



RESEARCH PAPER 05/91
20 DECEMBER 2005

Germany: elections, the new Government and Anglo-German relations

"The day after an election is the eve of another"
German proverb

This paper considers the background to the calling of parliamentary elections in Germany on 18 September 2005. It considers the results and prospects for the new governing coalition, headed by Chancellor Angela Merkel of the Christian Democratic Union.

It also looks at Anglo-German relations and how these might develop under the new Government.

Adèle Brown, Vaughne Miller & Claire Taylor

INTERNATIONAL AFFAIRS AND DEFENCE SECTION

HOUSE OF COMMONS LIBRARY

Recent Library Research Papers include:

List of 15 most recent RPs

05/76	Unemployment by Constituency, October 2005	16.11.05
05/77	<i>Equality Bill</i> [Bill 85 of 2005-06]	17.11.05
05/78	<i>Northern Ireland (Offences) Bill</i> [Bill 81 of 2005-06]	17.11.05
05/79	The <i>Health Bill</i> : Part I Smokefree premises, places and vehicles [Bill 69 of 2005-06]	22.11.05
05/80	The <i>Health Bill</i> (excluding Part 1) [Bill 69 of 2005-06]	23.11.05
05/81	The <i>Childcare Bill</i> [Bill 80 of 2005-06]	23.11.05
05/82	The <i>Work and Families Bill</i> [Bill 60 of 2005-06]	24.11.05
05/83	The <i>Criminal Law (Amendment) (Protection of Property) Bill</i> [Bill 18 of 2005-06]	28.11.05
05/84	Economic Indicators, December 2005	01.12.05
05/85	The UK Parliament and European Business	02.12.05
05/86	The <i>Armed Forces Bill</i> [Bill 94 of 2005-06]	07.12.05
05/87	The <i>Animal Welfare Bill</i> [Bill 58 of 2005-06]	07.12.05
05/88	The <i>Criminal Defence Service Bill</i> [Bill 64 of 2005-06]	09.12.05
05/89	Unemployment by Constituency, November 2005	14.12.05
05/90	The <i>Government of Wales Bill</i> 2005 [Bill 100 of 2005-06]	19.12.05

Research Papers are available as PDF files:

- to members of the general public on the Parliamentary web site, URL: <http://www.parliament.uk>
- within Parliament to users of the Parliamentary Intranet, URL: <http://hcl1.hclibrary.parliament.uk>

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. Any comments on Research Papers should be sent to the Research Publications Officer, Room 407, 1 Derby Gate, London, SW1A 2DG or e-mailed to PAPERS@parliament.uk

Summary of main points

- Over the year or so the last German Social Democratic Party (SPD)-led Government of Chancellor Gerhard Schröder implemented unpopular labour reforms under the so-called 'Hartz' programme. These were part of a wider economic, fiscal and social reform process called *Agenda 2010*, which aimed to cut Germany's budget deficit and reduce unemployment.
- After the defeat of the SPD in State elections in North-Rhine Westphalia in May 2005, Chancellor Schröder announced that he would request permission from the President for a vote of no-confidence in the Government, leading to early elections.
- The 16th *Bundestag* elections were held in Germany on 18 September 2005, a year before they were scheduled to be held, following the no-confidence vote on 1 July 2005. The death of the National Democratic Party (NPD) constituency candidate in Dresden on 7 September 2005 meant that a by-election was held there on 2 October.
- The major areas of disagreement between the two main parties were over the economy, taxation, economic and social reforms, employment, immigration and the possibility of Turkish membership of the EU.
- The Christian Democratic Union/Christian Social Union (CDU/CSU) narrowly beat the German Socialist Party (SPD), but failed to win enough votes to command a majority in the German Parliament, the *Bundestag*.
- The party leaders entered into talks with the smaller parties, the Free Democratic Party (FDP), Greens and the Left Party, to see if they could separately form a governing majority.
- Eventually a 'Grand Coalition' of the CDU/CSU and SPD was formed and Angela Merkel (CDU) became the new Chancellor on 22 November 2005.
- The British Government has sought to help build bridges between Germany and the US after Germany did not support the US-led invasion of Iraq. The new Chancellor is keen to re-establish good relations with the US.
- Chancellor Merkel supports ratification of the proposed European Constitution and intends to promote this during the German EU Presidency in early 2007.
- Cultural relations between the UK and Germany are good, although there has been criticism of public attitudes towards Germany and the decline of German studies in British schools and universities.

CONTENTS

I	The Government of Gerhard Schröder	7
	A. Introduction	7
	B. SPD Reforms	7
II	Confidence Vote and Dissolution of Parliament	9
	A. State elections in North-Rhine Westphalia	9
	B. Decision to call an early election	10
	C. The German Constitution and confidence motions	10
	D. The confidence vote and dissolution of parliament	12
	E. Constitutional challenges	12
III	Election Platforms	14
	A. German Social Democratic Party (SPD)	14
	B. The Christian Democratic Union (CDU)	16
	C. Summary of manifestos	19
IV	The Election	25
	A. Poll predictions	25
	B. Electoral system	26
	C. Leading party candidates	26
	D. Results	26
V	Forming a new government	28
	A. Constitutional basis	28
	B. Coalition negotiations	28
VI	The Coalition Agreement	30
VII	The new Government	32
VIII	Key issues	34
	A. Economic policy	34

B.	Foreign Policy	36
1.	Relations with the United States	36
2.	Relations with Russia	38
3.	Franco-German relations	38
4.	European Constitution	39
5.	The new Foreign Minister	39
IX	Anglo-German Relations	41
A.	Overview	41
B.	European Union	41
C.	Defence	45
1.	Defence relations	45
2.	Defence Policy	48
D.	Cultural relations	53
1.	Königswinter Conference	53
2.	Youth links	54
3.	Award for Lord Hurd	54
	Appendix: cultural, business, academic and political links	55

I The Government of Gerhard Schröder

A. Introduction

Chancellor Gerhard Schröder headed a Socialist-led Government in Germany from October 1998 until November 2005. In September 2002 Germany held parliamentary (*Bundestag*) elections, which resulted in a narrow win for the German Socialist Party (SPD) and another term for Mr Schröder, who was formally re-appointed as Chancellor on 22 October 2002.

Chancellor Schröder returned with a much smaller majority of only nine seats in the *Bundestag* and was more dependent than before on the Greens for support. In the previous parliament the coalition had sometimes faltered over issues such as Germany's participation in defence operations and the use of nuclear energy. The Foreign Minister, Joseph (Joschka) Fischer, had made controversial speeches about a federal Europe, which the Chancellor did not always support wholeheartedly. Germany's high unemployment and economic problems, still attributed by many to the cost of unification, continued. It became more evident that the 'red-green' coalition's economic and social policies were not commanding the public support they had in the late 1990s. The Government proposed a package of reforms known as *Agenda 2010*, which included measures on labour market flexibility, a reduction in income tax, a reorganisation of local authority finances and reform of the health system and the welfare state. *Agenda 2010* became the main focus of debate and criticism in 2003 – 2004.

B. SPD Reforms

In his state of the nation address to the *Bundestag* on 14 March 2003, entitled "Courage for Peace and Courage for Change", Chancellor Schröder set out the proposed economic and social reforms to restructure the welfare state, which had remained virtually unchanged for 50 years. A press release summarised the proposed measures as follows:

- Statutory unemployment benefit would be limited to 12 months for the under 55s and to 18 months for the over 55s (the existing legislation provides for payments for up to 32 months).
- Means-tested employment benefits (paid after the end of statutory unemployment benefit) and social security benefits would be simplified. Instead of a dual system of unemployment and social security benefits, there would be a single type of benefit at the level of the existing social security benefit.
- Flexibility in the labour market would be improved, red tape reduced and more job opportunities created with the provision of a single job agency and temporary work agencies.
- Businesses would be able to hire new workers more easily and termination of contract regulations revised.
- To help start-ups, the maximum length of a fixed-term contract of employment would be doubled to four years and unnecessary or excessive regulations relaxed.

- New legislation would reduce the burden of tax and accounting procedures on smaller businesses, giving them more time to concentrate on their core business activities.
- The laws on collective labour agreements and pay bargaining would be relaxed, allowing greater flexibility for employers and employees to opt out of national agreements and to conclude individual agreements on a company level.
- Businesses would have to provide apprenticeships and training to young workers as part of the dual training system.
- The ongoing tax reform would reduce the tax burden in two stages with the starting rate of income tax falling to 15% by 2005, down from 25.9% in 1998, and the top band rate to 42%, down from 53% in 1998.
- A long term infrastructure investment programme pledged a total of 15 billion Euro to be distributed to local government (7 bn Euro) and for private-sector housing improvement (8 bn Euro). The money for local government would be invested mainly in infrastructure, e.g. water, sewage, waste management, as well as community and social infrastructures. For local governments with specific structural problems and above-average unemployment, interest rates would be lowered.¹

In December 2003 the reform package was debated in, and approved by, the *Bundestag*, but it remained unpopular and was blamed for the fall in support for the SPD in 2004-05. In early 2004 the *Financial Times* reported that the party had “suffered a net loss of 43,096 members in the past 12 months to 650,798, leaving it close to the Christian Democratic Union, its conservative rival, which claims 630,000 members”.² The World Socialist Website commented in April 2005 that “In the past 10 years, the SPD has lost a total of 300,000 members—a third of its membership. Last year, an average of 250 to 300 members turned in their party books on a daily basis”.³

The laws introduced to tackle unemployment were known as the Hartz reforms (named after Peter Hartz, the Director of Human Resources at *Volkswagen*, who headed the commission that formulated them). The aims of the four Hartz reform programmes were:

Hartz I

The first law on modern services in the labour market is designed to open up new opportunities for employment and create new jobs. Personnel Service Agencies place unemployed people in temporary work, providing a bridge to the primary labour market. Hiring out of staff (temporary work, loan employment) is being liberalized; at the same time, fair pay for temporary work is guaranteed. Quality and speed of placement are to be improved, in particular by means of an “early start to looking for work” (obligation to visit the Employment Agency as soon as notice of termination of employment is received).

Recruitment of older workers is being promoted.

¹ Chancellor Schröder sets out Agenda 2010, 14 March 2003, at: “Economic and labour market reform”, German Embassy Press Release, at:

http://www.german-embassy.org.uk/schroder_calls_on_germans_to_s.html

² *Financial Times*, 12 January 2004

³ <http://www.wsws.org/articles/2005/apr2005/spd-a22.shtml>

Hartz II

The second law on modern services in the labour market covers social insurance payments and taxation for Mini-jobs, financial support for setting up a Me plc, and the establishment of Job Centres.

Hartz III

The third law on modern services in the labour market came into effect on 1 January 2004, providing the legal framework for restructuring the Federal Employment Service as the Federal Employment Agency – a modern, customer-oriented service provider. This organizational reform will be supplemented by simplification of legislation concerning payments and funding through unemployment insurance. This will free more staff to concentrate on work placement.

Hartz IV

The fourth law on modern services in the labour market covers the merging of Reduced-rate unemployment benefit and Social welfare benefits for employable persons in need of assistance to create the Basic income for job seekers (Unemployment Benefit II) from 1 January 2005. This new benefits system will be the shared responsibility of the Federal Employment Agency and of municipal and local authorities, cooperating closely with the Job Centres on the integration of job seekers and on payment of benefits.⁴

On 6 February 2004, amidst further demonstrations over his policies and the Hartz IV reforms, Chancellor Schröder announced his resignation as SPD leader, in order, he said, to concentrate on his work as Chancellor. He nominated Franz Müntefering, the party's parliamentary group leader, as his preferred candidate for SPD chairman. Mr Müntefering succeeded Mr Schröder as party chairman in March 2004.

II Confidence Vote and Dissolution of Parliament

A. State elections in North-Rhine Westphalia

On 22 May 2005 the SPD ended its 39-year rule in the state of North-Rhine Westphalia, where state elections were won by the CDU/CSU. The results of the election were as follows (comparison with last state election in brackets):

Party	% of vote 2005	2000 election
Christian Democrats (CDU)	44.8%	7.8% up
Social Democrats (SPD)	37.1%	5.7% down & worst total since 1954
The Greens	6.2%	0.9% down
The Free Democrats (FDP)	6.2%	3.6% down

The *Frankfurter Allgemeine Zeitung* (FAZ) commented:

⁴ *Agenda 2010: Deutschland bewegt sich*, Questions and Answers, English edition, February 2004 at http://www.german-embassy.org.uk/Agenda_2010_brochureengl.pdf

As a result of such shifts, the Christian Democrats were able to capture their eighth victory in the 10th state election they have entered since 2003. The results also meant bad news for the Greens, the junior partner in the national coalition. They no longer are serving in any state government around the country.

