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Germany's Corona Presidency

Germany's Leadership Role and European Partners' Expectations

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The expectations of Germany's European partners regarding the country's EU Council presidency are even higher now as a result of the coronavirus crisis. The German government's success will be measured in particular by the implementation of an appropriate recovery fund as part of the Multiannual Financial Framework 2021-2027. This will require resolving the conflicts of interest between member states and the German government will assume a central role here.

– With the Franco-German initiative for European recovery the German government has made an important concession towards European compromise, strengthening its own integrity.

– The line of division runs between the Northern and Southern European states, but at the same time, traditional positions have shifted – ironically this includes Germany's. In addition, Poland wants to play a constructive role despite the looming conflicts over the rule of law.

– The main points of contention remain the financial volume, the combination of grants and loans, and the coupling of financial aid with conditions. The greatest opposition to the Franco-German initiative, which is also supported by Italy, comes from a group led by the Netherlands.

Since July 1, Germany has held the presidency of the Council of the European Union (EU). The COVID-19 crisis has radically changed the agenda items and the role of its Council presidency. Germany will have to work as an "honest broker" toward compromises and solutions between the 27 member states of the EU and also mediate to achieve an agreement acceptable to everyone. In this process, the German government will not always be able to assume the role of a neutral player, as is usually the case. With the Franco-German initiative of May 18, 2020[1] and its willingness to finance the recovery mainly through grants, the German government has already taken a stance in the most critical debate of the coming six months before even starting its Council presidency – and it is precisely this issue that will pose the greatest challenge to reaching an agreement because of the diverging opinions of the member states.

HONEST BROKER AND DYNAMIC DRIVER

The top priority of Germany's Council presidency is to overcome an impending and profound European recession. Following the initial shock-induced paralysis and tenacity of national responses, the EU and its 27 member states have already implemented an array of measures. But further steps are still needed to cushion the massive economic and social costs resulting from the crisis and to encourage investment as part of a long-term modernization agenda. Therefore, the success of Germany's Council presidency will be judged by whether the EU can be moved to conclude a recovery fund appropriate to the crisis and the accompanying negotiations on the Multiannual Financial Framework 2021-2027 (MFF).

The European partners have high expectations of Germany and the country thus bears a heavy responsibility for setting the course to ensure the EU emerges stronger from this crisis. However, it is clear that the coronavirus crisis has intensified existing conflicts of interest between member states with regard to the battle over distribution in the next MFF and that passions are running high on this issue. As an "honest broker and dynamic driver" it will be up to the German government to build bridges and negotiate a compromise acceptable to all sides. This will not be achieved without friction and disappointments.

France as Germany's traditional partner, Italy as representative for the Southern states, Poland for the Visegrád Group,[2] and the Netherlands for the group of the "frugal four"[3] serve as examples of the diverging interests of the various camps in the current negotiations over the recovery fund and the MFF, as well as the associated hopes and expectations placed on Germany and its leadership role.

FRANCE

The high expectations for the German Council presidency in French government circles are rooted in the Franco-German initiative on economic recovery in Europe from May 18, 2020, which envisages the establishment of a fund with a scope of 500 billion euros. It is based on a powerful concession by Germany and is seen by Paris as an appropriate foundation for a European response to the economic crisis. In particular, the financing of such a recovery fund by joint bonds is in line with the European policy ideas of President Emmanuel Macron.

The Franco-German Engine in Focus

The French government is aware that negotiations on the European Commission's proposal for a recovery fund will be tough and complicated. In fact, at the beginning of May, it demanded a considerably higher financial volume of 1 trillion to 1.5 trillion euros. However, its priority now is to support the size of the recovery fund proposed by the Commission. Moreover, it also supports maintaining the ratio of grants and loans proposed by the Commission. Paris expects the German government to work towards implementing the Franco-German proposal during its Council presidency to avoid a similar failure to that suffered by the Meseberg Declaration of June 2018[4].

