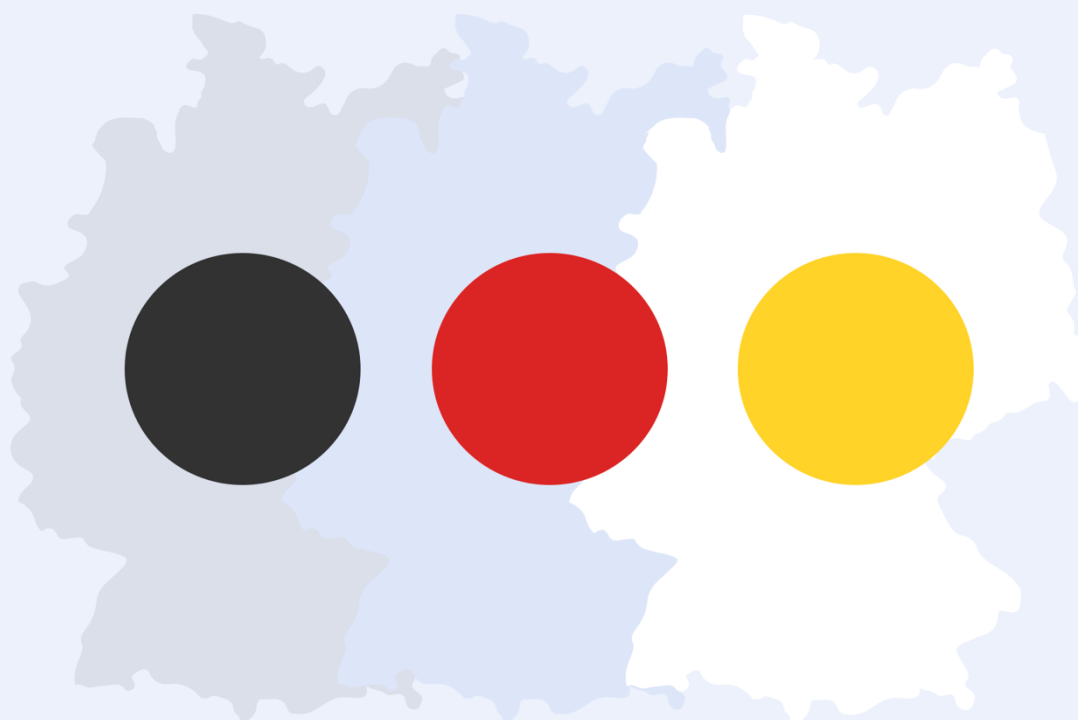


BRUSSELS MONITOR

Europe awaits: German GroKo and what it means for partners?

Vít Havelka, Martin Michelot

- On the 4th of March 2018, the members of the German Social Democratic Party (SPD) endorsed the renewal of the Grand Coalition with their major rival CDU/CSU. The decision paved the way for Angela Merkel to remain in her position as German chancellor for her fourth – and last – consecutive term. Although the result of the internal referendum did not come as a surprise, it finally untied the hands of the German government, empowering it in the process to finally turn its attention to European affairs.
- The period preceding the European elections in 2019 will lay the foundation of the future of European integration, and after a series of proposals emitted by President Emmanuel Macron, there was great expectation towards the German answer, which the coalition agreement provides outlines of. Therefore, it is worth examining in detail how the new German government envisions Europe, and what implications this vision may have for the Czech Republic in particular and for Europe in general.



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The paper is divided into three sections. The first part deals with the content of the Grand Coalition Agreement and its implications with regard to German EU policy. The second chapter analyses the new government's intended policy from an overall European standpoint. Finally, the third section describes the implications of the new German EU policy for the Czech Republic.

The "New" German EU Policy¹

Political parties in Germany are known for a high degree of consensus when it comes to foreign affairs and European policy. Apart from the recently founded right-wing populist Alternative for Germany (AfD) and some radical parts of the Left (Die Linke), all major German parties perceive a well-functioning European Union as the main condition for prosperity and peace in Europe. Therefore, a so-called "new" German EU policy does not imply a complete change of course, but rather an update of old policies that now better reflect the latest developments and current European challenges.

