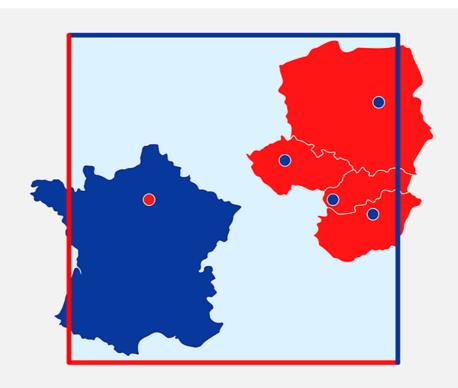


#### **POLICY PAPER**

France and the Czech Republic: some certainties, but also some ups and downs

#### Martin Michelot

- Bilateral relations between the Czech Republic and France have recently celebrated their 100th anniversary: in 1918, France was the first country to recognize the Czechoslovak army that was founded in northeastern France in late 1917, which was followed on 29 June 1918 with French President Raymond Poincaré officially recognizing the right of Czechs and Slovaks to live in an independent and sovereign state, and the day after recognizing the Czechoslovak National Council (led by Edvard Beneš) as the supreme organ of the Czechoslovak government.
- In October 2018, President Emmanuel Macron visited Prague (and Bratislava), just a few months after the visit of Czech Prime minister Andrej Babiš (and his Slovak counterpart) to Paris and the Vosges region where the Czechoslovak legion was founded in 2017.





The visit of Emmanuel Macron in 2018 was the opportunity to define a new action plan for the 2018-2022 period in the framework of the strategic partnership that has existed between the two countries since 16 June 2008, signed by President Nicolas Sarkozy and Prime Minister Mirek Topolanek. The second half of 2008, marked by the French Presidency of the Council of the EU, was an important milestone for Franco-Czech relations at European level. Followed by the Czech Presidency in the first half of 2009, the cooperation between the two countries has made it possible to activate and deepen their relations - among other reasons because a trio of countries holding the Presidency in succession are working together to set up a joint programme for 18 months.

Since 2008, Franco-Czech cooperation has been based on several strategic partnerships, which are implemented within the framework of multi-year "Action Plans", the last one, as mentioned above, having been signed in late 2018. Its objective is to increase the frequency of bilateral meetings between government representatives, as well as to strengthen cooperation between EU policy coordination bodies at European level. There were no strong divergences in the preparation of the document. The Action Plan focuses, for example, on defence, justice and home affairs, economic and financial affairs, as well as the environment, transport, energy and social policy. Interestingly, unlike the partnerships signed by France in the same period with other Central and Eastern European countries (Poland, Hungary, Romania, Slovakia, Bulgaria), the French-Czech version has not made publicly available. This was completed in 2018 and 2019 by the signature of a military cooperation plan, the latter planning for 53 common activities, which went hand-in-hand with the return in 2017 of a military attaché at the French Embassy in Prague.

Politically, Paris and Prague have always shown a certain proximity. The acculturation and mutual understanding has been increased by the timing of the Council presidencies, which follow one another (and will do so again in 2022), and the socialization that takes place in Council formations where Czech and French civil servants sit next to one another, an element not be dismissed. The long history of the relationship, the support of France for

political dissidents in the late 80s have always made France and Czech Republic privileged partners.

The election of President Macron and the fact that he took a clear interest in central and eastern Europe, a first among previous presidents, has contributed to reinforcing the quality of the bilateral relationship, while at the same time opening some questions regarding its nature at the EU level. An important milestone was the meeting of the socalled Austerlitz format (also known as the Slavkov triangle) between the Czech Republic, Slovakia and Austria, which Emmanuel Macron joined in August 2017 in Salzburg. This meeting was important because it allowed its actors to discuss the posting of cross-border workers, a controversial issue at the time and represented beyond that an opportunity for France to interact with the countries of Central Europe. Slovakia and the Czech Republic eventually going on to vote in favor of the French proposal for the reform of the posted workers directive and helping the vote overcome QMV. It also opens, from the French perspective, different avenues for creating common grounds with key allies such as Slovakia and the Czech Republic while also bypassing the more difficult, and sometimes tense, relationship with Poland and Hungary, as would be the case in V4 format. From the Czech perspective, this also allows for more frequent discussions with Austria on diverse issues, in order to overcome the tensions that may have existed regarding nuclear policy.

