been backed by finance minister Olaf Scholz at the G20 meeting in Buenos Aires this April. The Commission also published a paper and promotional video on it. A similar measure, called an “equalisation tax”, received the backing of ten governments in 2017.

The usual suspects currently still oppose the move. Low-tax countries such as Ireland, Luxembourg or Malta are cautious to preserve their existing business advantages. Moreover, smaller member states fear that a digital tax that is levied where the transaction takes place (i.e. where the customer sits) will benefit mainly larger countries. Since any deal on taxation requires unanimity in the Council, these member states will have to be brought on board if progress is to be achieved. However, if the big states keep up the pressure, and offer a couple of concessions here and there, the tax may well go ahead.

---

7 See German Defence Minister Ursula von der Leyen’s speech, “Perspectives for the European Common Security and Defence Policy,” at the London School of Economics on 28 February 2018.
9 See Open Europe, “EU defence integration moves ahead – but where to?,” for a detailed analysis of the Franco-German divide on this issue.
The case is similar to Macron’s push to harmonise corporate tax rates across Europe. While the idea has been embraced by both Paris and Berlin, the usual suspects – including Ireland, Cyprus, Malta – are again in opposition. France and Germany have announced they may go ahead bilaterally if necessary. Yet the idea of aligning German and French tax rates has been floating about for more than six years, so far without clear progress. Merkel and Macron may have the momentum to move things forward here, but it is far from guaranteed.
3. Where success is likely

3.1. Improving border security and migration management
The easiest progress may be achievable in securing the EU’s external borders. In his Sorbonne speech, Macron called for a “frontier police” and a “European asylum office.” While the German coalition agreement merely calls for “more effective protection” of the EU’s external borders, the CSU has become increasingly vocal in their support for hard border protection along the lines of Hungary and Bulgaria. CSU MEP and leader of the EPP, Manfred Weber, called for Frontex to be boosted from 1,500 to around 10,000 staff. German Health Minister and leader of the CDU’s right wing, Jens Spahn, even proposed building up a force of up to 100,000. With Austria taking up the EU Presidency in July – the country that has made the reduction of irregular migration one of its key priorities – there is much reason to believe that we will see a concerted push on this front.

The key question is less whether there will be further measures on border security, but what other measures will flank it. Macron rightly identified the migration crisis as “a long-lasting challenge” for Europe, to which a holistic answer must be given. A general overhaul of the EU’s Dublin asylum system – which in its current form basically stipulates that the member state of first entry is responsible for assessing an asylum seeker’s claim – has been demanded by the Southern frontline states for several years. However, the rows with Poland and Hungary about accepting larger numbers of asylum seekers illustrate the strength of opposition to greater burden sharing among some member states.

It will be difficult to achieve a holistic reform of the EU’s migration and asylum system, but there are many levers that can be adjusted. The European Commission has already suggested linking the granting of visas for developing countries to their willingness to take back rejected asylum seekers. The matter of reception centres at the EU’s external borders, or even beyond, is also likely to re-enter the discussion. Moreover, Germany has set its mind on creating more Turkey-style deals with a number of African countries to slow down migration towards Europe. Much here will depend on political goodwill, trust and cooperation between member states.

3.2. Bilateral cooperation
Harmonising legislation and agreeing joint projects is difficult if you have to bring together 28 countries. But make it just two, and things should be easy – at least in theory. Much has been made of a renewed push for closer bilateral cooperation between France and Germany, which is to be formalised in a revitalised Elysée Treaty. Both countries want to go ahead and harmonise some of their national laws and tax rates, establish joint centres for education, and cooperate on the digital economy. The only issue? Similar projects have been announced by both sides multiple times in the past, with few of them ultimately coming to fruition. Nevertheless, with Macron in charge in Paris and a very Francophile government in Berlin, there is hope that this time, at least some of these projects will work.