The campaign leading up to Sunday's election was conducted against a backdrop of protest about Schröder's benefit-cutting policies and the country's stubbornly high unemployment figures. In North Rhine-Westphalia, more than 1 million people are out of work, and the jobless rate was 12.1 percent in April.⁵

B. Decision to call an early election

Germany was not due to hold general elections until October 2006. However, following the defeat of the SPD in the North Rhine-Westphalia elections and the unpopularity of social security cutbacks linked to the *Agenda 2010* reform program, Chancellor Schröder took initial steps towards calling an early election in September 2005. The decision to hold early elections was taken informally on 22 May 2005, when Chancellor Schröder and Franz Müntefering issued a statement following the North Rhine-Westphalia defeat, saying: "As a result of the bitter election result for my party in North Rhine-Westphalia, the political base for our continued work has been called into question".⁶ Mr Schröder believed the election was necessary for his Government to continue the *Agenda 2010* reforms with which he hoped to revive the German economy.⁷

On 17 June 2005 Chancellor Schröder took the first formal step towards an early election. The State Minister in the Chancellery, Rolf Schwanitz, informed the *Bundestag* Council about the proposal and on 27 June Mr Schröder informed the *Bundestag* President, Wolfgang Thierse, that he wanted to schedule a vote of confidence in his Government.

C. The German Constitution and confidence motions

Germany's post World War II Constitution, the *Grundgesetz* (Basic Law) aimed to ensure political stability and make the early dissolution of parliament difficult. This was largely a reaction to the weak governing coalitions in the Weimar Republic, which had failed to contain political extremists. There have been four motions of confidence in the *Bundestag* since the end of WW2.

- 27 April 1972: Chancellor Willy Brandt lost a confidence vote by 233 to 263 and subsequently won an election.

⁵ FAZ.NET 27 May 2005 at <http://www.faz.net/s/Rub6692441E646343DFBA028A174C8043EC/Doc~EDF2A7FA31BCA44F691822E6B052FFEAC~ATpl~Ecommon~Scontent.html>

⁶ FAZ. NET 17 June 2005 at <http://www.faz.net/s/Rub9E75B460C0744F8695B3E0BE5A30A620/Doc~E9488AEB840F14B548951AAABE65258DA~ATpl~Ecommon~Scontent.html>

⁷ The full text of the Chancellor's speech in English can be accessed on the BBC News website, 22 May 2005, at <http://news.bbc.co.uk/1/hi/world/europe/4571797.stm>

- 17 February 1982: Chancellor Helmut Schmidt won a vote of confidence by 269 to 228 votes but had to step down eight months later.
- 17 December 1982: Chancellor Helmut Kohl lost the vote by 8 to 489. There was a complaint to the Constitutional Court that this had been a deliberate move, but the Court ruled the procedure constitutional.
- 16 November 2001: Chancellor Gerhard Schröder asked his ruling coalition to pass by its own majority (i.e. without opposition support) a government motion to allow German soldiers to participate in US-led military action *Enduring Freedom* in Afghanistan. He won the motion by 336 to 330 votes.

The Basic Law sets out the procedure for confidence votes, as follows:

Article 68 (Vote of confidence, dissolution of the Bundestag)

(1) If a motion of the Federal Chancellor for a vote of no confidence is not assented to by the majority of the members of the Bundestag, the Federal President may, upon the proposal of the Federal Chancellor, dissolve the Bundestag within twenty-one days. The right to dissolve lapses as soon as the Bundestag by the majority of its members elects another Federal Chancellor.

(2) Forty-eight hours must elapse between the motion and the vote thereon.

Under Article 39, “Where the Bundestag is dissolved, the new election shall be held within sixty days”. If the chancellor loses the vote, the President has 21 days to determine whether he accepts the request.

A report by Berthold Kohler in the *FAZ* considered some of the implications of an early election:

For one thing, the parliamentary elections that Schröder wants to hold this autumn will not give his coalition any control over the other dominant force in national politics, the parliamentary chamber called the Bundesrat that represents the states on national issues. And it will certainly not spur 5 percent economic growth. Even if the Germans were to give the Social Democrats the two-thirds majority in the parliament that would allow them to overrule the Bundesrat, it would not remove any of the pressure being exerted by international competition on the German economy. [...] For the moment, at least, two ... issues have moved to the forefront: the relationship of the Social Democrats to its chancellor and the battle order of the political adversary. With his move, the chancellor is sidestepping the danger of being ousted by his own party before the regular election date a year from now. At least until the new election, Schröder and his party are virtually glued together. What or who will come after that is a different question. To a Social Democrat's way of thinking, the decision to force the two major Union opposition parties into a short election campaign and hasty policy disputes can do no harm either.⁸

The *FAZ* speculated on the future of the SPD-led government if the President did not approve early elections:

⁸ *FAZ.NET*, 27 May 2005 at <http://www.faz.net/s/Rub5BF9715CCE50423B88F813D52470B641/Doc-ECB3A294BA2354C93A6B19D73F51F672F~ATpl~Ecommon~Scontent.html>

Schröder would probably step down if Köhler did not approve new elections. His most likely predecessor, Franz Müntefering, would then govern until the next regular election in autumn 2006, giving the government more time to reposition itself and, perhaps on the back of a German win in next summer's soccer World Cup in Germany, improve its chances.⁹

D. The confidence vote and dissolution of parliament

The *Bundestag* vote on 1 July 2005 was not linked to a specific policy, but was a general vote of confidence. The Chancellor instructed his cabinet to abstain from voting, allegedly to maximise the chances of losing the vote and thus being granted an early election.¹⁰ Chancellor Schröder lost the vote by 151 to 296 with 148 abstentions. Five MPs did not take part in the vote.

A report in the German weekly, *Die Zeit*, thought the no-confidence vote would go down as one of the great moments in German politics, comparable to the 1972 and 1982 no-confidence votes (see above). The report summarised Mr Schröder's achievements: sending German troops to Kosovo; not sending troops to Iraq; and his attempts to reform Germany's welfare state. However, critics pointed to the Chancellor's political weaknesses: lack of strategy and consistency; his failure to convince the German public of the social reform package and his inability to reduce Germany's high unemployment rate, which rose to 12.3% in February 2005.

President Köhler announced the dissolution of the *Bundestag* on 21 July 2005 in a live television address, avoiding the constitutional crisis many had predicted if he had decided not to allow early elections. He said he was convinced that the constitutional conditions for dissolving the parliament existed and that the "well-being of the people [wa]s best served by new elections".¹¹ Chancellor Schröder welcomed President Köhler's decision and announced that he would run again in September.

E. Constitutional challenges

The *Bundestag* cannot dissolve itself and a 1983 ruling of the German Constitutional Court stated that a premature dissolution of parliament was permissible, only if the Chancellor was "politically no longer able to govern with the existing forces in the house." The *Financial Times* thought this was "demonstrably not the case", pointing out that the Government had enacted 40 pieces of legislation in the week of the confidence vote. The report continued:

Eminent constitutionalists, such as Josef Isensee, have raised doubts about the constitutionality of Mr Schröder's manoeuvre.

⁹ *FAZ.NET* 10 June 2005 at <http://www.faz.net/s/Rub6692441E646343DFBA028A174C8043EC/Doc~E15E3EAD3F40B407283DE954CCC039391~ATpl~Ecommon~Scontent.html>

¹⁰ Reported in *FAZ*, 30 June 2005

¹¹ German Embassy website at http://www.german-embassy.org.uk/president_kohler_dissolves_par.html

In order to prevent his engineered downfall from being overturned by the constitutional court Mr Schröder will have to turn political contortionist.

First, he will need to conduct the confidence vote so that it ensures his defeat while not appearing so obviously staged that it could upset the constitutional judges and Mr Köhler. Second, he will have to prevent the contrived showdown from coming across as a political humiliation. The chancellor, after all, will be campaigning for re-election days after parliament dismisses him.

How Mr Schröder intends to demolish the edifice of his government while leaving his credibility intact should be answered in his pre-vote parliamentary address tomorrow. "This will have to be a work of art," Dieter Wiefelspütz, an SPD MP, told the FT. Mr Wiefelspütz believes he has found an elegant solution: while the opposition, which keenly believes it can win the expected September 18 election, will vote against the chancellor, the majority of SPD parliamentarians should abstain. "This way, I will not withdraw my confidence in the chancellor, but I will express my support for his decision to put his future back in the hands of the people."¹²

Berthold Kohler (*FAZ*) thought the Chancellor's attempt to call an early election gave rise to constitutional questions:

The drive for early elections is questionable from a constitutional point of view because it is a contrived one.

So far, the chancellor has enjoyed the support of the coalition's parliamentary groups. To pull off his plan, though, they will have to formally deny him that support in a parliamentary vote of confidence. Afterward, President Horst Köhler has the option of dissolving the parliament. Schröder is putting the president on the spot for motives of party and power politics. And, unfortunately, the other parties have welcomed the move as a chance to join in.

Now, Köhler has to make a decision. He can dissolve the parliament, but he does not have to. If he rejected the request, he would be the only one who refused to dance to Schröder's tune.¹³

According to a report in the *Guardian* constitutional experts also believed the Chancellor's plan might be unconstitutional.

... analysts said parliament could only be dissolved early if its relationship with the government had "broken down". Since Mr Schröder still had a parliamentary majority - and was merely pretending he did not have one - the conditions were not met.

"There's no real proof that this government can't govern," Christian Pestalozza, a professor of law at Berlin's Free University, told the *Guardian* yesterday. "It has just passed 40 laws. This is a simple case of manipulation. If I were the president,

¹² *Financial Times* 29 June 2005 at <http://news.ft.com/cms/s/2888979e-e8d2-11d9-87ea-00000e2511c8.html>

¹³ *FAZ.NET*, 27 May 2005

I would say this doesn't satisfy article 68 of the constitution and I won't allow new elections."

"The entire plan is dilettante-ish and unprofessional. I understand that Mr Schröder suffered a shock after his defeat in North Rhine-Westphalia but it would have been better if he had kept his mouth shut."¹⁴

A group of small fringe parties considered challenging the legality of an election at the Constitutional Court. They included the "Party for Animal Welfare" (which took 0.3% of the vote in 2002, but did not win any seats because of the 5% threshold), the "Party of Families", the "Grey Panthers" (a pensioners' group), the environmentalist DP and the far-right *Republikaner*. However, on 25 August 2005 the Constitutional Court dismissed complaints about unconstitutionality from two MPs, Jelena Hoffmann (SPD) and Werner Schulz (Green) by a vote of 7 to 1. It ruled that the Chancellor's statement that he did not have a reliable majority in the *Bundestag* for his reform programme was 'plausible'. One of the main reasons for the judges' decision was to restore the ability of the German Government to act.¹⁵

III Election Platforms

A. German Social Democratic Party (SPD)

The SPD manifesto was entitled *Vertrauen in Deutschland* (Trust in Germany). The Chancellor emphasised social justice and reform of the social state, even though his reforms in these areas had been unpopular. The *FAZ* reported on a speech by the Chancellor in mid-June 2005, in which he emphasised his Government's commitment to economic and social reform:

Schröder stressed his commitment to Germany's social market economy, saying it is not "an obsolete model." At another, he emphasized just how important the government was. "The securing of social benefits and equal opportunity is and will remain a primary responsibility for politicians and the government," he said. For his part, Müntefering stressed that "the economy is there for the people and not the other way around."

At the same time, though, the chancellor refused to give in to his party critics who would like him to abandon a series of labor, health and social reforms called the *Agenda 2010*. In his address, he said the reform was necessary to help adapt Germany's social market economy to "the totally new conditions created by the globalized economy."¹⁶

A convention of the SPD's youth branch called on the Chancellor to remove the *Agenda 2010* programme from the party's campaign platform, saying "The policies of the national government in their present form are not supported by many voters ... The 'Agenda

¹⁴ *The Guardian* 1 July 2005

¹⁵ *BBC News*, 25 August 2005 at <http://news.bbc.co.uk/2/hi/europe/4181468.stm>

¹⁶ *FAZ.NET* 17 June 2005

2010' cannot be the foundation of an election campaign ... We need a perceptible new direction of our policies".¹⁷

The SPD agenda included a higher top rate of tax and new minimum wage and health insurance schemes:

The party's top executive, meeting in Berlin last night, said its electoral manifesto would include a three-point surcharge, to be added to the top 42 per cent rate of income tax, for anyone earning more than €250,000 (£165,000, \$300,000) a year.

