

## 'Europe's engine' seizing up. French-German relations during the polycrisis

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The COVID-19 pandemic and the war in Ukraine have highlighted the differences in interests between Paris and Berlin, and caused tension to accumulate in their bilateral relations. The significance of this tension goes beyond the purely bilateral dimension: policy alignment between the EU's two most important members has always played a key role in the integration mechanism in Europe. However, the current disputes will not necessarily bring an end to this coordination. They are deeply embedded in the patterns of the traditionally divergent approaches which Germany and France have to economic, security, and integration issues, which is why they have not come as any surprise to the ruling elites in these states. Nevertheless, both countries will benefit from overcoming them in the long-term. Efforts to define Franco-German cooperation in an enlarged and more diverse EU will pose an even greater challenge to Paris and Berlin. Flexible coalitions between states and other cooperation formats which arise *ad hoc* will likely compete with these two leaders.

In the decades since the Second World War, the relationship between France and Germany was based on their shared interest in the development of European integration. Despite numerous disputes and divergent views, which were particularly evident in their approach to security and economic affairs, they were able to work out lasting compromises. Their political importance was so vast that they essentially determined the direction in which integration would develop. It is no coincidence that Franco-German cooperation began to be referred to as the 'engine of Europe'.

On the 60th anniversary of the signing of the Élysée Treaty, which cemented the Paris-Berlin alliance, numerous observers are now arguing that this cooperation formula has now been exhausted. The polycrisis connected with the COVID-19 pandemic, the war in Ukraine and the 2022 energy shock has highlighted the two nations' divergence of interests, while their disputes have begun to spill over into issues such as their anti-crisis policy, security, energy, the shape of the global order, and European integration. The cancellation of the annual intergovernmental consultations in November 2022 was a sign that the 'engine' may be about to seize up.

However, to corroborate the view that a deep, or even irreversible breakdown in relations between Paris and Berlin has taken place, two essential questions need to be asked. The first question is: have the differences in interests between France and Germany indeed reached a point at which compromise



is no longer possible, and their dissonance will only grow in the coming years? The second question is: is it true that the close political coordination between Paris and Berlin has indeed exhausted its potential to influence the course of affairs in Europe, and that it no longer offers the expected benefits to both states?

## The EU's economic policy: disputes over finance and investment

The differences in French and German views on economic policy have a long history, which stems from the clash between the Germans' relatively market-oriented approach and the French tendency to interventionism on the one hand, and from either country's strong efforts to defend its economic interests on the other hand. These divergences became particularly evident in the crisis years of 2009 to 2013, when France demanded that spending should be increased, while Germany advocated budgetary savings and the liberalisation of the economy. Ultimately, a compromise was reached in which Berlin convinced its partners to adopt austerity measures, although it had to agree to numerous exceptions, and tacitly accepted the European Central Bank's adoption of a highly flexible monetary policy.

During the crisis caused by the COVID-19 pandemic, France took the political initiative and, alongside a coalition of southern EU member states, pushed through an EU recovery fund. According

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to its main assumptions, the Union was to take out collective loans to increase the members' spending on anti-crisis policies. In exchange for this major step towards a 'transfer union', Germany was assured that this would be a one-off measure, and each beneficiary of the recovery fund would be required to present a detailed breakdown of their spending and reform plans. The compromise also involved a pledge from all member states to launch a reform of the Stability and Growth Pact, which had been criticised for years for failing to impose fiscal discipline and hindering economic recovery. There are many indications that in their final version the modifications will introduce greater flexibility in debt reduction, something France has long advocated. At the same time, the reform will not affect the current fiscal rules, which is what Germany wanted.

The present crisis, this time linked to the war in Ukraine and to rising energy prices, has upset this fragile balance. Germany sparked particular controversy when it announced its intention to launch a national fund worth €200 billion to make interventions on the energy market. France considered this plan as a direct threat to the cohesion of the single market and to the conditions of competition, because German companies would receive support that would not be available to others. Paris believed that the appropriate response should have been to establish another European support fund, but Germany strongly rejected this idea. Despite this, it is likely that the tension will ease when energy prices on the markets begin to fall and a gradual economic recovery becomes evident in the second half of the year.

## The global economy: a dispute over the limits of protectionism

The nature of the relations France and Germany have with their foreign partners is an important source of their divergent views on economic policy. Germany relies on foreign trade to a very large degree (its turnover equals for 89% of the German GDP), which is unparalleled compared to other big economies. The same can be said about Germany's capital; its net international investment position (NIIP) shows a huge surplus of 75.1% of GDP. France is much less dependent on foreign markets; the proportion of foreign trade to its GDP is a mere 62%, and its NIIP is negative, at -26.7%.