The French government assumes that the points of conflict over the Commission's proposal will be worked out initially between the Franco-German

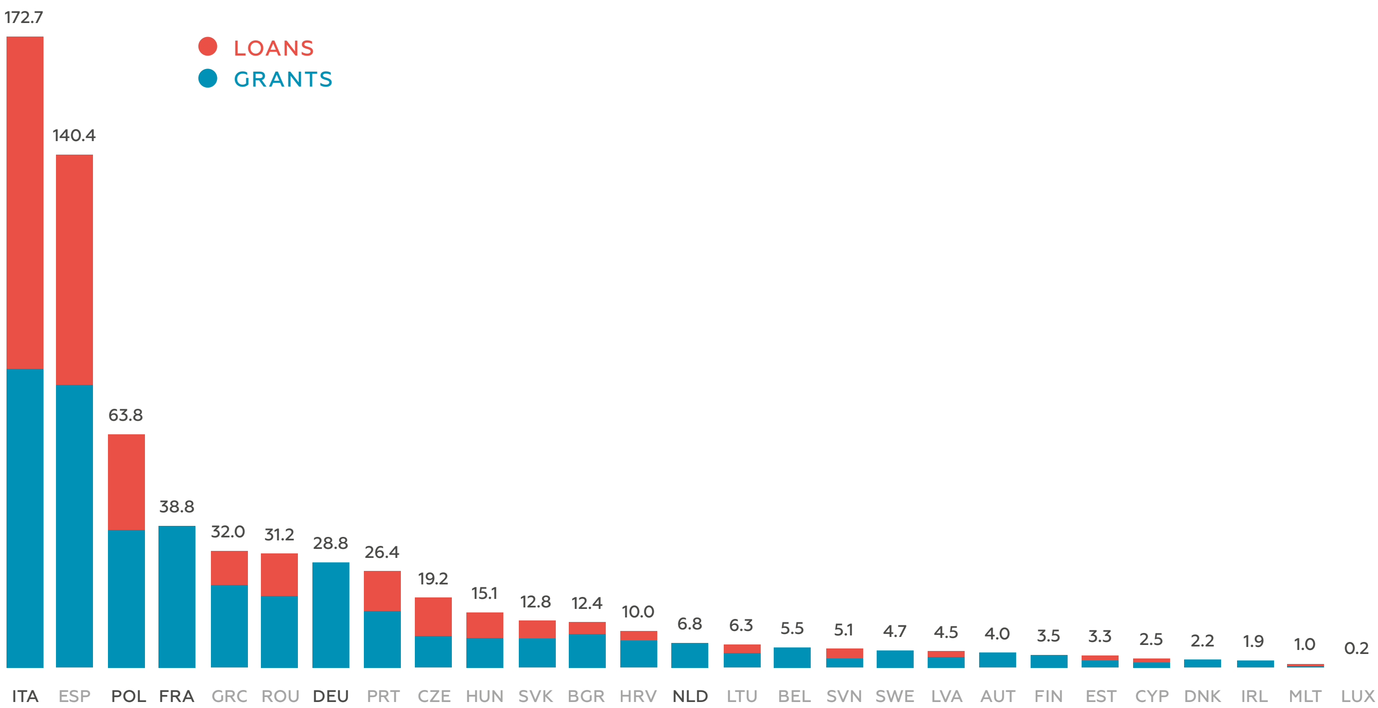
1 Franco-German initiative on economic recovery in Europe after the coronavirus crisis, press release 173, 18.5.2020, https://www.bundesregierung.de/breg-en/news/kanzlerin-rede-bundesrat-1766448 (accessed on July 8, 2020)

2 The Visegrád Group consists of Poland, Hungary, the Czech Republic, and Slovakia.

3 The group of the "frugal four" consists of the Netherlands, Austria, Denmark, and Sweden.

4 Joint press conference by President Emmanuel Macron and Chancellor Angela Merkel, Schloss Meseberg, 19.8.2018, https://de.ambafrance.org/Deutsch-Franzosisches-Treffen-in-Meseberg-gemeinsame-Vorschlage-fur-Europa (accessed on July 8, 2020).

FIG. 1: EU RECOVERY FUND – PRELIMINARY DISTRIBUTION OF AID IN BILLION EURO



Source: EU Commission, https://www.spiegel.de/politik/deutschland/von-der-leyens-billionen-ding-a-3edd60fb-357c-4426-b492-7b9535a9c486