Eurozone

The reform of the Eurozone is undoubtedly one of the most discussed topics in the European press. The election of Emmanuel Macron as the new French president kicked the Franco-German engine into high gear, before the momentum was stopped by the lack of a governmental coalition agreement after the fall elections in Germany. One year later, it seems that the new German government will finally want to build on this impetus and enact some of the long-desired reforms of the Eurozone. Generally, the German government would like to see a better integrated Eurozone with its own budgetary tools and an enhanced common governance structure.

In practice, this approach would entail the creation of two budgetary funds: one promoting economic stability and social convergence, and another one supporting structural reforms. These funds might subsequently become the

foundation of a future Eurozone Investment Budget. Germany is willing to achieve these objectives by increasing its financial contributions to the EU treasury.

At the same time, however, it should be noted that the German government would only agree to these proposed measures if, firstly, all member states of the Eurozone respected the criteria defined in the Pact of Stability and Growth and if, secondly, the Eurozone received the institutional authority to control national budgets and to assess whether they are in accordance with the Eurozone rules. Last but not least, the German government wants to transform the provisional European Stability Mechanism into a full-fledged European Monetary Fund under the supervision of the European Parliament.

Social Europe and Internal Market

The Grand Coalition does not turn a blind eye to the problematic situation the European youth is currently confronted with on the job market. A significant part of the programme is therefore devoted to the support of young workers, as well as to the expansion of research and innovation. The latter is to be pursued by expanding the Erasmus+ Programme, by creating so-called European Universities (as defined and conceptualised by Emmanuel Macron) and by continuing the Horizon 2020 programme. The German government stresses in that respect the importance of increasingly involving the CEE countries in research programmes.

In general, the coalition agreement focuses on reducing the so-called "social dumping". The government would like to enact a revision of the Posted Workers Directive in the sense that the Single Market should be based on the principle that the same wage is paid for the same kind of work at one place. Although unrestricted free movement of labour is fully supported by the government, the agreement calls for new rules that minimize so-called "welfare shopping". The EU should harmonize its labour code and create common rules for a minimum wage.

¹ Based on the Coalition Agreement between CDU, CSU and SPD. Accessible at: https://www.spd.de/fileadmin/Dokumente/Koalitionsvertrag/Koalitionsvertrag_2018.pdf

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Furthermore, the Grand Coalition is in favour of deepening the Single Market. To this end, corporate taxes should be harmonized and a minimal level of taxation agreed upon, as well as a new financial transaction tax. Apart from that, the government would like to finalize the Single Digital Market and fiercely supports digitalization at the EU level. It is also in favour of preserving the cohesion policy in its current shape, including the amount of allocated funds.

Foreign and Defence policy

The German government recognizes the new challenges that a fast-changing world is posing on Europe. In the light of this development, Germans are in favour of deepening the defence cooperation and harmonizing foreign policy. PESCO (Permanent Structured Cooperation) should become fully operational and new European Military Headquarters ought to be created. Ultimately, the coalition envisions an "Army of Europeans".

Regarding the potential accession of new member states, the German government supports the accession of Western Balkan countries, ensuring they will encounter open doors once all accession criteria are fulfilled. The criteria must remain clearly defined and assessed so that the accession process is credible and transparent. On the other hand, the German government does not support opening new accession chapters with Turkey.

The outliers: Babiš on trial, and early elections

Germany acknowledges and respects international law, including the right for asylum. The government will support a reform of the Dublin System in order to avoid a repetition of the refugee crisis in 2015. This implies the creation of a common European border guard and a new clear process for the assessment of asylum applications, as well as common standards of services provided for asylum seekers to avoid "asylum shopping" and control the movement of these people. The new regulation should also contain a "fair" distribution system, while the principles of "first entry" and "family reunification" should remain one of the main criteria for determining where an asylum applicant has to submit

his or her request. Last but not least, the German government promised to set a cap on the total amount of incoming migrants, to not annually exceed 220 000 individuals.