In economical terms, trade between France and the Czech Republic reached in 2018 an all-time high of EUR 12.4 billion, a 16% increase compared to 2017. France exported EUR 4.8 billion to the Czech market (+6.2% compared to 2017) and imported EUR 7.6 billion (+7.7% compared to 2017) in 2018. If the amount of bilateral trade has risen sharply since the Czech Republic joined the EU (+86% for exports, +278% for imports), it is however unbalance since it has created a deficit, which stood at about EUR 2.7 billion in 2018, including EUR 1.8 billion attributable to the automotive sector alone, a stable level since 2011. Trade consists mainly of mechanical equipment and transport equipment, in both directions (45% of French exports to the Czech Republic and 72% of Czech exports), with only pharmaceuticals and cosmetics enabling France to generate



a trade surplus (EUR 381 million). France's trade deficit with the Czech Republic (EUR 2.7 billion) is not an anomaly compared to other European countries. Germany, which makes extensive use of the Czech industrial subcontracting potential, has posted a trade deficit for the fourth consecutive year, with a widening gap (EUR 16.6 billion), despite its position as the leading supplier and a market share of over 30% in Czech imports.

In detail, France exports to the Czech Republic mainly mechanical equipment, electrical, electronic and computer equipment (28%, +7.6% compared to 2017, +85% compared to 2000), vehicles and bodies (7.6%, +10.3% compared to 2017, +85% since 2000), automotive equipment (8%, stable compared to 2017, +298% since 2000), pharmaceuticals (9.4%, -5.6% compared to 2017, +339% since 2000), chemicals, perfumes and cosmetics (13%, +10.9% compared to 2017, +220% compared to 2000) and metal and metal products (10%, +11.4% compared to 2017, +208% compared to 2000). France imports 36% of transport equipment from the Czech Republic, of which 20% is motor vehicles and bodywork (+10.8% compared to 2017 and +798% since 2000), 13% is motor vehicle equipment (+19.5% compared to 2017, +677% since 2000) and 36% is mechanical, electrical, electronic and computer equipment (+5.8% compared to 2017, +533% compared to 2000).

The continued competitiveness of production costs and the size of the Czech market are two reasons why most French manufacturers based in the Czech Republic export the majority of their production to France, for example Toyota-Peugeot-Citroën (TPCA), which exports 99% of its local production.

With this picture painted, where can increased cooperation be expected, and where may France and the Czech Republic continue to disagree?

Politically, the presence of the MEPs representing the governmental party in the same political group at the European Parliament represents an important point of potential convergence at the European level. Emmanuel Macron and his majority have every interest in keeping the six ANO MEPs involved in Renew Europe, as they represent

the only sizable delegation from the V4 and the fifth biggest national delegation in the group. However, an issue may arise if it found by the Czech justice system or the EU's anticorruption services that PM Babiš is found guilty of various wrongdoings; Macron has worded very clearly his disapproval of Fidesz remaining a part of the EPP and would likely be held to his word if ANO MEPs were to remain in the group, even if they are removed from the exercise of power in the Czech Republic and are not accountable for the actions of their PM. Macron also defended Babiš in November 2018, claiming live on French radio that he "is not a populist", contrary to other leaders in the region. There is therefore, for the foreseeable future, a strong linkage at the EP level between France and the Czech Republic, the strength of which could be tested by impending judicial affairs against the Czech PM.

At the level of the Council, this translates into a relatively strong bond between the two heads of state and government, despite the fact that the two have recently butted heads at the opportunity of the "top jobs" saga, where Babiš and his V4 counterparts played the role of spoiling the French-driven proposals in the early stages of the process. It is clear that the Czech PM uses the V4 as an adjustment variable, and as a matter of fact can influence the V4's positions, when he feels that his national position will not receive support at the Council level. The V4 will continue to remain a multiplier of influence for the Czech Republic and a crutch to lie on when necessary, especially given the depth of the links that exist between leaders. This has so far not fundamentally altered French-Czech relations in the Council, but the discussions over the next Multiannual Financial Framework could well prove more difficult on this front.