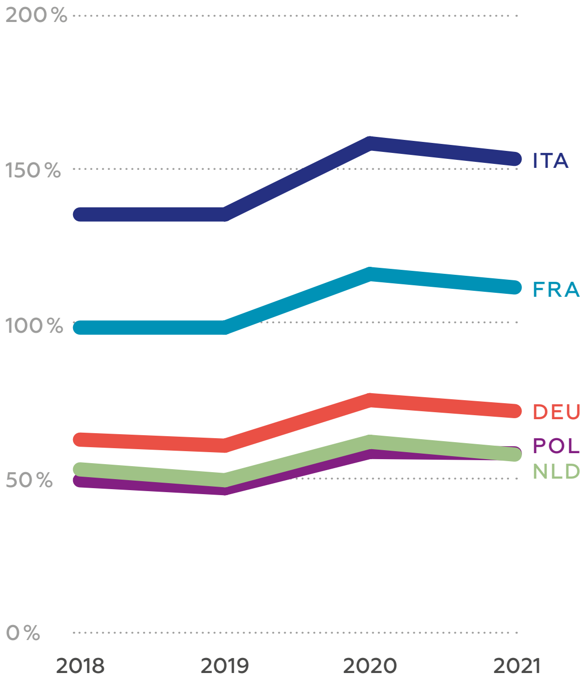
team and the "frugal four." Some Central and Eastern European states, including the Czech Republic, are also seen as difficult partners in this context, since they will derive relatively little benefit from the recovery fund, based on the Commission's calculations (see Fig. 1), and are counting on the maintenance of the Cohesion Fund. The Southern European states on the other hand support the creation of the fund, but it is unlikely that France will try to conclude an additional alliance with them to increase pressure. As long as the French government sees itself in a leadership position alongside Germany it is likely to hold back and adhere to the Franco-German agreement.

The government is currently discussing the distribution formula for the recovery fund in line with the Commission's proposal. Some critics feel that this insufficiently benefits the southern states, which have been hardest hit by the coronavirus crisis and that France can also not expect a "juste retour." The country has been hit particularly hard by the economic crisis (see Fig. 4). Despite all the doubts, Paris is refraining from criticism because the fund is seen as one element in an overall package, which also includes the future MFF, and it does not want to risk damaging the chances of reaching a compromise with too vociferous demands.

The Sacred Cow of the Common Agricultural Policy

In the MFF negotiations, France is demanding the retention of spending on the Common Agricultural Policy (CAP) – for which it can count on Poland's support – and more funding for defense and space exploration projects. Other goals are the elimination of discounts for individual member states, an increase of the upper limit for own resources, and more conditionality with regard to social standards and rule of law principles. On the other hand, it is harder to say what concessions Paris is prepared to make. Cuts to the CAP are out of the question at the moment as far as the French are concerned. It is more likely that France would accept greater conditionality for the European Semester, even if the associated compulsion is controversial in light of the economic and social crisis – and less than two years before the presidential elections.

FIG. 2 – FORECAST OF SOVEREIGN DEBT



Key / Info: Debt ratio in % of GDP
As at: May 2020 | Source: European Commission, European Economic Forecast, INSTITUTIONAL PAPER 125, May 2020, https://ec.europa.eu/info/sites/info/les/economy- nance/ip125_en.pdf

Apart from the direct European response to the economic crisis, the French government hopes that the issue of European sovereignty – be it with regard to defense, industrial policy or health – can be given greater emphasis. There is now an expectation that the German government will lay the foundation for this by pressing ahead with the European health strategy and encouraging discussion of greater EU independence in, among other things, the industrial sector. Macron hopes that the French presidency of the Council in 2022 will be an opportunity to consolidate the strategic autonomy of the EU – and to present the results of the Conference on the Future of Europe, which should begin in the second half of the year.

ITALY

The COVID-19 pandemic has dominated Italy's European policy over the last few months. Italy was the first European country to be hit with the full force of the virus and the already vulnerable Italian economy was brought to its knees. The Italian government criticized the lack of solidarity from its European partners, particularly Germany. Very early on, Rome started to push the need for a rapid and comprehensive European response to cushion a European recession. Already in March, in a letter to the president of the European Council, the Italian government and eight other member states[5] demanded in vain the creation of an ambitious European recovery fund financed by joint bonds.

Franco-German Initiative Is in Italy's Interests

Consequently, the Italian government has welcomed the Franco-German initiative and the proposal of the European Commission. Rome has considered the measures to date, including the use of the European Stability Mechanism (ESM), to be insufficient or unsuitable. The government of Prime Minister Guiseppe Conte has come under pressure domestically as a result.

The proposals on the table now represent the key demands of the Italian government, which are shared by its Southern European partners: the recovery fund should make full use of the EU's borrowing capacity to provide predominantly grants. Italy lent this demand particular emphasis in a joint letter to Commission President Ursula von der Leyen with the other southern European partners Portugal, Spain, Greece, and France.[6] In addition the funding is to be directly linked to recovery, which will be particularly beneficial to the Italian economy.