The Grand Coalition would also like to enhance European development cooperation and humanitarian aid. According to the coalition agreement, the European Union should create a comprehensive programme for Africa that would deliver results similar to the Marshall Plan. This is meant to contribute to tackling the roots of migration and conflicts in the European surrounding.

What does it mean for Europe?

The biggest expectation of the conclusion of a coalition agreement probably came from the side of President Macron, and more generally in Brussels, who have been waiting to hear a unified German reaction to the ambitious proposals for further integration put forward in the Athens and Sorbonne speeches. Recognizing Germany's key balance point in fostering European consensus, it is now clear that the window before the European parliamentary elections will be a key moment in determining Europe's future path. Important to note is the key role devoted to the French-German relationship and the restated desire of an ambitious revision of the Elysée Treaty, not excluding the idea that on certain aspects, France and Germany may be the best suited for the harmonization of certain aspects and could act as avant-garde if there is a lack of consensus at 19 or at 27. The coalition agreement specifically mentions that Paris and Berlin could launch together a process of harmonization of corporate taxes and a consolidated tax base, and should act hand-in-hand as regards innovation and digitalization, especially in the field of artificial intelligence. The idea of a Franco-German engine is therefore clearly laid out and made explicit in the document; it also seems clear that Germany is responding to French leadership by very encouraging messaging regarding its willingness to assume more responsibility, especially on the economic and monetary dossiers.

Symbolically, it has been noted that France is the country that is the most mentioned in the coalition

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agreement right after the UE. It is also worth noting that a special chapter is dedicated to the relationship with Poland, recognizing the special status for the country as a harbinger of the East-West divide. As Daniela Schwarzer puts it, "from Berlin's perspective, Hungary alone could not sustain the centrifugal trend of renationalization and withdrawal from Western liberal norms, democratic principles and EU policies"², which highlights the extent to which the relationship with Warsaw is viewed as key in ensuring European unity. The coalition agreement does not link the delivery of European funds with respect of migration rules but does however contain soft language about the need to enforce rule of law more consistently than was the case previously; a temporary position while the talks with Poland in the framework of Article 7 (1) progress. All in all, the content of the coalition agreement indicates that Germany will be willing to move the EU forward and reinforce its focus on bridging European divides, not only East/West but especially the North/South divide that lingers on based on economic matters.

Eurozone

This is the issue on which the most depends on German willingness to push forward reforms, but also the one that is the most divisive among member states. The recent joint statement³ by eight fiscally conservative Eurozone governments is a powerful reminder of the difficult road ahead for Eurozone reform, and also of the need to maintain reasonable expectations about Eurozone reform.

Berlin has however closed no doors on this topic, which signals that it will continue to wait for a crystallization of the debate at the European level before taking a clear position. It must also be reminded that the important role of the German Parliament on these issues is an element to watch, especially if the AfD and FDP prove to be able to set an agenda that would go counter some of the proposals that are put forward in the coalition. It will certainly be up for a difficult negotiation to set up the semblance of automatic

assistance packages in case of a crisis or to finalize the banking union, or even to agree upon a European Deposit Insurance, especially with renewed uncertainty regarding the position of Italy. It therefore seems that any further progress on risk-sharing will be hard to achieve, and that reforms, in the short term, will be limited to a true implementation of the Stability and Growth Pact. It is not impossible that, pending the completion of reforms in France, closer bilateral cooperation may take place, but for all intents and purposes ambitions have been lowered in order to match the current political reality, and will be limited to the necessary strengthening of the Eurozone's architecture and resilience to shocks.

Social Europe and Internal Market

The idea of a Social Pact for the EU, essential to the completion of the single market, is an idea with a long-term perspective. The coordination of labour market law and social rights, consolidated tax bases and rates are advances that will tend to iron out some of the competitive advantages of countries in CEE, making it unlikely that reforms will be introduced at anything else than homeopathic doses. But the movement towards this means that a plan will need to be agreed upon for the modernization of the economies of these countries, especially as regards research and innovation and the implementation of the Single Digital Market. In the short term, however, German (and certain other countries') economic interests lie in ensuring that CEE remains the backbone of industrial production, and the change of this thinking will certainly be on the mandate of current and future European leaders.