These figures go hand in hand with French and German preferences regarding the nature of globalisation. It has always been in Germany's interest to have a unified, preferably 'depoliticised' space for trade and investment in the global economy. This also involved a pragmatic approach to cooperation with authoritarian states which do not subscribe to Western democratic standards. France, on the other hand, viewed globalisation as a mechanism which has helped the US and China to boost their structural advantage, and which posed a threat to the European Union's welfare models. In the French view, the EU should act externally as a political actor while at the same time taking care of its own sovereignty; in practice this equates to applying protectionism, subsidising its producers, and developing its own high-tech industries and strategic products.

The COVID-19 pandemic and the Russian invasion of Ukraine have boosted France's arguments. Germany's openness to globalisation

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proved risky in the context of long supply chains and fuel imports from Russia, as well as economic dependence on an increasingly authoritarian and aggressive China. However, it will not be easy to devise a common position. With regard to China, Germany prefers a cautious approach, protecting its own companies; this partly explains why the plan for Olaf Scholz and Emmanuel Macron to pay a joint visit to Beijing was abandoned.<sup>1</sup> However, the two governments may be brought closer together by a plan to diversify trade and capital relations, which will be an opportunity for Germany to reduce risks, and for France to build up its political influence in the 'global south'.

Economic relations with the US are another sphere where the two countries' positions diverge. Because its exports to the US are growing rapidly, Germany would like to return to the talks on the creation of a transatlantic free trade zone which had been abandoned in the previous decade, mainly because of the protectionist policy of the Donald Trump administration. France, on the other hand, has advocated adopting a tougher stance towards US digital companies, and is seeking to regulate their operation in the EU. The enforcement of the Inflation Reduction Act, which envisages the allocation of nearly \$400 billion to 'green' investments, such as the production of batteries and electric cars, will be a turning point for both countries. The Act stipulates that subsidies and tax reliefs will be applied to US-made products; this poses a risk for European imports, as they may lose their competitive advantage. In response to this, France immediately announced that trade restrictions and the establishment of a 'buy European' programme will be necessary if the US fails to make concessions. Emmanuel Macron demonstrated his ambition to lead the EU on this issue when he visited the US in November 2022 and held direct talks with Joe Biden in an attempt to persuade him to make concessions. Germany, on the other hand, has been more restrained. Chancellor Scholz would prefer to defuse the conflict and return to free trade negotiations, and above all, to prevent protectionist tendencies from spilling over into other regions of the world. However, the greater the threat of trade wars, the more pressing the need to unify the positions, with the balance tipping in favour of Paris.

### **Energy: different paths of transition**

The German and French energy policies have convergent goals: they are aimed at reducing greenhouse gas emissions and increasing the share of renewable energy sources in electricity generation as much as possible. However, the methods they use to attain these goals are rather different.

Germany's energy transition plans define gas as a transition fuel in this process. Its share in electricity generation is expected to rise (to around 20% by the early 2030s, according to most forecasts)

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<sup>1</sup> M. Bogusz, L. Gibadło, 'Cooperation in spite of everything. Scholz's visit to China', OSW, 7 November 2022, [osw.waw.pl](https://osw.waw.pl).

due to the decommissioning of nuclear power plants and the gradual phase-out of coal.<sup>2</sup> The decision to abandon Russian gas supplies has pushed Germany to revise its former assumptions and to seek alternative sources of gas, to increase the utilisation of coal-fired power plants<sup>3</sup> and to extend the operation of the country's three nuclear power plants.

France relies on nuclear energy: it accounted for around 70% of domestic electricity generation in 2021. This is why Paris ignored Berlin's opposition and convinced the EU to consider nuclear power as a green source of energy, which enabled France to apply for EU funds for the development of this sector. These funds will be particularly welcome, as France needs to switch off and modernise more of its reactors. In addition, nuclear energy is viewed as one of the pillars of France's sovereignty; it is also an export commodity, which generates good profits and boosts the country's political influence abroad.