The Italian government originally expected a considerably higher volume for the recovery fund (up to 1 trillion euros). But according to initial calculations based on the Commission's proposal, Italy will receive the lion's share of the new fund (see Fig. 1). This is a success in terms of domestic politics and takes the wind out of the sails of Euroskeptic forces – all the more so because the distribution issue is central in the Italian public and pushes other issues, such as the configuration of the MFF, into the background.

5 The letter was signed by the Heads of State and Government of Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia, and Spain. cf. Michalopoulos, Sarantis, Nine member states ask for Eurobonds to tackle the coronavirus crisis, Euractiv, 25.03.2020, https://www.euractiv.com/section/economy-jobs/news/nine-member-states-ask-for-eurobonds-to-face-coronavirus-crisis/ [accessed on 12.06.2020].

6 cf. Eder, Florian, Politico Playbook, Politico, 12.05.2020, https://www.politico.eu/newsletter/brussels-playbook/politico-brussels-playbook-europe-needs-a-rest-brawling-judges-mission-accomplished/ [accessed on 12.06.2020].

The Time Factor Counts

For the Italian government, the critical issue is above all the time factor: funds from the recovery fund are urgently needed to prevent a wave of bankruptcies across the Italian economy. But even with an ambitious timetable, funding would not be available until the middle of the coming year. Therefore, Rome expects proposed solutions for substantial interim financing as well as a rapid political agreement to calm the financial markets. Since at the same time the Italian government to date has also refused to take up the almost unconditional loans available from the ESM, this weakens its negotiating position with its European partners. However, in the minds of the Italian population the negative associations with the austerity policy during the 2010 European economic and sovereign debt crisis are so powerful that the government's hands are tied.

Italy is aware of the resistance to the current proposals, particularly from the "frugal four." However, although the Italian government rejects the coupling of financial aid with considerable austerity measures, with his announcement of a comprehensive modernization and investment agenda Prime Minister Conte has already laid the groundwork domestically for possible compromise at a European level, enabling concessions with regard to the earmarked use of funding – also within the framework of the European Semester. Rome is in any case in favor of coupling MFF funds with rule of law principles.

The Italian government thus has major expectations of the German Council presidency. Italy is building its hopes on the German government that the future recovery fund will largely be based on the proposal of the European Commission and the Franco-German initiative. Together with France, it is expected that the German government will prevent blockades by individual states and bring negotiations to a rapid conclusion. In return, Italy is prepared to keep a low profile with regard to additional demands in order to avoid further conflict.

Besides the specific expectations with regard to the recovery fund, Italy has also expressed the hope that during Germany's Council presidency it can become considerably more actively involved in the European decision-making process as a third power alongside France. Italy wishes to discuss issues on an equal footing with Germany and France and hopes to become more closely integrated in bilateral and trilateral consultation formats.

THE NETHERLANDS

In the Netherlands the coronavirus crisis is seen not only as a major health and economic crisis but also as the embodiment of a momentous European crisis of trust. According to the Dutch narrative, uncoordinated border closures within the EU compromised the internal market and damaged the European idea. This is seen as a lack of solidarity, which affected the Netherlands particularly severely as a small, export-oriented state.

From a Dutch perspective, one of Germany's Council presidency's central tasks will thus be to re-establish the four fundamental European freedoms and make the internal market more resilient. Overall, the Dutch government would like to see a proactive presidency that vigorously pursues the EU's future-oriented priority dossiers, such as the Green New Deal and the digital agenda. Pure coronavirus crisis management would not be ambitious enough.

No Sustainable Approach

The current Commission proposal on the provision of a European recovery fund is viewed critically in the Netherlands. The Hague welcomes the Commission's focus on sustainability, competitiveness, and reforms. However, based on the prevailing analysis in government circles that the financial aid granted during the economic and financial crisis has not made a long-term contribution to increasing the resilience of European national economies to crises, the Netherlands doubts whether the proposed economic assistance is likely to achieve sustainable success. The government is also critical of the overall scope of the funding invested.

Furthermore, the government is calling for a more effective enforcement of European rules and principles – including the rule of law – and effective conditionality within the recovery fund in particular – for instance, by applying ex-ante instead of ex-post conditionality. The Dutch government considers the steering system of the European Semester to be inadequate in its current form, for example.