It is on this front that we may witness the beginning of a nucleus of countries that would favour cooperation and harmonization, along the lines of Eurozone membership but also in terms of completing the Single Market.

² <https://dgap.org/en/article/getFullPDF/30610>

³ http://vm.fi/en/article/-/asset_publisher/valtiova

<rainministerien-yhteiskannanotto-euroopan-talous-ja-rahaliiton-kehittamisesta>

Foreign and Defence Policy

The low-hanging fruit of European cooperation, but a highly symbolic one given that it most visibly represents the leadership Germany is willing (or not) to assume on the European and global realms. The real credible measurement of Germany's commitment to pushing forward European defense cooperation (PESCO projects, financing of operations) will be to publish a clear plan explaining how its military capabilities will be increased in the short to medium term. The fact that Ursula Von der Leyen will remain Defense Minister is good news in terms of following through with the implementation of these projects and providing a steady hand. Another key aspect of this conversation will be to gauge whether the nature of the domestic debate in Germany will change, in which could free up political capital to go forward with the much-needed defense budget increases. European partners' calls for a stronger, more globally responsible Germany will not recede, and any backtracking at this point could well prove to be the kiss of death for European defense integration, especially with the imminent departure of the UK and the continued French doubts about the value of the current instruments to solve Europe's most pressing security challenges.

Migration and Asylum Policy

Like on many other areas, Germany is expected to provide leadership due to the explosive, if not even hysterical, nature of the debate. The open wound of the summer 2015 still remains vivid in the mind of European leaders, making this issue the one needing the most urgent solving. Real gaps continue to exist and even increase between the countries who refuse the idea of burden-sharing and those who favour deeper cooperation between member states. France's tougher position on migration will push the debate on the resources devoted to efficient border protection and enhancing the cooperation with origin countries to fight the causes of migration. The planned reform of the Dublin system, this summer, should add

clarity to the handling of any future crisis, and should provide more than a short-term fix.

What does it mean for the Czech Republic?

Germany is by far the Czech largest trading partner⁴, which naturally means that any new German government has a potentially significant impact on the Czech Republic. From the Czech point of view, the new coalition agreement contains both negative and positive aspects. On the one hand, Czech governmental positions are in line with the German ones when it comes to defence, research and youth mobility, as well as the single digital market. On the other hand, the new government might pose challenges with regard to issues such as a potential Eurozone reform, the harmonization of social systems, the free movement of labour, or migration management.

Although the German coalition is put in rather vague terms, the Czech Republic should start defining its positions on potentially contentious topics as quickly as possible. It is extremely likely that German and French governments will reinforce their cooperation and deepen their levels of integration, meaning that a new pressure will be put on the reform process in the EU. Therefore, the Czech government should be well prepared and ready to introduce viable solutions to current European challenges as this will be the only way to maximize the Czech influence on future EU policies and minimize the possibility of being outvoted. The Czech Republic will face an opportunity to prove that Central European countries can deliver innovative and viable proposals for the future of European integration.

Eurozone

As specified in the previous chapters, the German coalition agreement suggests structural changes of the Eurozone. To a certain extent, these intentions are in line with what France would like to accomplish.

⁴ Czech largest trading partners in 2016, Czech Statistical Office, accessible at: <https://www.czso.cz/documents/10180/>

[45964044/241015-1704.pdf/e4911b58-a29e-4e47-be52-217a3694608d?version=1.0](https://www.czso.cz/documents/10180/45964044/241015-1704.pdf/e4911b58-a29e-4e47-be52-217a3694608d?version=1.0)

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There are here two sides of the coin for Prague. A stronger and better governed Eurozone with a completed institutional structure would probably be, in the long term, beneficial for the Czech Republic. The Eurozone is Czechia's largest trading partner, which means that its economic stability directly influences Czech prosperity. As the last financial and economic crisis showed, it is clear that if the Eurozone must increase the harmonization of its economic and social policies, and develop strong tools to help states suffering from asymmetric economic shocks. From this perspective, it would be unwise for the Czech Republic to obstruct any reform of the Eurozone.