Franz Müntefering, the SPD chairman, who unveiled the measure after the five-hour meeting, made clear it was intended more as a psychological than as a fiscal step.

While the surcharge, a long-standing demand of the SPD's left wing, would bring only a few million euros in new tax revenue Mr Müntefering said these would be invested in research and education it could help rally disaffected voters.

[...]

While the full manifesto will only be adopted by the SPD on July 4, most of the items agreed on Sunday pointed towards a polarising, left-leaning campaign.

These included a universal minimum wage, and a universal health insurance scheme. Mr Müntefering said the tax mark-up would be conditional on a reform of business taxation. Currently, 85 per cent of German companies all small- and mid-sized pay income rather than corporate tax and would be hit hard by the surcharge.

There is near cross-party consensus that all companies should be subject to corporate tax while individuals pay income tax. A reform of the tax system is certain to be on the agenda of whoever wins the September election.

Still under discussion are measures ranging from a fiscal stimulus to new types of social benefits and cost-neutral ideological concessions to the party's left.

These would include the possibility of deducting home repair costs from tax; the abolition of an existing tax cut on families hiring household aid; and a new social benefit, worth 67 per cent of a former wage, for mothers and fathers who take a year off from work to look after their new-born children.¹⁸

A subsequent *FAZ Weekly* report noted that the higher tax proposal had gained the support of more conservative SPD members, but also that the plan contradicted earlier SPD tax pledges:

Such an increase would reverse the government's tax policies. Up to now, the government has praised its reform as "the biggest tax-cutting program in the history of the Federal Republic." As part of the reform, the top tax rate has fallen from 51 percent to 42 percent.¹⁹

¹⁷ Ibid

¹⁸ FT.com 26 June 2005 at <http://news.ft.com/cms/s/81deed5c-e684-11d9-b6bc-00000e2511c8.html>

¹⁹ FAZ.NET 24 June 2005 at

B. The Christian Democratic Union (CDU)

The Chancellor's announcement on early elections precipitated the official announcement of the CDU's chancellor candidate. The two main rivals for the post were Angela Merkel, the CDU chairwoman, and Edmund Stoiber, the leader of the CDU's Bavarian sister party, the Christian Social Union (CSU).

On 30 May 2005 Ms Merkel's candidacy for the chancellorship was confirmed. The *Guardian* provided the following biographical details:

- 1954 Born Angela Dorothea Kasner in Hamburg
- 1957 Moves to East Germany, where her father had taken a post as a Protestant minister
- 1977 Marries Ulrich Merkel. The couple divorce in 1982
- 1978 After studying physics at the University of Leipzig, becomes a quantum chemistry researcher at the Academy of Science in East Berlin
- 1989 Joins Democratic Renewal, a pro-democracy group
- 1990 Serves as spokeswoman for East Germany's first and only democratically elected leader, Lothar de Maiziere. Joins the conservative Christian Democrats. Elected to reunified German parliament in December
- 1991 Named minister for women and youth in Helmut Kohl's cabinet; elected deputy chairwoman of Christian Democrats
- 1994 Becomes environment minister after Mr Kohl's re-election
- 1998 Elected general secretary of Christian Democrats in November after party loses power; marries chemistry professor Joachim Sauer
- 2000 Elected chairwoman of Christian Democrats amid fallout from a slush fund scandal surrounding regime
- 2002 Steps aside to allow Bavarian governor Edmund Stoiber to lead unsuccessful election challenge to Chancellor Gerhard Schröder. Boosts grip on party after his defeat, taking over its leadership in parliament
- 2005 Nominated to challenge Schröder in an early general election.²⁰

The Independent considered Ms Merkel's political and social background:

Angela Dorothea Kasner, the eldest of three children, spent 35 years in Communist East Germany. She was born in West Germany, in Hamburg, but her father, a Lutheran pastor, accepted a job in a seminary and headed east. Growing up in rural eastern Brandenburg, Merkel learned to slip easily between a public life obeying the laws of the German Democratic Republic and a home life where her father read the Bible and openly criticised the system. It was a childhood that taught her never to give too much away; a thorough political training in playing her cards close to her chest. To school friends, 'Kasi' was 'a bit weird' and 'deeply ambitious'. A star organiser in the Communist youth organisation, the FDJ, she worked hard and achieved constantly high grades.

Later, she studied physics at Leipzig University, before moving on to become a quantum chemistry researcher in East Berlin. Science, however, had been a purely pragmatic choice; merely a vehicle to keep her nose out of Communist

<http://www.faz.net/s/Rub9E75B460C0744F8695B3E0BE5A30A620/Doc-EECE1462FE19845818BE5AE3C3AED74AC-ATpl-Ecommon-Scontent.html>

²⁰ *Guardian* 31 May 2005

politics. 'I would have loved to have become a teacher,' Merkel has admitted. 'But not under that political system. Physics was harmless and uncontroversial.' Her move into politics came late, in 1989. But Merkel positioned herself well, and it was a rapid rise to the top.

As popular resistance to Communism grew in the GDR, she joined the Democratic Renewal, a pro-democracy group, serving as spokeswoman for Lothar de Maiziere, East Germany's only democratically elected leader. Within a year, Merkel had moved on, joining the CDU, the West German Christian Democrats, who were hungry for new talent.

As reunification took place, she asked to be introduced to Helmut Kohl. He spotted her ambition and took her under his wing. On Kohl's re-election in 1994, the woman he called 'Das Meedchen' became Environment minister. By the time the truth broke about the huge financial irregularities in the party, she had openly distanced herself from Kohl and the sleaze. She wrote a devastating article in the respected *Frankfurter Allgemeine Zeitung* about the man who had made her political career. Kohl wasn't the first man she had dumped. Described as a cool, calculating tactician, the young Merkel was revealed to be a sexually liberal character in the Stasi reports on her. She had many love affairs, none of which lasted more than six months. One informant told the East German secret police that when he picked her up for work in the mornings he would often meet her lovers standing at the front door wrapped only in their dressing gowns.

Her first marriage, in 1977 at the age of 23, was to Ulrich Merkel, a staid East German student, whose name she still bears. The marriage was short-lived and, five years later, the pair divorced. 'She appears to have had the discussion about ending our marriage just with herself,' says Ulrich Merkel. 'And she also drew her own conclusions.' She left without warning.

More recently, Merkel has played with the heartfelt political aspirations of members of her own party. Wolfgang Schäuble, a former CDU chairman, was desperate to become Germany's president. Insiders say Merkel never promised anything, but continued for months to let him believe the candidature was his. At the last moment she announced that Horst Kohler, an international, forward-thinking figure, would stand for the post. The choice entirely served Merkel's ends. It was her first big victory since being elected CDU leader in 2000. Kohler as the new President was the first sniff in the air that political change in Germany was possible, and Merkel could be the woman to lead it.

Merkel, 51 next month, has since married Joachim Sauer, a chemistry professor. Men tend to underestimate the dumpy, childless Ossi divorcee. Despite the obvious similarities, she is not a Teutonic Margaret Thatcher. She may be tough, but she has an immediate personal affability. 'Das Meedchen' is a girl's girl and has surrounded herself with female advisers. She is a regular in the Berlin women's networking salon run by the political talk show host Sabine Christensen. There, she is a proponent of women's rights and often complains loudly about the glass ceiling restricting women in the workplace.²¹

In May 2005 *The Economist* considered the prospects for a Merkel-led government:

²¹ *Independent on Sunday* 19 June 2005

[...] She is inexperienced and largely untested. Yet, subject to a few caveats, a government led by her has every chance of being an improvement on the present one led by Mr Schröder.

Her foreign policy is not yet set in stone, but Ms Merkel would be more Atlanticist. She was critical of Mr Schröder's alliance with France's Jacques Chirac in opposing the American-led war in Iraq, even if she would be unlikely now to help more, for example by sending troops. She would be less likely to put the Franco-German relationship ahead of other bilateral links: she would be keener than Mr Schröder to reach out to the British and the Americans. She would also be less forgiving of Russia's Vladimir Putin, whom Mr Schröder has been too reluctant to criticise. The one fly in the ointment on foreign policy is that Ms Merkel is against Turkish membership of the European Union. If she became chancellor in September, her new allies would have to persuade her not to block accession talks with Turkey in October—on the basis that such talks will anyway last a decade or more.

[...]

She would, unusually, have a substantial majority in both houses of parliament, as well as in most German states. The trouble is that Ms Merkel's CDU is by no means a radical, free-market party. Its Bavarian sister, the Christian Social Union, is even keener than the CDU on preserving Germany's much-vaunted social model. Both parties are also strangely stuck in the past on issues such as civil rights, education and immigration. So far, moreover, Ms Merkel has not developed any concrete plans for the big changes needed to the tax system, health-care financing, public pensions and the like.

This is a worry, because even if she is elected in September the window of opportunity is small and she will need to move fast. As early as next March there will be three major regional elections (and in 2008 another three), which will limit the zeal for tough reforms. The odds are that if she became chancellor Ms Merkel would make a better fist of reform than Mr Schröder did. That might still not be enough.²²

The CDU/CSU manifesto was called *Deutschlands Chance Nutzen* (Using German's Opportunities). The *German News* (English edition) reported on CDU/CSU plans for austerity measures:

The CDU/CSU has announced an austerity plan 'with no sacred cows' if it wins the next federal election. The budgetary spokesman for the CDU/CSU caucus, Steffen Kampeter, told the AP news agency that there was no more time to waste, given the dramatic financial state of the federal administration. He said that a CDU/CSU-led government would immediately implement a budget freeze. He also said that there was no way that Germany could observe the deficit maximum of three percent of gross domestic product specified in the Euro Stability Pact, as early as next year.²³

²² *The Economist* 28 May 2005. There is a BBC News profile of Ms Merkel, 23 May 2005, at <http://news.bbc.co.uk/1/hi/world/europe/4572387.stm>.

²³ *German News* 5 June 2005 at <http://www.germnews.de/archive/dn/2005/06/05.html>

The CDU/CSU proposed an increase in Value Added Tax, by 2% to 18%. In return, they suggested cutting payments for unemployment insurance from 6.5% of gross pay to 5%.²⁴ The *FAZ Weekly* reported:

In the major opposition bloc, leaders are focusing on a different type of revenue producer: a potential increase in the country's value-added tax. The possibility of such an increase was raised last week in a report in the *Bild* newspaper. It reported that the Christian Democratic Union and its Bavarian sister party, the Christian Social Union, would propose an increase of 2 percentage points to 18 percent. As a payback, the parties propose to cut payments for unemployment insurance from 6.5 percent of gross pay to 5 percent.

This week, Christian Democrats indicated that the party was seriously considering the issue. Hartmut Schauerte, who chairs the party's parliamentary committee on small and mid-sized companies, said the party had already agreed on the increase. And Michael Meister, a vice chairman of the party's parliamentary group, raised questions about the exemptions granted by law. The government "should remain neutral and not get into a debate over which of the 50 exemptions are justified and which are not," Meister told the newspaper *Die Zeit*. Articles such as newspapers and food are taxed at 7 percent.²⁵

In foreign policy the CDU was not expected to pursue the goal of a permanent seat at the United Nations with the same vigour as the SPD.²⁶ Ms Merkel has been more pro-American and pro-free market than Chancellor Schröder. Her foreign affairs adviser, Wolfgang Schäuble, said in August 2005 that he supported a more integrated Europe and better relations with the US, he told the *International Herald Tribune* in August 2005. He wanted Turkey to be a "privileged partner" with the EU, rather than a full member, but indicated that a CDU-led government would not block the start of accession talks with Turkey (which were due to start on 3 October 2005).²⁷

At the end of August, the *Financial Times* suggested that a Merkel government would "make sweeping changes to Germany's labour market within 100 days of winning power", in spite of some expected resistance from trade unions and business representatives.²⁸ Ms Merkel's economic adviser, Peter Müller, said:

On January 1 2006 we would reduce contributions to unemployment insurance by two percentage points, and at the same time clear the way for factory-based [collective bargaining] alliances and for looser job protection rules for newly-employed workers.²⁹

C. Summary of manifestos

The *Frankfurter Allgemeine Zeitung* summarised the views of the main parties on taxation, employment, health, pensions, family, Europe, security, energy, education and

²⁴ Ibid

²⁵ FAZ.NET 24 June 2005

²⁶ *Financial Times* 28 June 2005

²⁷ <http://euobserver.com/?aid=19730&rk=1>

²⁸ *FT* 31 August 2005

²⁹ Ibid at <http://news.ft.com/cms/s/5465822c-197a-11da-804e-00000e2511c8.html>

bioethics.³⁰ The German news service, *Deutsche Welle*, summarised the parties' views on a range of election issues.³¹ Below are extracts from this report on the positions of the two main parties:

Foreign Policy

Is US or French alignment better for Germany's interests? What should be the function of the Bundeswehr? Would Germany benefit from a permanent seat in the UN Security Council? Here's what the parties have to say.