Overall, neither the Franco-German initiative nor the Commission proposal are considered proportionate from the Dutch viewpoint. In particular, the Dutch government criticizes the uptake of a loan by the European Commission as setting a dangerous precedent for mutualization of debt and thus financial risk. Germany's change of heart on this issue has particularly surprised, if not irritated, many decision-makers in The Hague, since Berlin's position was previously perceived as largely in line with the Dutch stance. Moreover, the Dutch government insists that the provision of grants compared to loans weakens the principle of individual responsibility. Therefore, it vehemently rejects the Commission's proposal for grants of 500 billion euros and calls for a limitation on loans. In addition, the overall amount of 750 billion euros budgeted for the recovery fund goes against the Dutch preference for the moderate use of resources. The Dutch see potential for savings within the MFF in particular in the field of agricultural and cohesion policy, but also with regard to migration and border protection.

Complete Blockade Unlikely

To underline their position, the Netherlands has formed the coalition of the "frugal four" together with net payers Denmark, Austria, and Sweden The four countries are united above all in their demand for an EU budget with a smaller overall volume and an inclusion of loans only ("loans for loans") instead of grants. With regard to the pending negotiations, a complete blockade by the Netherlands in unlikely. The Dutch national economy is too closely intertwined with the European internal market.

Despite the content-related differences in the coronavirus crisis management, the Netherlands is looking forward to Germany's Council presidency with a fundamentally optimistic attitude. As well as the many overlaps in terms of content, The Hague appreciates Berlin's inclusive approach and hopes that, as a small to medium-sized state, it will be given the best possible chance to get its message across.

POLAND

The Polish government is approaching Germany's presidency of the Council with cautious optimism. The European Commission's recovery and budgetary plans are in line with the ideas of the Polish government, which is keen to take a constructive role in the EU despite its partly anti-European rhetoric.

Poland as a 'Responsible Stakeholder'

The Polish government's main goal in the budgetary negotiations is to reconcile the demands of the "friends of cohesion," such as support for economically weaker regions and the agricultural sector, with effective anti-crisis measures. Like Germany, the Polish government supports the political shift since the euro crisis. While the Polish government still supported the austerity policy propagated by the German government during the European sovereign debt crisis, it is now throwing its weight behind the plans of the Commission, which are based on the Franco-German initiative.

The proposal represents the core interests of the Polish government. Firstly, unlike Hungary or the Czech Republic, Poland is one of the largest financial beneficiaries of the Commission's proposal; secondly, the overall volume of the EU budget is not to be reduced, which is also in Poland's interests, and the level of the recovery fund is also considered satisfactory. Thirdly, in Warsaw's opinion, a robust recovery program is needed to safeguard cohesion in the eurozone. The stability of the common currency and the European internal market is in Poland's long-term strategic interests. For this reason, Warsaw also supports the proposal to set up the recovery fund mainly with grants.

Poland's attitude to the recovery fund is an effort to break the dichotomy between net payers and net recipients, which the Polish government considers stigmatizing. The PiS government wants to be seen as a "responsible stakeholder" willing to compromise in the negotiations and would therefore also accept a proposal that favors the southern EU states most severely affected by the crisis, even though it is still not prepared to pay more into the common purse than it gets out.

The Visegrád Group Is Crumbling

On the other hand, Hungary and the Czech Republic, Poland's partners in the Visegrád Group and traditionally close allies in the budget negotiations, are more skeptical. They fear that they will be financially worse off than the southern states, especially those affected by the health crisis.

At the same time that Germany is assuming the presidency of the Council, Poland is taking on the presidency of the Visegrád Group and it will want to use this platform to work out a compromise with Berlin that is favorable to both sides.

Despite everything, Warsaw wants to avoid an ambitious recovery fund having a negative effect on the level of the MFF and its distribution formula. Thus, the Polish government, in line with the interests of other Central and Eastern European states, expects the German government to advocate for an appropriate balance, such as the one found in the Commission proposal.

Conflicts could arise as a result of the rule of law issue, which predominantly affect both Poland and Hungary. While the national conservative PiS government basically has no objections to economic policy conditionality, the coupling of aid payments with compliance with rule of law principles is a red line. At a push, Poland could threaten to block the MFF with a veto.