In 2022, the modified approach to energy policy was accompanied by tougher competition for access to raw materials, which was evident in the dispute over the MidCat gas pipeline planned to link Spain and

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France. The pipeline's construction was halted in 2019 due to doubts regarding its profitability and its negative impact on the environment. In 2022 Germany, Portugal and Spain revived the plan to construct the pipeline, as they hoped to use it to transport 17 bcm of gas annually from the Iberian peninsula to Germany, and also to transport hydrogen in the future. Paris was opposed to this plan because the investment would compete with green hydrogen produced in France. Ultimately, Paris managed to convince Spain and Portugal to build a new connector between Barcelona and Marseille, which will replace MidCat in 2025.

However, neither side wants these differences to turn into a prolonged dispute. This is why in November 2022 Chancellor Olaf Scholz and Prime Minister Élisabeth Borne signed a declaration on energy solidarity. In the document, they pledged to provide mutual support: France will assist in supplying gas to Germany and the Central European states, and Germany will do likewise in exporting electricity.<sup>4</sup> Moreover, both states have declared their intention to cooperate in developing hydrogen energy, and to continue their support for the transition towards zero-emission energy systems.

## Security: sovereignty under the auspices of NATO

Divergent concepts of security and defence policy are not new in French-German relations. Paris has repeatedly emphasised the need for European autonomy in this sphere, while Berlin has relied on NATO and on cooperation with the US, and concurrently being involved in the development of EU security policy. At present, these differences are less prominent because the EU has adopted the so-called Strategic Compass; this considers France's arguments regarding the need to strengthen EU structures, for example by boosting the development of the EU Rapid Deployment Capacity (EU RDC). In its November 2022 security review, the French government agreed with Germany's stance, and argued that 'credible European defence' is complementary to the framework of NATO.

<sup>2</sup> M. Kędzierski, 'A dangerous dependence on Russia. Germany and the gas crisis', *OSW Commentary*, no. 427, 23 February 2022, [osw.waw.pl](https://osw.waw.pl).

<sup>3</sup> *Idem*, 'Germany: the crisis is driving a renaissance for coal', *OSW*, 12 October 2022, [osw.waw.pl](https://osw.waw.pl).

<sup>4</sup> *Idem*, 'Niemcy: odroczenie odejścia od atomu?', *Komentarze OSW*, no. 465, 4 August 2022, [osw.waw.pl](https://osw.waw.pl).

The disputes regarding the definition of 'European sovereignty' have also died down. The German understanding of this term takes both the military dimension and the need to reduce the EU's dependence on supplies of fuels, medicines and medical substances into account, as well as digital technologies, which are also important to France. Germany continues to be sceptical about the French proposal for more frequent use of EU military missions. It should be noted that the German government is split on this issue, and an evolution of Germany's stance cannot be ruled out.

Moreover, Paris and Berlin have a convergent stance on the general need to boost the European defence industry, which should be viewed as the priority source of

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supplies for the EU member states' armed forces. However, there are numerous disputes concerning specific projects. The most important of them concern the new-generation tank (MGCS) and jet projects, in which Spain is also taking part (FCAS). These mainly result from the rivalry between French and German producers (Dassault Aviation, Airbus, Eumet & Indra in the case of FCAS, and Nexter, KMW & Rheinmetall in the case of MGCS), which are reluctant to share their technologies with other companies. However, at the same time they have been making attempts to increase their participation in the projects. Paris has been distrustful of Germany's purchase of US-made F-35<sup>5</sup> fighter jets, as well as of the German European Sky Shield Initiative, which relies on US and Israeli solutions.<sup>6</sup>

Cooperation between Paris and Berlin will soon be put to the test in the context of how they coordinate their actions with regard to the war in Ukraine and to relations with Russia. In 2022, France and Germany were reluctant to provide significant amounts of armaments to Kyiv, and accepted the leading role which the US adopted in this field. This was interpreted as an unwillingness to escalate and risk the conflict spilling over. Moreover, France and Germany did not support the adoption of a tougher policy towards Moscow. Aside from his so-called telephone diplomacy, Macron proposed that Russia should be given security guarantees. In Germany, where numerous members of the ruling SPD party are influential defenders of the former *Ostpolitik*, the French stance had many supporters.

However the situation may change, as may the tacit consensus on conducting a cautious policy towards the war in eastern Europe. France has decided to provide AMX-10RC armoured reconnaissance vehicles to Ukraine; this put Germany in a difficult situation, and effectively forced it to abandon its reluctance to supply similar types of armaments to Kyiv. President Macron is likely trying to assume the role of Europe's leader in security policy; this will not only be manifested in France's increased involvement in Ukraine, but also in its efforts to boost cooperation with Central European states. For its part, Germany is in the process of revising its *Ostpolitik*, in the face of criticism from the Greens and the FDP, as well as the debate about the need to provide Leopard-2 tanks and other heavy weapons to Ukraine. In this situation, various scenarios are possible: a new, more anti-Russian consensus between Paris and Berlin may emerge, although it is also possible that disputes may arise over the scale of support offered to Kyiv and the future of the relationship with Moscow.