SPD

The Social Democrats want Germany to have a permanent seat in the United Nations Security Council. The party supports the continued deployment of the Bundeswehr for missions in crisis regions. In addition, civil and peacekeeping missions as well as peace and conflict research should be expanded. It remains a goal of the SPD to ratify the European constitutional contract in all member states. The SPD warns against a breach of promise with Bulgaria, Romania, or Turkey: accession talks should be continued or, in the case of Turkey, begun.

CDU/CSU

The Christian Democrats want to strengthen ties with the primary transatlantic partner, the US, and at the same time cultivate a close relationship with all member states in the European Union, not just with France. The deployment of Bundeswehr troops abroad should be continued. EU regulations should only be implemented in a one-to-one relationship with national regulations. The Christian Union is against Turkey entering the EU and prefers instead a "privileged partnership" between the two countries. Accession talks with Croatia should begin as soon as Croatia's cooperation with the International Criminal Court has been confirmed.³²

Domestic security and immigration

How far will Germans allow their civil liberties to be circumscribed in the fight against terrorism? What is the best policy for integrating the Islamic minority? Here's what the different parties have to say.

SPD

The Social Democrats want to equip German security authorities with the world's largest digital transmission system. The party draws a sharp line separating the responsibilities of the armed forces (foreign security) and those of the police (domestic security). The German army, the Bundeswehr, should not be deployed within Germany's borders to deter terrorist activities. The SPD wants to increase knowledge of the Islamic religion by offering more classes on it in public schools. The classes should be taught by teachers trained in the German educational

³⁰ FAZ 5 September 2005

³¹ <http://www.dw-world.de/dw/article/0,1564,1655626,00.html>

³² <http://www.dw-world.de/dw/article/0,1564,1667058,00.html>

system. Forced marriages should be entered into the law books as a criminal offence.

CDU/ CSU

The CDU and CSU want to broaden the responsibilities of the Bundeswehr to increase its role in anti-terror preparation for the 2006 World Cup in Germany, for example. Police and news agencies should receive a common analysis center and a common databank. A visa-warning file should be initiated, and the ministry of the interior should have the supervision over the distribution of visas. The CDU and CSU want to pass a ruling making the sexual exploitation of victims of human trafficking a criminal offense. Immigration should be limited to filling gaps in labor supply and to leading experts in science and economics. Abetting forced marriages should become a criminal offense unto itself.³³

Energy

Oil and gas are scarce resources. Politicians have vastly different ideas when it comes to meeting growing energy demand.

SPD

The SPD plans to invest 20 billion euros (\$24.5 billion) in renewable energy by 2010 with the goal of making Germany the global market leader in the solar and wind power industries. The party remains committed to the agreed on subsidies for phasing out coal production as well as nuclear energy. The energy supply should come from climate-friendly 'clean coal' plants, natural gas, biomass, and a mix of various renewable energy sources.

CDU/ CSU

The CDU and CSU envision an energy supply from a diverse array of sources: oil, coal, gas, nuclear as well as biomass, hydro, wind, and solar energy. Regenerative energies should make up at least 12.5 percent of the energy supply, but should receive fewer subsidies than in the past. The German nuclear power plants should be allowed to continue operation longer than currently intended.³⁴

Family

All political parties like to claim that they're the most family-friendly. But what exactly are they promising?

SPD

The SPD wants to create 230,000 new spots in kindergartens, crèches and day care centers by 2010. The fees for day care centers will be gradually phased out. The three-year parental (not exclusively intended for the mother) leave will remain untouched -- and will include a job guarantee after and the possibility of

³³ <http://www.dw-world.de/dw/article/0,1564,1666986,00.html>

³⁴ <http://www.dw-world.de/dw/article/0,1564,1666204,00.html>

part-time work. The SPD has declared that it wants to increase the number of working women to more than 60 percent in keeping with European directives.

CDU/CSU

The Union's party platform talks of a targeted promotion of highly-gifted and talented children and teenagers, but it doesn't outline any concrete plans about how it intends to do that. The bloc has said it wants to introduce a per-child bonus and an additional tax benefit that would encourage people to have more children without suffering financial strain. The party is against the introduction of a state-run "ethics class" and instead want to hold on to a church-led religion class. In addition, it guarantees that employees who take care of a child or need to nurse to a close relative, will have the right to part-time work.³⁵

Education and Research

Goethe, Einstein, Nietzsche -- Germany was once called the nation of poets and philosophers. Today, the country is faced with some of the lowest education standards in Europe. What can be done to improve the situation?

SPD

The SPD wants spending on research and development to increase to three percent of Gross Domestic Product (GDP) by 2010 -- a third of which will be financed by the government, two thirds by industry. It is in favor of introducing nation-wide education standards in day care centers. The SPD, which has initiated a full day school program (in Germany, schools usually run till noon), wants to give the federal states an additional four million euros to set up 10,000 more full day schools in the country. University studies will continue to be free, but only for the first degree -- a plan designed to reduce the number of years many German students spend before entering the workforce. The BaföG or financial support for students from the government, will remain untouched and will be converted into a complete student loan.

CDU/CSU

Starting 2010, the Union aims to invest three percent of GDP yearly in research and development. In addition to the already agreed so-called "initiative for excellence" -- that means in addition to the 1.9 billion euros meant to promote top study courses and so-called elite universities -- a further one billion euros will flow into research and development. That will be financed by reducing subsidies elsewhere. The universities will be allowed to impose tuition fees.³⁶

Taxes

There are two main issues related to taxation in this election: reforming the highly complicated tax system and making it more just. Just who or what will be taxed and how much is at stake depends on the party.

³⁵ <http://www.dw-world.de/dw/article/0,1564,1659388,00.html>

³⁶ <http://www.dw-world.de/dw/article/0,1564,1659339,00.html>

SPD

Discussion of Germany's Value Added Tax is making waves this election campaign. The SPD believes raising the VAT would be a "step in the wrong direction," but the party's official platform does not reject hiking the consumption tax outright. The Social Democrats are pushing a "wealth tax" on yearly income over 250,000 euros. That would raise the top tax rate to 45 percent from the current 42 percent. The party hasn't delved into specifics for its plans for corporate taxes, however, the SPD has said its goal would be to eventually tax both publicly and privately held firms at the same rate. Tax rates for publicly traded companies could be cut from 25 percent to 19 percent, but the SPD has not explained how it would finance such a reduction. Bills up to 600 euros for tradesmen such as carpenters or plumbers for private households could also be deducted from income taxes in the next two years.

CDU/CSU

CDU and CSU want to increase the VAT from 16 to 18 percent from 01-01-2006 in order to lower non-wage labor costs. The lowest bracket for income taxes would be cut from 15 to 12 percent and the top rate would decrease from 42 to 39 percent. The conservatives would keep a local business tax known as Gewerbesteuer, but corporate taxes would drop from 25 to 22 percent. To offset those cuts, tax loopholes and subsidies would be shut including tax breaks for commuters and wages earned on Sunday, holidays and nights. Inheritance taxes on family-run companies would be scrapped if the firm continues operation under the heirs for the following 10 years. The Union wants to introduce a tax-free income amount of 8,000 euros for all individuals, including children which could be used by their parents. The conservatives have not yet determined if there would be changes to the Kindergeld money Germans receive to help support children.³⁷

Unemployment

More than five million Germans are out of work: Reducing unemployment is the election's most important topic.

SPD

The SPD wants all industries to implement nationwide minimum wages on their own -- otherwise the party will push for a legally mandated minimum wage. The Social Democrats are opposed to weakening Germany's job-protection measures (Kündigungsschutz) and is against legislation that would interfere with the ability of unions and employers to negotiate wages for their respective industries. Worker co-determination -- where employees are legally entitled to be represented on company boards -- is not up for discussion. The SPD plans to eliminate the differences between the new unemployment benefits for the long-term jobless (Arbeitslosengeld II) in eastern and western Germany by hiking eastern Germans' monthly check to 345 euros. Older recipients of unemployment benefits will have an extra two years (01-02-2008 not 01-02-2006 as had been

³⁷ <http://www.dw-world.de/dw/article/0,1564,1655698,00.html>

planned) before their unemployment benefits are slashed to the new lower levels. Other Germans without work have 12 months before their benefits are cut to the Arbeitslosengeld II level. The SPD wants to spend 250 million euros for regional efforts to find work for older Germans that have difficulty finding work.

CDU/CSU

The Union wants to cut Germany's non-wage labor costs by lowering unemployment insurance rate from 6.5 percent to 4.5 percent starting 01-01-2006. The conservatives also want recipients of long-term unemployment benefits to work for the first two years of a new job at wages outside of industry-wide contracts. The wage would be up to 10 percent lower than the industry standard in order to encourage employers to hire more people. The Union also wants to repeal job-protection measures (Kündigungsschutz) for firms with less than 20 employees for the first two years of employment. Non-permanent contracts could also be offered to workers that are already employed -- currently such limited contracts are only possible for new employees. If elected, the conservatives also want to allow wage contracts outside of the industry-wide negotiated standard if worker councils and two thirds of employees agree with their employers to such a deal. Lastly, the Union plans to nix so-called "Ich-AGs", which were meant to make it easier for unemployed Germans to become self-employed.³⁸

Health Care

The state health care insurance system is in need of a complete make-over. The question is how to pay for the increasing costs in medical services while maintaining high quality affordable care for all citizens.

SPD

Gerhard Schröder's party wants to turn health insurance into "citizens' insurance." That would mean that every insurance company – whether private or state-run – would be required to insure every citizen regardless of risk. There would be no distinction between private and statutory insurance plans, and no opting out of the system for big-earners, freelancers and civil servants as is currently the case. The insurance fees would depend on income: the higher the pay, the higher the insurance rate. In the future, wages, salaries and pensions would all be calculated into the equation as would private capital dividends; however, earnings from rental property would be excluded. Under the party's plan, all family members without an income would be co-insured along with the main income-earner. In addition to the citizens' insurance, the SPD plans on building up a citizens' nursing care insurance" which would cover for long-term services for the sick or elderly.

CDU/CSU

The union bloc plans on introducing a "solidarity-based health premium." That would mean that every adult pays the same constant insurance fee regardless of income. The exact percent, which is not mentioned in the parties' election

³⁸ <http://www.dw-world.de/dw/article/0,1564,1655677,00.html>

platform, would be altered slightly to take into account lower incomes. The dual system, which requires both workers and their employers to pay a portion of the insurance coverage, would be kept under the CDU/CSU, but the rate due by the employer would remain constant. For pensioners, the employer's portion would be taken out of the retirement insurance. Children will not be required to pay insurance – instead it will be paid for out of tax revenues. The union plans to increase competition among the various state and private insurance providers. For nursing care coverage, the CDU and CSU intend on introducing a capital-based plan during their first legislative period.³⁹

Pensions

As more citizens live longer and have fewer children, the number of retired workers grows while the number of new workers declines. The situation poses serious consequences for the state's pension plans.

SPD

The goal is to keep retirement age at 65. At the moment, a good number of Germans opt for an early retirement package before the age of 60. Increasing the number of workers who stay employed until 65 would reduce the draw on state pension funds. At the same time the SPD continues to endorse an additional private capital insurance plan.

CDU/CSU

Starting Jan. 1, 2007 all parents of newborn children will receive a reduction in their monthly pension dues. They will pay 50 euros less per child until the child has reached 12 years of age. To finance the bonus, the union bloc plans to scratch the home owners' subsidy. The CDU/CSU also wants to reduce the number of years Germans spend studying and at the same time raise the retirement age.⁴⁰

IV The Election

A. Poll predictions

Opinion polls showed very little difference in support for the Chancellor and Ms Merkel right up to election day. On 4 September 2005 the two candidates met in a 90-minute televised debate. Ms Merkel emphasised her aim to cut taxation on petrol and Mr Schröder maintained that the CDU's proposed VAT increase would neutralise the effect of such a cut. He insisted that his reforms were helping to ease unemployment, which Ms Merkel rejected. The Chancellor also criticised the flat tax on income proposed by the shadow finance minister, Paul Kirchhof, while Ms Merkel thought this would make taxation easier and fairer.