Czech interests - represented in great part by PM Babiš - may be upended in the case that Macron would propose an ambitious reform of the Common Agricultural policy, which he has hinted at many times in the past few months. The reform, which would favor smaller exploitations and limit the funding of industrial exploitations (the Czech Republic has the highest average acreage of exploitations on the continent), increase the reserve funds, and be slightly rebalanced in favor of environmental actions, could



prove problematic if the PM personally decides to intervene on this agenda, and will be a main priority for deconflicting future Czech-French relations.

Connected to this, the environmental issue resonates particularly importantly in Paris. As we can deduct from the unbalanced nature of the economic relationship, any European orientation that could fundamentally change the nature of the Czech industry could have a serious impact on the country's economic stability. The recent decision by PM Babiš to refuse to agree to move the country to carbon neutrality by 2050 - and its subsequent reversal in front of Commission President-elect von der Leven - is symbolic of the fact that decisions about environmental goals are above all political before being considered on their merits. It can be noted that in an oped for French newspaper L'Opinion, dated of the day of Macron's visit to Prague, PM Babiš did mention climate as a cooperation field between the two countries. There is therefore a real need for France to highlight how certain proposals, such as the European Climate Bank, especially in investments and available capital regarding green technologies, or to finance certain ecological projects, could directly benefit the Czech economy as well. The Czech-French Chamber of Commerce will play an especially important role in this, as well as the economic cooperation services of the Embassy, in order to foster deeper cooperation on key forward-looking issues such as green(er) energy and transportation. Macron has made clear his ambition on climate and ecology issues, and any strong reluctance on the side of the Czech Republic (and others) on this agenda could prove to be detrimental for the quality of the bilateral relationship, hence the necessity to foster a deeper cooperation between the private sectors of the two countries. A look at the current sectors of economic exchange suggests important progress can be made to create new fields of economic cooperation around ecological projects, which would also benefit the long-term goal of economic transition and creation of new competences in the Czech Republic. On top of this, the modernization of Czech nuclear power plants will continue to be a topic of conversation between the two countries.

Finally, there is natural space for cooperation in the field of artificial intelligence, in which the Czech government

recently adopted a national strategy intended to create an AI hub on par with other countries such as France, Germany or the UK. This is a clear ambition for the government, which will also have applications at the defense industrial level, a market in which the Czech Republic (alongside other smaller member states) has a real interest in finding its niche in order to

Related to the economic relations, the topic of Social Europe seems to be a non-starter at the French-Czech/V4 level. Any discussion about Europe-wide unemployment schemes or a European minimum wage is seen as trying to undermine the fundamentals of regional competitiveness and will be met with firm opposition, and it is likely that Macron, despite the ambitions laid out in the Renaissance op-ed, will not insist further on this issue in the early stages of the new European legislature given the fairly low level of priority of the issue and the fact that it remains a largely national competence. On taxation issues, the two countries have recently come together to agree on a baseline proposal, that will be implemented nationally, to tax foreign digital giants (the likes of the GAFA - Google, Amazon, Facebook, Apple) who do not pay proper taxes on revenue that is generated in the countries via different tax schemes, and will certainly work in hand-in-hand to generalize this proposal at the European level, even if this may create tensions with countries who benefit from this, such as the Netherlands or Ireland, as was the case in the proposed tax on digital services that was discussed in 2018. France has a plan to tax 3% of revenues generated in France, and the Czech Republic has the most ambitious plan at 7% of taxation, which yet has to pass the stage of Parliamentary committee. The next step will be to reach on agreement on VAT fraud, which costs France an estimated €20 billion per year and the Czech Republic over €4 billion, but starting positions are very different regarding reverse charges, or the harmonization of rates for similar services.