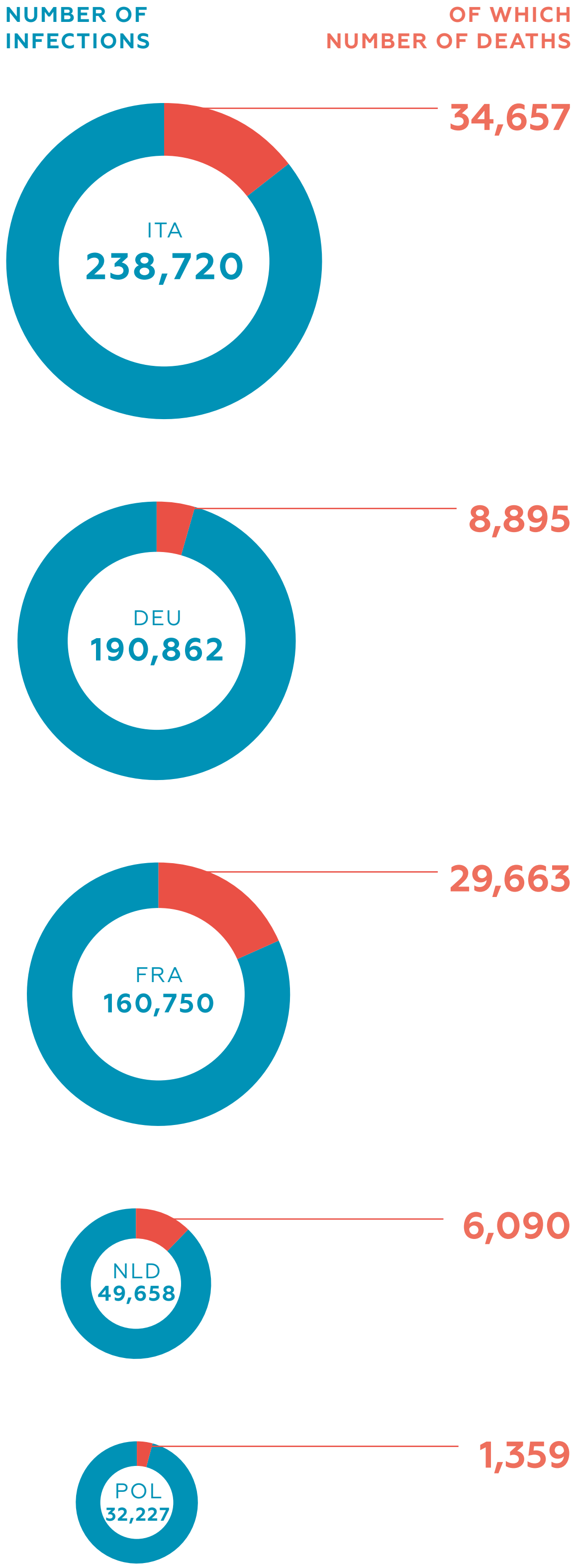
Accordingly, the publication of the first annual report on the rule of law by the Commission and possible hearings in the Council are seen as political leverage in the budget negotiations. While it knows that the German government cannot brush this topic under the carpet completely, Warsaw's expectation of Germany's Council presidency is that it will not be pilloried.

The many strategic interests uniting Warsaw and Berlin are reason enough to hope that there will be a partnership during Germany's Council presidency despite the discord over compliance with rule of law principles. Politically speaking, the current negotiations also represent a chance for rapprochement with Paris, Rome, and Madrid, which would allow Warsaw to minimize its dependence on Berlin, increase pressure on the frugal states of the north (including over the issue of the abolition of tax havens within the EU), and give the Polish government more scope and opportunity for alliances in the readjustment of its European policy after Brexit.

A TEST OF GERMANY'S LEADERSHIP ROLE

In the course of its Council presidency, Germany will face high and contradictory expectations from its European partners, which will be difficult to reconcile. For the implementation of the recovery fund and the MFF, the dividing line is basically between the Northern and Southern European states – a classic split that has come to the fore again during this crisis. Moreover, Poland and Hungary categorically reject the coupling of financial aid with the rule of law principles.