³⁹ <http://www.dw-world.de/dw/article/0,1564,1658551,00.html>

⁴⁰ <http://www.dw-world.de/dw/article/0,1564,1658518,00.html>

In the early days of the campaign, most commentators gave Ms Merkel the edge,⁴¹ but later polls found that the general public ranked the Chancellor ahead. Overall, analysis suggested that the CDU leader's support for a flat tax had undermined her credibility on economic affairs, giving the impression that the CDU's economic reforms would benefit only the very rich.⁴²

B. Electoral system⁴³

Members of the *Bundestag* serve four-year terms and elections are generally held every four years. The election uses the Additional Member System (AMS), a hybrid of the first-past-the-post election system and party-list proportional representation. The *Bundestag* has a minimum threshold of either 5% of the national party vote or three (directly elected) constituency representatives for a party to gain additional representation through the system of proportional representation.

The AMS system results in a varying number of seats. In the 15th *Bundestag* (2002-05) there were 603 seats. The distribution of the seats is calculated by the largest remainder method. Additional seats are distributed to ensure that the combined total of direct and additional seats is proportional to the vote. This is calculated separately for each state (*Land*). Sometimes parties win more seats directly than what their proportional share would entitle them to. These are known as 'overhang mandate seats'. In accordance with Article 1 Paragraph 1 of the Federal Electoral Law, the 16th *Bundestag* will comprise 598 Members plus 16 overhang mandate seats. The total number of Members of Parliament will therefore amount to 614, up by 11 seats compared to 2002.

C. Leading party candidates

The leading party candidates for the 16th *Bundestag* elections were as follows:

SPD	Gerhard Schröder
CDU	Angela Merkel
CSU	Edmund Stoiber
FDP	Guido Westerwelle
Green	Joschka Fischer
Left Party	Gregor Gysi and Oskar Lafontaine

D. Results

The Federal Electoral Committee determined the final result of the elections to the 16th German *Bundestag* on 7 October 2005, when the votes in the by-election in Dresden, following the death of a NPD candidate, had been counted. With overall turnout at

⁴¹ ARD found 49% supported the Chancellor and 33% Ms Merkel. The ZDF found 48% for Schröder and 28% for Merkel.

⁴² Opinion polls leading up to the election can be found at: <http://www.election.de> and <http://www.wahlrecht.de/umfragen/>

⁴³ This sub-section was written by Ross Young

77.7% (79% in 2002), the parties obtained the following percentage of votes in the total number of valid second votes cast (2002 comparison in brackets):

SPD	34.2%	(2002:38.5%)
CDU	27.8%	(2002:29.5%)
CSU	7.4%	(2002:9.0%)
GRÜNE	8.1%	(2002:8.6%)
FDP	9.8%	(2002:7.4%)
Die Linke	8.7%	(2002:4.0%)
Other	3.9%	(2002:3.0%) ⁴⁴

The percentage of invalid first votes was 1.8 % (2002:1.5%) and the percentage of invalid second votes was 1.6% (2002:1.2%). Pursuant to Article 1(1) of the Federal Electoral Law, the new *Bundestag* will comprise 598 Members plus 16 overhang mandates. The total number of Members of Parliament will therefore be 614 (2002:603).

The parties will be represented in the *Bundestag* with the following seats:

SPD	222 seats	(2002:251), including 145 constituencies (2002:171)
CDU	180 seats	(2002:190), including 106 constituencies (2002:82)
CSU	46 seats	(2002:58), including 44 constituencies (2002:43)
Geens	51 seats	(2002:55), including 1 constituency (2002:1)
FDP	61 seats	(2002:47), including 0 constituencies (2002:0)
Left Party	54 seats	(2002:2), including 3 constituencies (2002:2) ⁴⁵

The 16 overhang mandates are distributed among the below parties as follows:

SPD: 9 overhang mandates, of which 1 in Hamburg, 3 in Brandenburg, 4 in Sachsen-Anhalt and 1 in Saarland

CDU: 7 overhang mandates, of which 4 in Sachsen and 3 in Baden-Württemberg

Few pundits and opinion polls predicted just how close the election would be. As *The Economist* noted:

When the exit polls began circulating...pundits were amazed...While the margin had been shrinking, most polls forecast a victory for the combined opposition of Christian Democrats (CDU) and Free Democrats (FDP). Even days before [the] vote, pollsters said the CDU would top 40% - and that Angela Merkel - the party's boss, would at least be unchallenged to head a big left-right coalition.⁴⁶

⁴⁴ Press release - October 7, 2005, "Official final result of the 2005 Bundestag elections", Federal Returning Officer, at http://www.bundeswahlleiter.de/bundestagswahl2005/presse_en/pd391211.html

⁴⁵ The number of the Land list seats won by each party is available at <http://www.bundeswahlleiter.de/bundestagswahl2005/downloads/ergebn2005/voetab3.pdf>. Further voter analysis and electoral behaviour by sex and age can be found in a press release of the Federal Returning Officer, 18 October 2005 at http://www.bundeswahlleiter.de/bundestagswahl2005/presse_en/pd410211.html

⁴⁶ 'A System in Crisis, a Country Adrift', *The Economist*, 22 September 2005.

In the event, the CDU/CSU only narrowly outperformed the SPD, leading by less than a full percentage point and thereby failing to win enough votes to command a majority. As Karen Donfried, a Senior Director at the *Marshall Fund*⁴⁷ noted, “the coalition of SPD and Greens had been voted out of office. What was less clear was what political constellation 78% of the German electorate intended to vote into office.”⁴⁸

The tight results led to claims of victory from both camps with both Ms Merkel and Mr Schröder moving swiftly to claim a right to the Chancellorship. Ms Merkel pointed out that the CDU had gained more seats and votes at the election, while Mr Schröder alluded to the fact that more people had voted for left-wing parties and therefore he, and his party, were best placed to take charge in government. With both leaders refusing to yield, the stage was set for protracted negotiations.

V Forming a new government

A. Constitutional basis

Under Article 39(2) of the Basic Law “The *Bundestag* shall assemble, at the latest, on the thirtieth day after the election”. The Basic Law sets out the procedure for electing and appointing the Federal Chancellor in Article 63:

The Federal Chancellor is elected, without debate, by the Bundestag on the proposal of the Federal President.

The person obtaining the votes of the majority of the members of the Bundestag is elected. The persons elected must be appointed by the Federal President.

If the person proposed is not elected, the Bundestag may elect within fourteen days of the ballot a Federal Chancellor by more than one-half of its members.

If there is no election within this period, a new ballot shall take place without delay in which the person obtaining the largest number of votes is elected. If the person elected obtained the votes of the majority of the members of the Bundestag the Federal President must appoint him within Seven days of the election. If the person elected did not receive this majority, the Federal President must within even days either appoint him or dissolve the Bundestag.

B. Coalition negotiations

Prior to the election, the CDU/ CSU had courted the liberal Free Democratic Party as a potential coalition partner. However, the CDU/CSU’s performance in the election meant that even with the support of the FDP, the alliance would not be able to command a

⁴⁷ German Marshall Fund of the United States, which describes itself as “a non-partisan American public policy and grantmaking institution dedicated to promoting greater cooperation and understanding between the United States and Europe”. <http://www.gmfus.org/about/index.cfm>

⁴⁸ Karen Donfried, Senior Director, Policy Programs The German Marshall Fund of the United States, Committee on House International Relations Subcommittee on Europe and Emerging Threats, 9 November 2005.

majority in the *Bundestag*. Against this background, a range of coalition arrangements were touted in the press as possible options.

Initially, it seemed plausible that a three-party coalition might be formed. One particular favourite was the so-called 'Traffic Light' Coalition which would include the SPD (red) FDP (yellow) and the Greens. The second possibility was a 'Jamaica' Coalition, (so called because its colours were those of the Jamaican flag) which would include CDU (black), the FDP (yellow) and the Greens.

However, both options quickly faltered after the FDP ruled out being part of a traffic-light coalition⁴⁹ and talks broke down between the CDU and the Greens over wide policy differences. With both the major parties ruling out a deal with the New Left Party, the prospect of a Grand Coalition between the SPD and CDU/ CSU was mooted as a way out of the impasse.

With few other realistic options on the table, exploratory talks on forming a Grand Coalition between the SPD and the CDU began one week after the election. In theory, there were a number of areas where these two parties could find common ground.⁵⁰ The CDU/CSU had previously voted in favour of the Chancellor's "Agenda 2010" reform package and agreed on the need for tax cuts. While Ms Merkel's idea of raising VAT and using the proceeds to reduce the tax burden on employers was heavily attacked by the SPD in the election campaign, the idea had been considered previously by SPD leaders.

In practice, the situation was more complicated and there were major stumbling blocks. For example, both parties had very different ideas about how to reform health service provision and labour laws and deal with Germany's powerful trade unions. Discussions over policy were initially overshadowed by the issue of personalities. Both Angela Merkel and Gerhard Schröder publicly declared that they would not be willing to enter a coalition while the other was in charge.

Despite gaining the near unanimous endorsement of her party to be the conservative group leader in the *Bundestag* only days after the election, large sections of the German and international media were already starting to write off Angela Merkel. Much of the criticism focused on her perceived ineffective presentational style and alleged inability to connect with the public, which many observers believed had cost the CDU votes.

Initially, Gerhard Schröder received a less hostile assessment by the press. They pointed to his energetic, personality-led election campaign, which had succeeded in boosting the SPD's fortunes. With political momentum behind him many observers believed he had nothing to lose by staying his course. As *The Independent* noted, the SPD were loath to sacrifice a leader who appeared to be such an asset.⁵¹

With neither candidate showing any sign of backing down from their respective claims for the Chancellorship in the days after the election, it was unclear who would blink first.

⁴⁹ 'A Surprise that Leaves Germany in Limbo', *The Economist*, 19 September 2005

⁵⁰ 'Analysis: German Power Struggle', *BBC News Online*, 19 September 2005, <http://news.bbc.co.uk/1/hi/world/europe/4252382.stm>

Many in the SPD and in the media calculated that Ms Merkel's internal party support would crumble quickly. The *International Herald Tribune* noted that the support she had received from party members after the election was not unqualified: "[T]hat vote was widely seen as a tactical move – to show support for Merkel at a time when she was under attack by Schröder – and not necessarily a declaration of permanent support."⁵²

Most observers predicted that Gerhard Schröder's best chance of retaining power lay in complete stalemate. If neither he nor Angela Merkel could form a coalition, the President would be bound to nominate a candidate for Chancellor. In a secret ballot in the *Bundestag*, the 'left' composition of the new parliament would have made it unlikely that Angela Merkel would have won such a vote."⁵³

However, two weeks after the election it appeared that support for Mr Schröder, rather than for Ms Merkel, was on the wane. Initial discussions between the SPD and CDU had been complicated, but looked promising. As it became apparent that the main stumbling block to the creation a Grand Coalition was not policies but the refusal of the two leaders to reach a compromise over the Chancellorship, support for both candidates within their respective parties began to look less secure. As public frustration with the intransigence increased, the mood within both parties began to change. There was an increasing sense that neither candidate was indispensable, if the price of keeping them was losing the chance to create a coalition and be a governing power.

On 26 September 2005 *The Independent* noted:

Whether or not the combination of press criticism and waning party support was beginning to get to him, Mr Schröder has indicated for the first time that he might be prepared to reach a compromise or even back down. "I am in favour of the two main parties forming a coalition," he told German television last night. "I will do everything in my power to ensure that this happens." He said he was sure the question of the chancellorship could be resolved.

Unconfirmed reports suggested that he was considering sharing the post on a two-year rotating basis with Ms Merkel.

Kurt Beck, the deputy Social Democrat party leader is the latest in a series of leading SPD members to back off from their line that Mr Schröder remain in office. Asked whether a grand coalition was conceivable without Mr Schröder at its head, Mr Beck said: "In a democracy, one should never say never."⁵⁴

On 10 October 2005, in a move that had seemed highly improbable in the preceding weeks, Gerhard Schröder relinquished his claim to the Chancellor's post, saying that he would play no role in the new coalition government.