## European integration: the limits of the common vision

Cooperation between France and Germany is traditionally viewed as the precondition for the stability of European integration, but this does not mean that the two countries have identical ideas about the future course of this process. France attaches great importance to developing the integration process,

<sup>5</sup> L. Gibadło, J. Gotkowska, 'First projects to be financed from the Bundeswehr's modernisation fund', OSW, 23 December 2022, [osw.waw.pl](https://osw.waw.pl).

<sup>6</sup> J. Gotkowska, 'Germany's European Sky Shield Initiative', OSW, 14 October 2022, [osw.waw.pl](https://osw.waw.pl).

and to creating a political 'core' of Europe surrounded by less tightly integrated 'circles'. Germany has been more cautious about this model of integration; its policy is more focused on creating a single area of cooperation, which would be particularly beneficial for economic trade.

This difference should translate into Berlin's increased interest in EU enlargement. However, its support for the process is conditional on adopting a restrictive approach to how the candidate countries meet EU membership require-

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ments, and on carrying out institutional reform of the EU itself. In practice, this brings Germany closer to France's position, and effectively decelerates the accession process. Moreover, Chancellor Scholz has supported President Macron's idea of creating a forum for cooperation between the EU and its neighbours, known as the European Political Community, albeit with the proviso that it should not serve as a substitute for enlargement.

However, a transitional consensus on both the principles and the pace of admitting new members does not rule out tension over the neighbourhood policy or the EU's relations with the candidate countries. Germany will focus its attention on Eastern Europe to a greater degree, in particular on the support offered to Ukraine and on managing that country's accession process, as well as on efforts to stabilise the situation in the Balkans. Meanwhile France is more inclined towards the Mediterranean region, and will seek to strengthen the EU's relations with North African countries, for reasons including its energy policy.

Germany's current, more cautious approach to enlargement is likely motivated by its intention to consolidate and stabilise the EU internally. For the same reason, Berlin is reluctant to support the French proposal to build an exclusive cooperation platform around the euro, because this may permanently split the EU into members of the currency union and those which continue to use their national currencies. Instead, Germany has proposed adopting a strategy of small steps, and carrying out EU institutional reform as part of a broader consensus taking into account financial issues, energy policy and the concept of security. It hopes that this could help it win the support of other member states, especially those which are opposed to the plan to introduce majority voting in the EU Council.<sup>7</sup>

## The new consensus

The present catalogue of diverging interests between France and Germany would seem to be the biggest in the history of the two countries' post-war relations. However, the intensity of the disputes and the Franco-German rivalry for influence on the course of affairs in the European Union (as in trade and energy policy), which is difficult to conceal, result from the unprecedented accumulation of crisis-related problems and from the pressure to make quick decisions. Another problem is the evident distance between President Macron and Chancellor Scholz, as each of them have different styles of policy-making and communication.

The essence of this controversy remains embedded in the mainstream of the usual disputes between Paris and Berlin: it therefore does not spell any fundamental, qualitative change. Moreover when it comes to the economy, the security sphere, energy policy issues and the shape of European integration, there is some room for compromise. Paradoxically, the vastness of the present divergences may

<sup>7</sup> A. Kwiatkowska, L. Gibadło, 'Bez przełomu: praskie przemówienie Scholza o reformach UE', OSW, 31 August 2022, [osw.waw.pl](https://osw.waw.pl).

prove helpful, as concessions in one area may serve to build consensus in another. The push towards reaching broad agreement will be particularly strong in the context of global issues such as relations with non-European powers, economic protectionism, the growing security risks for Europe and the challenges related to the reconstruction of Ukraine, as these will pose an increasing challenge to France and Germany's interests. Bilateral calculations are also important: Berlin fears that cooling relations and escalating disputes will empower right-wing anti-EU parties in France, while Paris knows that it will be unable to pursue its international ambitions without the support of Germany.