On the other hand, a more deeply integrated Eurozone might create a double-speed Europe, in which the monetary union represents the core of the European Union. As a result, the Czech Republic (as a non-Eurozone member state) would suddenly emerge –again - at the periphery of the EU. The EU19 might create a strong voting block of states which would be hard to influence, even if there remains room for disagreement within this club. As mentioned before, the Czech Republic is deeply dependent on the Single Market, and decisions on this front will also have to be made in consideration with the impact that they may have on Czech businesses, but also the future of Czech prosperity and the transformation of the economy.

Single Market and Social Europe

German priorities regarding research, innovation and the support of youth mobility are certainly welcome by the Czech Republic. Importantly, the coalition agreement explicitly supports an increased participation of the CEE region in the European research structures. As Czech research is to a large extent dependent on EU financing, its continuous support is essential.⁵ Another positive aspect is the new German government's willingness to complete the Single Digital Market.

Furthermore, it seems rational to believe that, with the exception of the transportation sector, the Czech Republic

should not fiercely hinder German efforts to reform the Posted Workers Directive. In 2015, Czech companies sent only 37 174 workers abroad whereas 19 141 arrived, making it a minor part of its overall economy.⁶ Even if the current Commission proposal were enacted, it is questionable whether the Czech economy would be significantly harmed due to its low unemployment and orientation on domestic industrial production, but also given that the revision intends to limit the time of deployment and close certain loopholes, rather than stopping the scheme entirely.

On the contrary, the Czech government should be especially aware of German plans regarding the harmonization of social standards and welfare systems. The Czech Republic economically benefits from the combination of skilled workforce and relatively low labour costs. This comparative advantage would be threatened if the same regulatory framework for minimum wage or working standards was enforced in the European Union. The same applies to a potential harmonization of taxation.

Foreign and Defence Policy

From a Czech perspective, the German coalition agreement is utterly positive in regards to defence cooperation. The previous Czech government was one of the most outspoken proponents of deepening the CSDP. Germans favour the PESCO structure, the creation of European Military Headquarters as well as the establishment of a strong European Defence Fund. Moreover, the German government would like to invest more in capabilities of the European military industry. The Czech Republic should use this window of opportunity and achieve greater involvement of Czech companies in high-tech military research, and shall also use these mechanisms to ensure the modernization of its Armed Forces in sectors that will allow up to actively defend its interests. Overall, participation in European research projects could enable

⁵ Press release: Government approved the largest budget for Research and Innovation, Office of the Government, accessible at: <http://www.avcr.cz/cs/pro-media/aktuality/Vlada-schvalila-historicky-nejvyssi-rozpocet-na-vedu-a-vyzkum/>

⁶ What does the revision of posted workers directive means?, Euractiv, accessible at: <http://euractiv.cz/clanky/aktualne-v-eu/infografika-co-prinasi-revize-smernice-o-vysilani-pracovniku>

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Czech SMEs to gain important access to European markets and participate in their growth

Regarding the CFSP, the Czech Republic will surely appreciate that the German government does not intend to close the doors of the EU for Western Balkan countries, on top the supports committed to Ukraine for its reform programme and efforts to face Russian aggression.

Migration and Asylum Policy

The Czech Republic and Germany have significantly diverging opinions on two main features of the migration and asylum policy – the redistribution system and harmonized standards of living conditions which are provided to asylum seekers. It seems that the German

government will push for a Europe-wide system and that it does not desire to make any extensive concessions in this respect. The Czech Republic can answer in two possible ways: either it will present an alternative solution (e.g. higher payments to the EU budget or voluntary relocations of asylum seekers from overburden countries) or it will be forced to comply. On the other hand, Germans would like to create a strong full-fledged European border guard, in line with Czech intentions. The Czech government should therefore support German efforts and ideally offer significant financial contributions which might serve as arguments in the debate about a “fair” relocation system.



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