VI The Coalition Agreement

Formal coalition talks to agree on a new government programme started in earnest on 17 October 2005 and took almost eight weeks to complete. The first major agreement

⁵¹ 'He Lost – So Why is Schröder Still Smiling Confidently?' *The Independent*, 20 September 2005

⁵² 'Following the Trajectory of the Candidate Merkel', *International Herald Tribune*, 23 September 2005.

⁵³ *The Independent*, 20 September 2005

⁵⁴ 'Schröder Sticks to Leadership Claim', *Deutsche Welle*, 25 September 2005

came after a week with the decision to cut €35 billion from the public budget by 2007 in an effort to bring Germany back in line with EU Stability and Growth Pact rules. Thereafter, further measures designed to reduce the budget deficit, including increasing VAT and the creation of a new higher tax band for the rich, were also agreed, and a new retirement age (67 as opposed to 65) was approved. Several issues were sidestepped, not least the controversial and complex issue of health reform, which the parties have pledged to re-visit by mid-2006.

On 11 November 2005 Angela Merkel announced that negotiations were complete, although the process was accompanied by two high-profile resignations. First was the resignation of Franz Müntefering as SPD chairman on 31 October, after his authority was undermined when a key ally, Kajo Wasserhövel, failed to be nominated as the party's general secretary.⁵⁵ A day later Edmund Stoiber, the CSU leader of Bavaria, announced that he would not assume the role of economy minister. Ultimately their resignations, although unsettling, did not wreck coalition talks, but they underlined the delicate nature of relations within and between the coalition parties.

In mid-November 2005 special party congresses of the CDU, CSU and SPD approved the coalition pact.⁵⁶

The programme is a compromise, which many do not like, as *The Economist* noted:

Although the grand coalition will nominally enjoy a crushing majority of over 280 seats in parliament, it is still unclear how closely the new government will follow its programme after taking office, on November 22nd. [...] The big policy differences between the parties mean the agreement may not last: the CDU had wanted more ambitious reforms of the labour market; the SPD had wanted to spend its way out of economic stagnation instead of bringing the deficit under control.⁵⁷

Although party approval of the programme has eliminated political uncertainty in the short term, most commentators believe that underlying problems with the programme remain, not least because of political differences over key policies. Media reports suggest that the coalition is more a “marriage of convenience” than a “love affair” and it is not clear whether the two main coalition parties will be able to make the agreement work. *The Economist* commented:

More important than what is written in their policy programme is whether the traditional rivals can build the trust that is needed to govern a country badly in need of a new direction. Only time will tell if they can. If the coalition does fall apart, fresh elections may have to be called. This could in theory lead to a clearer outcome, in which the CDU and CSU would form a more coherent, and reformist, government in coalition with the smaller, market-friendly Free Democrats. But it

⁵⁵ Mr Müntefering was succeeded by Matthias Platzeck at the party convention on 15 November 2005.

⁵⁶ The CDU gave near unanimous backing to the coalition with only 3 of 116 delegates voting against the plan.

⁵⁷ ‘Merkel’s Marriage of Inconvenience’, *The Economist*, 14 November 2005

could just as easily drive voters away from the mainstream parties into the arms of more hardline parties to their left and right.⁵⁸

The fact that the fraught coalition negotiations were almost thrown into crisis by the surprise resignations of Franz Müntefering and Edmund Stoiber highlighted the fragility of the existing political consensus. Challenges from within both parties in the coming months will be as difficult to deal with as challenges between them. *The Economist* considered possible problems:

The SPD's left wing has shown itself much less willing to accept compromises in order to stay in government. It is now a lot less likely that a grand coalition will attempt to go beyond mere repair work – such as reducing the deficit and reforming federalism – and tackle more far-reaching reforms.⁵⁹

Ms Merkel might find a government without Mr Stoiber, who is no free-market liberal, easier to run, even if he carps from the sidelines. But the troubles within the SPD have confirmed that that party is tending to move leftwards. That makes the task of agreement of any of the substantial further reforms that Germany needs (and that Ms Merkel says she wants) practically impossible. Any grand coalition that takes office now is likely to be even weaker and shorter lived than had already seemed likely.⁶⁰

The Coalition Government will also have to address sectors of the German public which have thus far reacted with hostility to the programme. *The Economist* asked: “how much does any of this matter?”

With some tentative signs of economic recovery in Germany – as in the rest of Europe – it is a fair question. But the answer is that Germany still desperately needs a government that has both the strength and the desire to push through tough and potentially unpopular reforms if it is to get properly back to economic health.

The rest of Europe needs a strong and reforming German government too. It is hard for any countries in the euro area to thrive without faster growth in the biggest economy, Germany. Worse, it happens that all three core euro countries – Germany, France and Italy, which between them account for 70% of the euro area's GDP – are suffering from weak political leadership at the same time.⁶¹

VII The new Government

On 22 November 2005, some two months after the elections, Angela Merkel became not only became Germany's first female chancellor but also the first Chancellor from the former East Germany. Determination and tough negotiating had, in the end, triumphed over what the *Financial Times* described as a “lacklustre” election performance.⁶² The

⁵⁸ *ibid.*

⁵⁹ ‘Cracks Appear in Germany's Grand Coalition’, *The Economist*, 2 November 2005

⁶⁰ ‘A Grand Cock-Up’, *The Economist*, 3 November 2005

⁶¹ *The Economist* 5 November 2005

⁶² ‘A determined lady Europe matters for Merkel, but the economy comes first’, *Financial Times*, 26 November 2005

moment was a political and personal triumph for Ms Merkel, the only sour note being that 50 members from the coalition parties failed to support the pact in the *Bundestag's* secret vote. Some commentators interpreted this as a further sign that the real challenges of implementing reforms were only just beginning.⁶³

The SPD, with Mr Schröder's help, secured eight ministries, including the key foreign and finance posts. The new German Government is as follows:

GERMAN CABINET⁶⁴		
PARTY	MINISTRY	MINISTER
CDU/CSU	Chancellor	Angela Merkel
	Interior	Wolfgang Schäuble
	Defence	Franz Josef Jung
	Consumer Protection, Food & Agriculture	Horst Seehofer
	Economics and Technology	Michael Glos
	Education and Research	Annette Schavan
	Head of Federal Chancellery	Thomas de Maizière
	Family Affairs, Senior Citizens, Women & Youth	Ursula von der Leyen
SPD	Vice Chancellor, Labour and Social Affairs	Franz Müntefering
	Foreign Affairs	Frank Walter Steinmeier
	Finance	Peer Steinbrück
	Justice	Brigitte Zypries
	Health	Ulla Schmidt
	Transport, Building, Urban Development & Housing	Wolfgang Tiefensee
	Environment	Sigmar Gabriel
	Economic Cooperation & Development	Heidemarie Wieczorek-Zeul

Germany's last experience of a Grand Coalition was from 1966-69, under markedly different circumstances. There was considerable discussion, both immediately after the elections and during coalition negotiations, of whether the existence of a Grand Coalition would make it more difficult for Europe's largest economy to adopt the structural reforms needed to overcome stagnation and high unemployment. While some business leaders warned that a Grand Coalition would be a 'do-nothing' government or would suffer from fatal fractures at an early stage, other observers said it could still move reforms forward, albeit at a slower pace.⁶⁵ Certainly, there is a long tradition of informal co-operation between the parties, as various commentators have highlighted:

Germany has lived with a latent grand coalition for decades," says Stephen Leibfried, a sociologist at Bremen University, noting that nearly all major social reforms since the 1950s have been agreed informally between the CDU and SPD, irrespective of which was in power. Arthur Benz, political scientist at Hagen University adds: "There is a historic consensus between these two parties on the state's role in welfare provision and on the need to modernise this provision, due to ageing and globalisation. There are differences on how to do this but still this common understanding links the parties," says Mr Benz, who in 2004 was an adviser to a CDU/SPD commission on federalism reform.⁶⁶

⁶³ *ibid.*

⁶⁴ <http://www.bundesregierung.de/en/Federal-Government/-,10148/Cabinet.htm>

⁶⁵ 'Analysis: German Power Struggle', *BBC News Online*, 19 September 2005, <http://news.bbc.co.uk/1/hi/world/europe/4252382.stm>

⁶⁶ *Financial Times*, 23 September 2005.

However, in reality, the extent to which the Coalition will be able to deliver what Germany and the wider Eurozone needs will depend on more than just informal co-operation. It will depend on the programme that was agreed and above all, the party politics that surround it.

VIII Key issues

Chancellor Merkel presented her coalition programme to the *Bundestag* on 30 November 2005.⁶⁷ She appealed to Germans in general to move away from the welfare state that had brought security but was stifling the economy. She outlined a vision of a high-tech future based on investment in education, research and development. She pledged to support the entrepreneurs with cuts to company taxes and bureaucracy, and committed Germany to the role of 'honest broker' on behalf of the less powerful EU Member States.⁶⁸

Some key elements of the agreement, which runs to some 200 pages, are considered below.

A. Economic policy⁶⁹

The new coalition faces a number of serious economic problems affecting Europe's largest economy. Unemployment is high (8.7% in September 2005). Economic growth has been sluggish in recent years with domestic demand being particularly weak.

In 2003, following warnings from the European Commission and the *Bundesbank*, Germany (and France) were found in breach of the EU Stability Pact⁷⁰ and there were calls for these countries to be fined. However, in November 2003 both states gained the support of the EU Council of Ministers to suspend the procedure launched against them by the Commission.⁷¹

The Coalition agreement includes tax increases to reduce the budget deficit. Many of the CDU's more ambitious structural reforms have been dropped. The coalition agreement plans to cut Germany's budget deficit by €35 billion annually. In 2004, the deficit was €81 billion, equivalent to 3.7% of GDP. This will be mainly be achieved by increasing taxes rather than reducing public spending. Value added tax is to rise by 3 percentage points to 19% (from January 2007) and the highest income tax rate will be increased by

⁶⁷ http://www.german-embassy.org.uk/merkel_presents_government_pro.html

⁶⁸ The full text of Angela Merkel's speech can be obtained at http://www.bundesregierung.de/en/-_10001.929347/regierungserklaerung/Policy-Statement-by-Federal-Ch.htm

⁶⁹ This section was written by Dominic Webb, Economic Policy and Statistics Section

⁷⁰ The Stability and Growth Pact is discussed in Standard Note SN/EP/1960 at http://pims.parliament.uk:81/PIMS/Static%20Files/Extended%20File%20Scan%20Files/LIBRARY_OTHE_R_PAPERS/STANDARD_NOTE/snep-01960.pdf

⁷¹ For some EU governments, this effectively destroyed the stability and growth pact and damaged the Commission's credibility. For others, including the British Government, the Council decision was hailed as a triumph for intergovernmentalism.

3 percentage points to 45%. Some tax breaks are to be abolished and a planned cut in business taxes has been shelved. The biggest tax increases are to come in 2007.

Some have argued that these tax increases may dampen the already fragile consumer sector of the economy which may push the economy back towards recession. Others argue that consumers may be encouraged to spend before the higher VAT is imposed in 2007.