3.3. Citizens’ consultations
Every politician likes projects that cost little, entail no binding commitments, but still make you look like you care about your citizens. It is thus no wonder that Macron’s call for an EU-wide series of “Citizens’ consultations” on the future of Europe is among the few of his projects that

---

10 See Weber’s interview with Die Welt, published online on 20 March 2018.
11 See Spahn’s interview with Neue Zürcher Zeitung, published online on 4 April 2018.
are likely to take off with strong German support. While member states are still to agree on a common framework for the consultations meant to provide a "roadmap" for Europe’s next 10 or 15 years, there is wide-ranging support for it.

The project – which also finds itself in the first chapter of Germany’s coalition agreement – is set to launch on 17 April in France, with further events due to take place in all EU member states except Hungary and the UK. The results of these consultations, which may well differ substantially in shape and number between countries, will then be brought together and presented to the European Council in December. Whether they will ultimately become “an integral part of Europe’s radical reform,” as Macron suggested in his Sorbonne speech, remains to be seen.
The rocky road ahead

It is increasingly unlikely that Franco-German cooperation will live up to the expectations that have developed since Macron’s election in June last year. Some of Macron’s plans for extensive institutional reforms – such as on transnational lists or a Eurozone finance minister – have already fallen off the radar. Partly because Germany does not consider them priorities, partly because they are unpalatable to numerous other member states. Other less contentious projects are likely to see the light of the day, even if negotiations to get there may still take months or even years.

There is clear recognition within Germany that it must seek to work closely with a globally popular, energetic French President who says all the right things about reforming France’s global competitiveness and the sclerotic labour market. Macron’s domestic and European reform agendas are closely connected, with failure of one likely to weaken prospects for the other. Brexit will also force the two major EU players to provide leadership – which will not sit easily with smaller member states. The Netherlands is already becoming more vocal, in what some see as an attempt to take up the UK’s role as leading proponent of an intergovernmental EU.

Germany’s entry into another period of Grand Coalition, after both major parties performed poorly, leaves little room for creative thinking or grand compromises with a visionary French President. Instead, Merkel’s authority is diminished and attention increasingly focused on domestic issues. More importantly, Germany’s traditional red lines and reluctance to move towards greater federalisation of the Eurozone persist. It’s closest allies to the North have graver concerns about any movement in this direction. This does not leave much room for maneuver to tackle the major issues that the EU faces and which Macron has raised. Germany faces an unenviable position, but this is does not absolve it of deciding what it wants.

During recent years, plans to reform the EU – and the elephant in the room is the Eurozone – often fell short due to seemingly irreconcilable differences between France and Germany. Macron has upped the ante. It is no longer simply a clash of interests holding back a joint Franco-German reform agenda. Macron’s individual proposals have their benefits and drawbacks but collectively they provide a vision of an integrated Eurozone at the heart of a wider, looser EU, which has a coherent logic. It serves to expose the lack of any such German vision for the future of the EU. Where Paris has brought a clear set of proposals to the table, Berlin quibbles over the details rather than providing its own answer to the fundamental questions over the EU/Eurozone’s future.

What implications might this have? With Germany reluctant to fully engage with Macron’s proposals, Paris may try to reach out to other partners in search for support. The list of potential allies is sparse however. Not only does no other member state carry the weight Germany does, the idea of a French-led Club Med driving reforms – a concept popular under former French Presidents Francois Hollande and Nicolas Sarkozy – seems rather hopeless considering Italy’s current political instability and Spain’s domestic struggles. While the Franco-German axis alone is not enough to drive reforms, it remains vital.

If this German government is unable to wholeheartedly support Macron’s agenda it must also consider what the consequences of Macron being seen to fail would be. His tematic rise has been remarkable but it is easy to forget that the first round of the presidential race saw very strong performances by those on the far left (Jean-Luc Mélenchon’s La France Insoumise) and far right (Marine Le Pen’s Front National) with whom it would be impossible for Berlin to work and whose politics would call into question the entire project. If Macron becomes another French President to be rebuffed by Berlin, these forces are only likely to rise.