The financing of new priorities of the MFF has received a lukewarm welcome in the Czech Republic, especially regarding migration and borders, competences that Babis does not want to be "Europeanized". The V4 and the Friends of Cohesion group will certainly insist on a rebalancing between new and old priorities, and for the new priorities



to focus on issues where national industries can benefit the most. This is true notably for the research and innovation sector, which would be a part of the necessary economic transition of V4 countries away from models as their added value in global supply chains is very low. Another demand of the V4 will be to loosen the ability of funds to be moved from one category to the other, in order to increase the extent to which states have decision-making powers over where and how funds are spent; this is connected to the fact that V4 countries still greatly struggle to absorb all the available funds1, which some politicians blame on the strict flexibility rules. A shockwave was felt in the region when Nathalie Loiseau, who was then the head of list for En Marche at the European elections, declared "I no longer want European money to be used to finance highways in Slovakia", a statement that was not followed up by any concrete proposals, but that nonetheless created legitimate concern

Finally, the current mood in the V4 makes it clear that any proposal to condition the delivery of structural funds to respect of the rule of law will be rejected, and it is possible that Babiš himself will be more cautious about this issue, given the current pressure he is under on the domestic front. Given that this is a priority for the French government, strong disagreements are expected at this level in the framework of the MFF discussions, but Babiš has no interest in making this a personal battle, since other member states will oppose themselves to the proposal.

Regarding defense, which is discussed extensively in another paper of the series, cooperation is well-documented, especially the important participation of Czech officers in the EUTM Mali mission, or the desire of Prague to be included in the discussions of the European Intervention Initiative, or even considerations of participating in the Barkhane operation in the Sahel-Sahara strip if a role is found for the Czech army. In CFSP, the proposed reform of decision-making, which France has so far only paid lip service to, to

move towards QMV in certain CFSP areas such as human rights and sanctions is also a non-starter for the Czech Republic. There is a concern that rather than making EU foreign policy more effective and nimble, the reform would instead increase the divide between groups of member states regarding the issues that the proposed reforms intends to act upon and limit the political messaging that underpins unanimous decisions. Both on human rights and sanctions dossier, countries that are "on the fence" could be subjected to pressure campaigns (political, media, societal) in order to swing their vote, which would only further lead to the polarization of political discourse that we witness across Europe. Some countries might also feel tempted to free ride and develop preferential relations with the sanctioned country while the rest of the EU maintains restricted relations. This is to be put in the greater framework of small states being concerned by losing their influence in situations where unanimity was required.

While, in the next few years, V4 interests will be aligned on a certain amount of key EU agendas, the political unity between leaders, and especially the growing divide between Poland and Hungary on one side and the Czech Republic and Slovakia on the other, will limit the extent to which these positions of unity may provide a decisive weight in the European negotiations. For the latter two countries, the relationship with Germany, France, Austria and to a lesser extent the Benelux and Nordic countries is just as important as with the V4, which continues to pay the price of its negative external perception and constitutes a real public relations issue for Prague and Bratislava. The position of PM Babis in this group will continue to be analyzed, as his 'rational' approach to defend Czech interests relies on a case-by-case basis, and could inch close to France and Germany and swing back to the V4 depending on the dossier.

Is there therefore a strategy that should be adopted in order to limit the influence of the V4? The loose unity of

<sup>&</sup>lt;sup>1</sup> As of early July, the Czech Republic and Slovakia have spent a mere 40% of available European structural and Investment Funds, Hungary and Poland 45%: https://cohesiondata.ec.europa.eu/



the grouping means that a divide and conquer strategy, by focusing solely on Prague and Bratislava for example, is not necessarily bound to be successful. V4 capitals are, on the other hand, keen to be engaged much more in the onset of consensus formulation in the Council, rather than being at the mercy of any French-German (or other agreement), which is why the refusals of the V4 to sign on are much more publicized than the cases in which they follow the majority. The V4 will not be broken in the next five years, but it could become much stronger if a country like the Czech Republic sees itself isolated in the Council and

decides to devote renewed energy to consensus building at the regional level. The region will continue to search for elusive "respect" (such as the one it claimed it did not get when its positions regarding migration supposedly became European mainstream in 2016) and will look for more constant engagement with Paris and Berlin, which will encourage more proactivity on future policies.









The European Commission support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.