While the deal includes an increase in the pension age to 67, many of the CDU's plans for economic reform have been dropped. For example, the proposal to allow companies to opt-out of industry-wide agreements on wages between employer's organizations and unions has been abandoned. Discussions on the reform of the statutory health care insurance system have been postponed until next year. *The Economist* commented:

... it [the agreement] does not do enough on Germany's pressing structural problems (except for a decision to raise the retirement age, gradually, from 65 to 67). Health and long-term-care financing, labour market flexibility and a reform to the tax system have all been postponed.⁷²

The *Financial Times* said:

there is little left of Ms Merkel's plans to make it easier for companies to hire and fire and to strip trade unions and employers' federations of their monopoly on setting wage and working time. The CDU's main electoral promise, a two-point cut in unemployment insurance contributions - one of the payroll taxes that make German workers among the most expensive in the world to employ - will be postponed by a year and partly offset by a rise in pension insurance levies.⁷³

UK Press coverage of the agreement has generally been critical. For example, *The Economist* commented:

In the critical area of economic policy, the clash between Mrs Merkel's pro-reform views and the anti-reform instincts of many Social Democrats (SPD) has produced what may prove the worst of both worlds.⁷⁴

A *Financial Times* leader said:

The "grand coalition" agreement between Germany's Christian Democrats and Social Democrats foresees sharp increases in income and value added taxes and no genuine economic reforms. For an economy that has suffered five years of stagnation, it is difficult to imagine a worse combination of economic policies.⁷⁵

⁷² 'One last shot', *The Economist*, 19 November 2005

⁷³ 'German grand coalition opts for dose of fiscal probity', *Financial Times*, 14 November 2005

⁷⁴ 'Taxing times', *The Economist*, 19 November 2005

⁷⁵ 'Merkel's Faustian pact' [leader article], *Financial Times*, 14 November 2005

B. Foreign Policy

Most commentators agree that there is unlikely to be much of a shift in foreign policy. The coalition negotiations over foreign policy were concluded relatively swiftly and a consensus quickly emerged in the majority of areas. This was partly a consequence of the inherent constraints within the governing Coalition and the fact that domestic issues and the pursuit of much needed economic reforms are likely to dominate Government efforts in the immediate months and years ahead. As the *Financial Times* noted: “[Angela Merkel] knows that if Germany is going to have world influence, it must first put its own economic house in order. That is what the rest of Europe needs, too.”⁷⁶ A recent commentary from the *International Institute for Strategic Studies* predicted that foreign policy would include the following elements:

More, rather than less European integration (with a Constitution, if possible, but without the Gaullist overtones); an improved, more pragmatic transatlantic relationship, without the emotional and paternalistic underpinnings of the post-war German-American relationship or guarantees of loyalty, but also without sniping at US leaders in public; greater respect for the interests of smaller European neighbours; a far less cost relationship with Russian leaders, but close co-operation on energy policy; and a cooler, more strategic pursuit of national interests, but preferably within multilateral frameworks, and on the basis of a strong regard for international law and human rights.⁷⁷

1. Relations with the United States

Chancellor Merkel has signalled that on a handful of issues she is willing to pursue a different approach to that of the Schröder Government. Key to this has been her publicly declared desire to improve Germany’s relations with the US, which have been poor since 2002, following Gerhard Schröder’s refusal to support the invasion of Iraq. A substantive change in Germany’s policy on Iraq is highly unlikely, but Ms Merkel is known to be more of an ‘Atlanticist’ than Mr Schröder and the Coalition agreement makes it clear that, rather than seeing itself as a counterweight to the US, Germany should regard the US as a partner.⁷⁸

Giving evidence to the US Congressional Foreign Affairs Sub-Committee, Karen Donfried, a Senior Director with the German Marshall Fund in the US, suggested that the difference is likely to be most clear in terms of style and rhetoric, as opposed to substance. She added:

Much as Angela Merkel and her CDU/CSU may desire warmer relations between Berlin and Washington, one inescapable constraint will be German public opinion. The Bush Administration is not popular with most Germans and the new government is likely to proceed with caution...Given the unambiguous, negative view among the German public of U.S. foreign policy and the Merkel

⁷⁶ “A determined lady Europe matters for Merkel, but the economy comes first”, *Financial Times*, 26 November 2005

⁷⁷ “Merkel’s Foreign Policy”, *IJSS Strategic Comments*, vol 11, Issue 10, December 2005

⁷⁸ ‘Analysis: German Coalition Deal’, *BBC News Online*, 15 November 2005, <http://news.bbc.co.uk/1/hi/world/europe/4438212.stm>

government's need to have domestic backing for its economic and social reforms, it is difficult to see the new Chancellor blazing new foreign policy paths together with Washington. Yet this situation, rife with limits, also holds within it an opportunity. The deep scepticism of the German public toward the Bush Administration means that a positive change in style and rhetoric on one or both sides has the potential to begin to change attitudes.

Explaining the thinking behind Angela Merkel's position, Thomas Kleine Brockhoff noted:

Conservatives see the trans-Atlantic relationship as Germany's second vital national interest. In their thinking NATO remains Germany's security guarantee, especially in an age of terrorism. Beyond the security partnership, the United States is seen as the guarantee power for Germany's first national interest: European integration. That is why President Bush's reaffirmation of America's commitment to a strong and united Europe (during his visit to Brussels earlier this year) has been greeted with a sigh of relief by German Conservatives. It helped rebuild Atlanticism inside the party and led to a more pointed critique of Schröder's foreign policy and to the rationale for the recalibration of German foreign policy under conservative leadership. As Karl- Heinz Kamp, one of Merkel's foreign policy advisors, puts it, Germany must try to "return to trans-Atlantic balance"...However, these words represent "pure" conservative foreign policy thinking. They were written before the grand coalition became a political necessity.

Ms Merkel may be keen to move relations with the US beyond the issue of Iraq but there is potential for relations to become strained over the issue of Turkey's application to join the EU. The US has consistently backed Turkey's application, negotiations for which formally opened on 3 October 2005.⁷⁹ In contrast, Angela Merkel has repeatedly argued that Turkey should not be a full EU member, and has advocated a 'privileged partnership' status instead. This was one area which caused consternation during the coalition negotiations. After failing to find common ground with the SPD - who support Turkey's aim of full membership - the coalition agreement remained silent on the issue. Opinion is divided over how much of a problem the Turkey issue could become. Karen Donfried noted:

Some analysts have expressed concern that those words will mean little in practice. They worry that Merkel's explicit opposition to full Turkish membership in the EU, a longstanding U.S. goal, will be a thorn in the side of improved U.S.-German relations. I believe this concern is misplaced. In light of the start of EU accession negotiations with Turkey on October 4 of this year, the issue has lost its political saliency and immediacy. Merkel has given no indication that she intends to disrupt the ten to fifteen year process of negotiation between the EU and Turkey and obviously she will not be chancellor at the end of that negotiation process. Thus, while it is true that a fundamental disagreement exists between the Bush Administration and the CDU/CSU on Turkey's relationship to the EU,

⁷⁹ See Library Standard Note SN/IA/3800, *Turkey and the European Union*, 15 November 2005

there is no obvious reason for this issue to return to the front burner during the life of the incoming Grand Coalition.⁸⁰

2. Relations with Russia

Changes are anticipated in other areas of foreign policy too. Where Gerhard Schröder pursued a close relationship with Russia and President Vladimir Putin, Angela Merkel stated her intention during the election campaign to adopt a more distant approach. As the first Chancellor from the former communist East Germany, Ms Merkel's experience of and her attitudes towards the countries bordering Germany's east, most notably Poland, are different from those of Gerhard Schröder. Germany's relationship with Russia has been characterised by strong economic interests, particularly in the energy field (Germany imports roughly 30% of its oil and natural gas from Russia). This is unlikely to change. However, Karen Donfried comments:

It seems clear that she [Angela Merkel] will also factor in the interests of the central Europeans and will be much more inclusive in discussing Germany's Russia policy with them. Germany has traditionally looked out for the interests of the smaller EU member states, a tradition that Schroeder eschewed and Merkel seems likely to restore beyond the specific issue area of Russia.⁸¹

Chancellor Merkel is expected to pursue a more stringent line on Russia and put pressure on President Putin to uphold democracy and rule of law in order to achieve a political settlement in the secessionist North Caucasian republic of Chechnya.⁸²

3. Franco-German relations

Angela Merkel's decision to visit Paris, Brussels and then London was seen as a bid to reassure her European partners. The *Financial Times* noted:

The trips sent a clear signal: Jacques Chirac came first in France, followed by Brussels (Nato and the European Commission, in that order) and then Tony Blair in London. The European Union remains at the heart of German policy, with the special relationship to France still the most vital element, but close ties to Mr Blair in Britain are also most desirable.⁸³

There is scope for Germany and France to differ over the issue of lifting the EU's arms embargo on China. Mr Schröder consistently backed Chirac's stance that the arms embargo should be lifted, in spite of opposition both within his own party and across opposition parties. Under the Merkel-led Government there is likely to be little incentive to support the lifting of the ban, which could leave France isolated.

⁸⁰ Karen Donfried, Senior Director, Policy Programs The German Marshall Fund of the United States, Committee on House International Relations Subcommittee on Europe and Emerging Threats, 9 November 2005

⁸¹ *ibid.*

⁸² 'Analysis: German Coalition Deal', *BBC News Online*, 15 November 2005

⁸³ 'A determined lady Europe matters for Merkel, but the economy comes first', *Financial Times*, 26 November 2005

4. European Constitution

The Coalition pact includes plans to revive ratification of the proposed European Constitution, which was put on hold by EU leaders in June 2005 for a “period of reflection” following the negative French and Dutch referendum results. The agreement states that the EU Constitution would make the EU more democratic, efficient and transparent. The Government intends to promote ratification by Member States and will “give a new impulse to [ratification] under the German presidency in the first half of 2007”.⁸⁴ Chancellor Merkel told the European Parliament on 23 November 2005 that “Europe needs the constitution... [we] should not give up the constitutional treaty”.⁸⁵ She said the rejection of the constitutional treaty by the French and Dutch referendums was not the end of the matter and the German Government was “willing to make our contribution to whatever is necessary to see the constitution come into force”.⁸⁶

The Merkel Government also hopes to implement aspects of the Constitution which would not require Treaty amendment. It supports an “early warning system” to alert national parliaments to proposed EU legislation, giving them an opportunity to intercede and possibly to block further progress on a draft. The European Commission, the two parties believe, should review a legislative proposal if at least one third of national parliaments send a “reasoned opinion” arguing that the proposal falls outside the Commission's competencies.

According to the German daily *Handelsblatt* on 18 December 2005, Chancellor Merkel is going to propose attaching a non-binding declaration to the Constitution text, calling on the EU institutions to better consider the social implications of internal market legislation. This is intended to reassure French and Dutch voters, many of whom had concerns about globalisation, enlargement and liberalisation of the service markets and is reported to be one of the main tasks on the agenda of the German EU Presidency in the first half of 2007.⁸⁷

5. The new Foreign Minister

Foreign policy is likely to be shaped in part by the new Foreign Minister, Frank-Walter Steinmeier, Gerhard Schröder's former Chief of Staff. Assessing his likely contribution, Thomas Kleine Brockhoff, the Washington bureau chief of the German newsweekly *Die Zeit*, stated:

Frank-Walter Steinmeier...is an unknown quantity in German foreign policy. For the past six years he has been Gerhard Schröder's chief of staff. He rose through the ranks of the state administration in Lower Saxony and was never elected to public office. He came to Berlin with Chancellor Schröder. Steinmeier has an unassuming personality and an excellent reputation as a manager of the daily business of running a government. Even conservatives praise him and feel confident that they can work with him. They see him as a pragmatist. He is

⁸⁴ *EUObserver* 14 November 2005 at <http://euobserver.com/?aid=20315&rk=1>

⁸⁵ European Parliament press service at http://www.europarl.eu.int/news/public/story_page/008-2747-327-11-47-901-20051123STO02746-2005-23-11-2005/default_en.htm

⁸⁶ *Daily Telegraph* 24 November 2005

⁸⁷ *EUObserver* 18 December 2005 at <http://euobserver.com/?aid=20586&rk=1>

closely associated with Chancellor Schröder's agenda for economic reform, but not with his foreign policy agenda. To many observers his ascension to the most important cabinet post came as a surprise.

Public knowledge about Steinmeier's foreign policy thinking is scant. However, his few public remarks show a man who does not think about foreign policy merely in terms of traditional diplomacy. He is concerned with the structural changes of the international environment in the age of globalization: ethnic and religious violence, proliferation of weapons of mass destruction, asymmetric threats, rogue and failing states, demography, immigration, non-state actors. We have hints about Steinmeier's mindset, but not about his answers to his own questions.⁸⁸

On 30 November 2005 the new Foreign Minister addressed the *Bundestag*, setting out the Government's policies and priorities. He spoke about the importance of German participation in the border mission in Rafah in the Gaza Strip, which, he thought, was "Europe's tangible contribution towards creating stability in the difficult relationship between Israel and the Palestinian territories".⁸⁹ Mr Steinmeier went on to say that, although he supported the fight against terrorism, "without forsaking the principles of tolerance and the rule of law" but also that "despite all past arguments, we stand united behind our decision not to send any German troops to Iraq".⁹⁰ After meeting the US Secretary of State, Condoleezza Rice, on 29 November, Mr Steinmeier stated that the US accepted the German position.

This is not just because our contribution – our military contribution in Afghanistan and our civilian contribution to reconstruction in Iraq – is recognized and acknowledged, but also because the United States of America rightly wants to see a strong and self-confident Germany.⁹¹

He tackled the matter of the alleged use of German airspace for US rendition flights⁹² and insisted that this had to be clarified.

He hoped Germany would be able to help stabilise the situation in Afghanistan, the Middle East and Central Asia, and that good German-Russian relations would be welcomed, rather than regarded with suspicion.