FIG. 3 – HEALTH-RELATED REFERENCE FIGURES OF THE CORONAVIRUS PANDEMIC (AS AT 23 JUNE 2020)



Source: European Centre for Disease Prevention and Control, COVID-19 situation up- date for the EU/EEA and the UK, as of 23 June 2020, <https://www.ecdc.europa.eu/en/cases-2019-ncov-eueea> (retrieved on 23 June 2020)

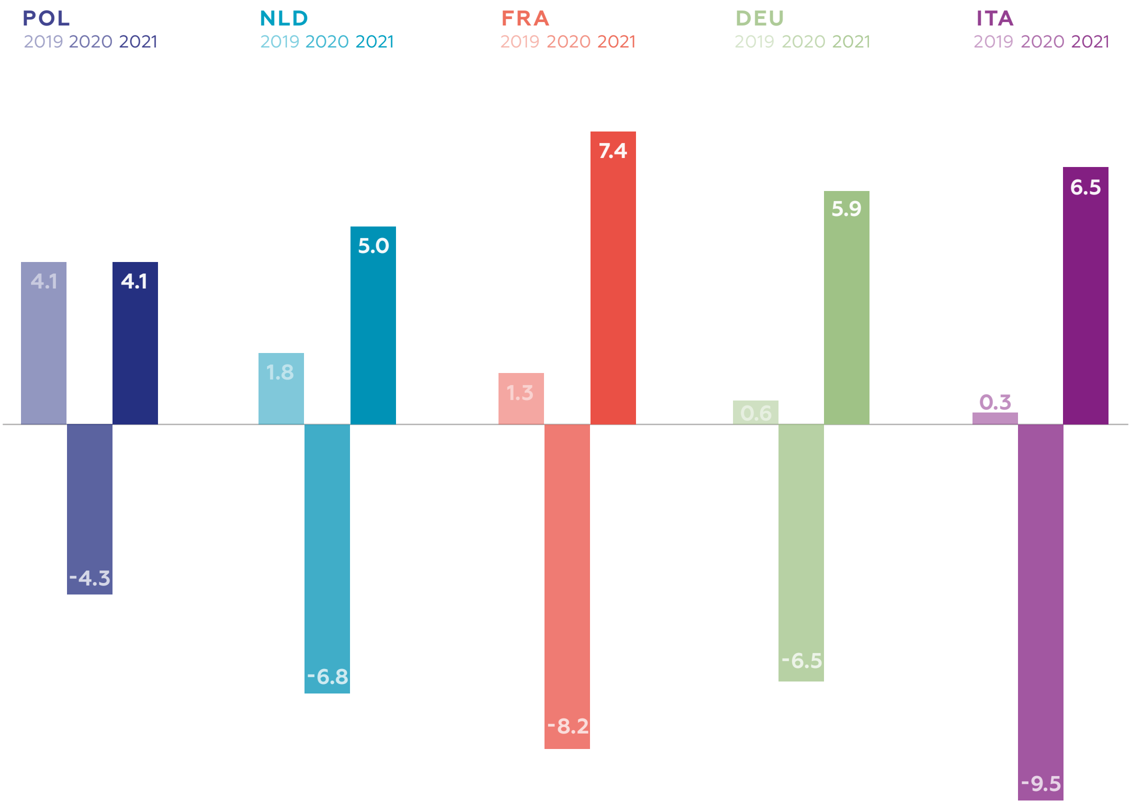
At the same time, traditional positions have shifted over recent weeks, leading to a weakening of established coalitions. As a result of Poland's shift on economic and budgetary issues, for instance, the Visegrád Group no longer speaks with one voice. But the most dramatic change was ironically made by Germany itself: this put the north-south split in perspective, thus instigating a shift in classic EU power structures, which are currently fluctuating anyway in a post-Brexit Europe. Consequently, perceptions of Germany's European policy have also shifted within a very short time: whilst the southern member states are delighted over Germany's support, the "frugal four" fear that they have lost a powerful ally.

Positive Signs under Difficult Conditions

The EU summit on June 19, 2020 showed that positions are still entrenched, and Germany is being given a decisive role in this situation. But in this tense and complex situation the conditions for agreement are actually favorable:

- Firstly, the four case studies show that Germany's leadership role is viewed positively within the EU – this was not always the case. The Northern European member states, which traditionally have good relations with Berlin, are certainly surprised by Germany's change of heart in negotiations over the recovery fund, indeed even perplexed; but up to now they have still not sought open confrontation with Germany. In Southern Europe, Germany initially attracted intense criticism during the coronavirus crisis, but the German shift has changed perceptions and raised huge hopes. Despite the disputes over rule of law standards, it is not least the Central and Eastern European states that share many strategic interests with their German neighbors and trust the country. Nevertheless, the German govern-

FIG. 4 – FORECAST FOR ECONOMIC GROWTH (CHANGE FROM PREVIOUS YEAR IN %)



Source: European Commission, European Economic Forecast, INSTITUTIONAL PAPER 125, May 2020, https://ec.europa.eu/info/sites/info/ les/economy- nance/ip125_en.pdf ment cannot avoid tackling the issue – especially as the Commission will present its first report on the rule of law during the German presidency. Generally, many small member states appreciate Berlin's integrative approach. Such a trust advantage is a good starting point for mediating between diverging interests and achieving compromises.