The strategic documents and political declarations made by France and Germany indicate that the two countries are willing to maintain close relations, and the frequency

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of their high-level meetings seems to corroborate this intention. The eighth meeting of the Franco-German Parliamentary Assembly held on 8 November 2022 served to defuse the present tension. Aside from the representatives of the German Bundestag and the French National Assembly, it was attended by the German foreign minister Annalena Baerbock (of the Greens) and the French secretary of state for European affairs Laurence Boone, while the French minister for Europe and foreign affairs Catherine Colonna joined the meeting online. Another two high-level meetings took place at the end of November 2022: first, Baerbock travelled to Paris to hold talks with her French counterpart, and then Chancellor Scholz received the French prime minister Élisabeth Borne in Berlin. The previously cancelled intergovernmental consultations took place on 24 January 2023 in Paris.

### Why does Europe need the Franco-German 'engine'?

The fundamental question is to what degree the renewal of close cooperation, if it does indeed come about, will have a European dimension. In recent decades, Franco-German compromises determined the agenda for integration within the European Communities and the EU. As a consequence, bilateral negotiations between the two leaders came to be viewed as a crucial, albeit informal, political institution. The two countries' economic potential is another reason why this cooperation model should be revived: in 2021 their combined GDP accounted for 42% of the GDP of the EU as a whole, and nearly 50% of the 'core' of European integration, that is, the euro zone. Yet another reason is their role in financing the integration processes. In 2022, Germany contributed €25.1 billion more to the EU budget than it received from it; for France, the figure was €12.4 billion. Following the United Kingdom's exit from the bloc the importance of political cooperation between France and Germany within the EU is likely to increase, as the UK frequently contested the initiatives which Paris and Berlin jointly devised.

However, there are serious doubts whether the Franco-German 'engine' will regain its previous influence on European affairs. The first such doubt is connected with the changes to the structure for integration and the map of political influence in Europe during the last two decades. Successive EU enlargements which increased the number of the member states have reduced the importance of the Paris–Berlin tandem. It seems that a narrow group of leaders devising political solutions does not work in a system characterised by increasing divergences of interests and the relatively free right to veto. Examples corroborating this view include the Visegrad Group's stance on migration, and the position of the 'Frugal Four' on the EU's budget and finances. It is in the interest of these groups to stoke tension between France and Germany, rather than accept their domination.

Secondly, the practical and political consequences of some of the decisions which the Berlin-Paris duo forced through in the past did not necessarily boost its authority in Europe. This refers in particular to the central and eastern part of the continent, which will remember the reluctance France and

Germany showed towards adopting a tougher policy towards Moscow, their attempts to block NATO enlargement, and their efforts to push through the ineffective Minsk agreements, for many years to come. These issues will significantly undermine the prospects for the French and German plans to expand the application of majority voting in the EU, especially in foreign policy. This would equate to a significant increase in both countries' influence over the integration mechanism.

As a consequence, Paris and Berlin are facing a dilemma regarding the role of their close cooperation in the European Union. In one scenario, their 'engine' should regain its former political significance. If this cannot be achieved through institutional reforms, such as limiting the right to veto and introducing majority voting in strategic areas, another option would be to force through the plan involving different levels of integration, which is what France prefers. In the small, 'core' group of states made up of members of a currency, fiscal, military and political union, the influence of Paris and Berlin would in practice be similar to that of the former European Communities in the era preceding the waves of eastward enlargement.

The second scenario involves greater flexibility and a departure from the ambitious assumptions about the importance of the close cooperation between the two countries in the context of European affairs. Berlin in particular is open to flexible 'coalitions of the willing' which would support the solutions Germany prefers, instead of investing energy in the bilateral alliance of the two largest actors. This is because such an alliance could easily be undermined as an initiative devised by 'hegemons' and an attempt to dominate the EU; it would also be easy to circumvent in an enlarged Europe. In the German narrative, the vision of a single European economic and political space is more attractive than the French preference for exclusive integration.

From the point of view of Central Europe, including Poland, a looser Franco-German alliance and a shift to more flexible cooperation between coalitions of states could be beneficial in many aspects. It could help to eliminate the East-West political divide still evident in Europe, for example in the astonishing durability of the notion of 'new EU member states'. It could also enable the Central European states to pursue their own interests more effectively, for example in military affairs in coalition with France, or in economic and financial affairs in close cooperation with Germany. However, this entails certain risks. A scenario could materialise in which a network of flexible coalitions, which would arise as a kind of so-called 'enhanced cooperation' lacking any clear leaders, could weaken EU institutions and ultimately lead to a political crisis, which in turn would be followed by the implementation of the French idea of an EU made up of a 'core' and a 'periphery'. If the Central European states are unable to propose initiatives aimed at deepening integration and winning wider support within the EU27, such a scenario becomes significantly more likely.