- A second factor is Germany's clear stance on the recovery fund. It does mean that the German government has, to a certain extent, lost the usual neutrality of a Council presidency, but at the same time, its endorsement of substantial financial transfers lends Germany integrity among its European partners and contributes to its credibility as a mediator. Such a position is not only fair and transparent toward its European partners, which are thus able to take a corresponding stance and hone their arguments. In addition, the German government has also shown its willingness to revise its red lines in view of the severity of the current situation and act as a responsible partner – a signal also aimed especially at the "frugal four."

- Thirdly, the German Chancellor and her government have a good and even trustful relationship with the European Commission president. Angela Merkel and Ursula von der Leyen have mutual respect for one another and share many political convictions. This constellation will facilitate communication between the Council and the Commission. Good inter-institutional collaboration – also with the European Council president, Charles Michel, and the European Parliament – will be essential for the presidency's success in the coming months. The German government is needed here not only as a mediator but also as a driving force and facilitator.

Factors for a Successful Presidency

Despite these positive signs, the German government is aware of how important it is to achieve a positive outcome to the negotiations. It is Germany's very credibility and leadership role that are at stake here. If the negotiations fail, the EU would be on the brink of a major crisis that could endanger the European project in the long term. But Germany is facing the contradictory expectations of its European partners, which are impossible to reconcile. Disappointments are inevitable. Nevertheless, two factors could contribute to the success of the German presidency.

- Firstly, Berlin must act with honesty, transparency, and empathy. It seems that by now, the German government has learned lessons from earlier crises, particularly the European sovereign debt and migration crises, and is endeavoring to not alienate its partners with threats and hardline positions. It will have to bring in its own ideas and work out proposals, but with humility and consistent public diplomacy.

- Secondly, Berlin cannot achieve concessions from its partners if it is not itself prepared to rethink its own position. The discount on Germany's contribution to the EU budget represents a particular dilemma for Berlin: on the one hand, it represents a major risk for blockades in the context of the negotiations but, on the other hand, waiving the discount is controversial in terms of domestic politics, also because the red line of a common European bond has already been crossed with the Franco-German initiative.

Furthermore, the German government must consider the sensitivities of its partners with regard to alliances. It is already clear that it will rely on the political and institutional resources of Franco-German collaboration – particularly because the Franco-German initiative is central to the current crisis management. But this bilateral cooperation is only one of the preconditions necessary for European consensus. Acceptance of Germany's leadership in the other member states depends partly on the German government being able to distance itself from its French partner. This is particularly true in the smaller states, like the Netherlands, where France is traditionally seen as giving priority to size. Other states, like Italy, acknowledge the Franco-German leadership, but want to be more closely integrated. Against this background, the German government should actively offer partnerships to other EU states and show its partners greater appreciation. This would help to avoid blockades and create legitimacy for future agreements.

The need for active German leadership will not cease when Germany's Council presidency ends in December 2020. If the German government does manage to resolve existing blockades and set a course for economic recovery, this would, at the same time, represent a significant contribution to the European integration process. Another reason why agreement on the recovery fund is so important is that it is associated with a comprehensive modernization agenda, especially in the areas of digitalization and sustainability. This can only succeed in the medium to long term and should be continued by the next presidencies (Portugal, Slovenia, France). In particular, topics connected to the strategic independence of the EU, also with regard to a European policy on China, offer opportunities for close cooperation with the French government and should be considered in the light of France's Council presidency in the first half of 2022.

With such a stance, Germany would also return to its long-held role as a driving force and facilitator within the EU. Thus, the Council presidency also offers the opportunity to revise Germany's reputation among its European partners, which was tarnished over the last decade in the course of the European economic and sovereign debt crisis as well as during the migration crisis, with accusations of a lack of solidarity and unilateral German action.

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