Mr Steinmeier focused on two main foreign policy issues: Iran and the EU budget. He called for a negotiated resolution, under the auspices of the International Atomic Energy Authority (IAEA) of the dispute over Iran's nuclear ambitions, which he regarded as "the most pressing issue facing us", and he hoped that with his EU-3 partners (the UK and France) talks with Iran would be resumed in the near future.

⁸⁸ Thomas Kleine-Brockhoff Washington Bureau Chief, *Die Zeit*, Committee on House International Relations Subcommittee on Europe and Emerging Threats, 9 November 2005

⁸⁹ http://www.german-embassy.org.uk/speech_by_federal_foreign_mini.html

⁹⁰ Ibid

⁹¹ Ibid

⁹² For further information on extraordinary rendition, see Standard Note SN/IA/3816, 5 December 2005

Resolution of the EU budget issue, which had stalled over the issue of the UK rebate, was crucial, he thought, for the integration of the new Member States:

The new member states in particular need a financial framework so that funds from the structural policy can be allocated. It is obvious that without agreement on the financial perspective, the major enlargement project of 2004 is built on shaky ground.⁹³

He was adamant that “the expenditure framework proposed by the Luxembourg Presidency should and cannot ... be exceeded”.⁹⁴

IX Anglo-German Relations

A. Overview

Since 1998 Anglo-German relations have been characterised by a series of highs and lows. Initially, relations were solid, helped by Germany’s willingness to assist with the NATO military operation in Kosovo in 1999. Following the terrorist attacks of 11 September 2001, relations were strengthened, with both the UK and Germany showing solidarity with the US by sending troops to Afghanistan. In other areas, the European Security and Defence Policy (ESDP), for example, German support for the UK position helped to foster positive relations. However, the relationship started to come under strain during the German elections in 2002, when Chancellor Schröder made the issue of Iraq a central theme of his campaign. His forthright rejection of America’s policy led to a cooling of relations with the UK. Since then, disagreements over economic and European security policies have placed added strain on Anglo-German relations.

A recent article on British-German relations noted:

Merkel will undoubtedly seek to repair diplomatic relations between the USA and Germany. Forging stronger relations with the UK might see London acting as an interlocutor to facilitate the thawing of relations between Berlin and Washington, as strong EU-USA relations are of vital national interest to the UK. In terms of European policy, continued tensions may be in evidence, especially over budgetary issues and the thorny issue of the UK rebate. British-German relations within the EU will continue to be constrained in their scope while the UK remains outside of the Eurozone, leaving Berlin to view London as a less than fully committed member of the European integration project.⁹⁵

B. European Union

The British Government’s insistence on retaining the UK’s EU budget rebate angered the previous German Government and press reports indicated that Chancellor Schröder had

⁹³ http://www.german-embassy.org.uk/speech_by_federal_foreign_mini.html

⁹⁴ Ibid

⁹⁵ Alister Miskimmon, *Deutsche-Aussenpolitik*, 10 November 2005, http://www.deutsche-aussenpolitik.de/digest/zeige_oped.php?was=24

applied pressure on the British Prime Minister to accept a compromise. The *Financial Times* reported:

In his first public mention of the issue, made in an address to the German parliament before leaving for the two-day summit in Brussels, the chancellor said there was "absolutely no genuine justification" for maintaining the 21-year-old rebate, "given that the UK has the sixth highest per-capita income (in the EU) but lags far behind this in its budget contribution".

Mr Schröder has sided with President Jacques Chirac of France, who has rejected British suggestions that a reform of the rebate be tied to cuts in the Euros 377bn (Dollars 490bn, Pounds 264bn) earmarked for EU farm aid up to 2013, a figure cast in stone at a summit in 2002.⁹⁶

The same report thought Ms Merkel would be more understanding of the UK position:

Angela Merkel, leader of Germany's opposition Christian Democratic Union, toed a more balanced line, retorting that one could not demand concessions from Britain while continuing to treat the 2002 farm aid deal as non-negotiable.

"I am too much of a good German not to say that the British, without a doubt, have to move on this," she said. "But you cannot urge one side to show flexibility while telling the other side: 'your things are sacrosanct'."⁹⁷

The *Independent on Sunday* was optimistic that Anglo-German relations would improve under a Merkel-led German Government because Chancellor Merkel was less critical of Tony Blair's stand on the UK rebate.

'It does not make it easy when one side says the agricultural subsidies are sacrosanct, we cannot touch them, and then flexibility is demanded from others,' [Ms Merkel] told the German parliament. 'The British must move, that is indisputable, but compromises cannot be expected from one side when the other side says that its benefits are sacrosanct.'⁹⁸

The *Financial Times* commented:

Those who hoped the chancellor might come to London first [on her tour of Europe] were misreading Ms Merkel: she wants more Europe, not less (including a real effort to revive the constitution, or something like it). She stressed the need to pay attention to small member states as well as big ones. She also knows there is no spare cash in the German exchequer to help buy agreement on future

⁹⁶ *Financial Times* 17 June 2005

⁹⁷ Ibid

⁹⁸ *Independent on Sunday* 19 June 2005.

The UK budget rebate is discussed in more detail in Standard Note SN/EP/3686 at http://pims.parliament.uk:81/PIMS/Static%20Files/Extended%20File%20Scan%20Files/LIBRARY_OTHE R_PAPERS/STANDARD_NOTE/snep-03686.pdf

financing of the EU budget. She will be no fairy godmother to deliver a budget deal for Mr Blair.⁹⁹

Chancellor Merkel met the British Prime Minister, Tony Blair, on 24 November 2005. Mr Blair assured Ms Merkel that “Britain would use its best endeavours to get a Budget deal at the December Council”.¹⁰⁰ They discussed foreign policy issues such as Iran and Afghanistan, domestic economic reform programmes and certain EU directives, such as the REACH (Registration, Evaluation and Authorisation of Chemicals) Directive, the Services Directive and the Working Time Directive. Mr Blair said he believed “that over the time to come we will have a very good and close working relationship, not just between our two countries but between ourselves”.¹⁰¹ Chancellor Merkel emphasised that “the new German Federal Government, has a great interest in maintaining good friendly relations with France, but not just with France, but particularly also with the United Kingdom”.¹⁰² She pledged that the new German Government would “do everything possible to make Europe capable of acting”. She thought that the British and German Governments had found common ground in their insistence on being both competitive and “socially strong”. In reply to a question about the German view of the British argument that any surrender on the UK rebate should be linked to reform of the Common Agriculture Policy, Chancellor Merkel said: “I want to have success and the situation of each country has to be taken into account. If anybody forgets one country's interests then you won't get any success”.¹⁰³ The British Prime Minister was asked whether he would now aim to change the nature of relationships within the EU, moving away from the Franco-German engine and towards a better cognisance of the UK and the new Eastern European States. Mr Blair replied:

Now, in respect of the relationships inside Europe. France and Germany have had, and always will have, a strong relationship, and that is in the interests of Europe. In a Europe of 25 of course, however, all countries will have different sets of relationships within the European Union. I have always expressed the view, and express it again now, that it is important for Britain and France to work closely together and of course our relationship with Germany is immensely important too. In the end the whole point about the European Union is that we benefit if we are working together.

In these challenges of economic change, it is in Britain's interests that Europe meets them together because then the British economy is stronger and the standard of living of British people is higher. So over the years this has been a very familiar argument which is to push all countries into choices about who they have as partners and who they don't. But it genuinely should not be like that because Europe, especially at 25, will only work if the countries, and in particular the major countries within Europe work closely together and I think there is every chance that that will happen.¹⁰⁴

⁹⁹ ‘A determined lady Europe matters for Merkel, but the economy comes first, *Financial Times*, 26 November 2005

¹⁰⁰ Press conference notice, 24 November 2005 at <http://www.number10.gov.uk/output/Page8583.asp>

¹⁰¹ Ibid

¹⁰² Ibid

¹⁰³ Ibid

¹⁰⁴ Ibid

Chancellor Merkel reiterated the view that the important element in intra-EU relations is that, irrespective of national interests, Member States can bring “international interests together and that the countries of Europe have to co-operate”. She emphasised that although France and Germany had often been the engines of European development, this did not “go against Britain” and ought, in her view, to “go together with Britain”: “It is in our interests if we want to keep our prosperity and our social achievements that we defend our interests together, and this doesn't happen without Britain”¹⁰⁵.

At the European Council On 15-16 December 2005, Chancellor Merkel was cast as a ‘peacemaker’, who, along with the Commission President, José Manuel Barroso, might help to broker a compromise agreement on the budget rebate issue. The *Financial Times* commented on 16 December:

Ms Merkel's role could be crucial: she says she wants a deal provided Mr Blair shows some flexibility, and is working as an intermediary to try to soften the opposition of the Franco-Polish alliance.¹⁰⁶

Chancellor Merkel is reported to have reacted to the compromise agreement by saying “The big cloud has been lifted from Europe. This deal is in the European interest”.¹⁰⁷

Ms Merkel has also reacted to the election campaign pledge of the new Conservative leader, David Cameron, to take the Conservatives out of the centre-right European People's Party (EPP) in the European Parliament. The *Timesonline* reported:

The new German Chancellor put the new Conservative leader on the spot by urging him to reconsider his election campaign promise to leave the federalist bloc formed by the European People's Party and the European Democrats in the European Parliament.

“I look forward to good and intensive co-operation with you, in particular within the framework of the EPP-ED as a clear base for our bilateral dialogue as partners,” Frau Merkel told him in a letter.¹⁰⁸

The report continued:

Frau Merkel congratulated Mr Cameron on his victory on behalf of her party, the Christian Democratic Union, and expressed confidence in his ability to renew the Tories and lead them back to office.

“I am sure . . . that in the foreseeable future the great tradition of British Conservatives will once more have a good chance to go into government,” she wrote.

But Frau Merkel made clear that Mr Cameron should place Britain at the heart of Europe.

¹⁰⁵ <http://www.number10.gov.uk/output/Page8583.asp>

¹⁰⁶ <http://news.ft.com/cms/s/4b5020aa-6da0-11da-a4df-0000779e2340.html>

¹⁰⁷ *Timesonline* 19 December 2005 at <http://www.timesonline.co.uk/article/0,,13509-1939706,00.html>

¹⁰⁸ 16 December 2005 at <http://www.timesonline.co.uk/article/0,,13509-1934239,00.html>

“Great Britain and the British Conservatives are an indisputable element of European politics. In the EU we can work together on our common interests and convictions to safeguard individual freedoms, the regulation of the Common Market, as well as a strong transatlantic cooperation.”

Abandoning the EPP-ED group would reduce the Conservatives’ influence in the European Parliament. The Conservatives currently have a vice-president of the Parliament and chair five of twenty parliamentary committees.¹⁰⁹

C. Defence

Defence relations between the UK and Germany have remained close since the end of the Second World War. The main focus of that relationship has been through the permanent stationing of British forces in the country. The relationship at a policy level has been conducted largely through NATO and the EU. Defence is regularly discussed at bilateral meetings between the UK and Germany, although it is generally within the context of initiatives introduced within these two organisations.

1. Defence relations

a. *British forces in Germany*

British forces have been permanently stationed in Germany since 1945.¹¹⁰ Until the mid-1990s the British Army of the Rhine and Royal Air Force (Germany) were the two main British commands in the country. However, following the *Options for Change* defence review in 1991 the level of British forces in Germany was halved and the RAF withdrawn, in response to the changing dynamics of the post-Cold War environment and attempts by the Government to seek cost savings via the ‘peace dividend’.¹¹¹ The Strategic Defence Review in 1998 made further recommendations on the reduction of troops in the country.

In a Parliamentary Answer on 29 March 2004 the Minister for the Armed Forces, Adam Ingram, set out the justification for retaining troops in Germany. He stated:

We have a considerable amount of infrastructure in Germany, as does the US, and we have very good relationships with our German allies. My hon. Friend asks when the last troops will leave Germany, but I do not think that I can give her an answer. We have met the commitment laid down in the strategic defence review to withdraw certain posts—that is, a reduction of 2,100 posts by 2005. That target has been met, with the exception of the return of two Royal Tank regiments, involving 600 personnel, who are due to return in the third quarter of 2005, when they will be based in Tidworth. The delay in their transfer is due to the fact that the required living accommodation is not yet ready.¹¹²

¹⁰⁹ *Timesonline* *ibid*

¹¹⁰ The main legal basis for the stationing of British Forces in Germany, including jurisdiction over personnel, is set out in the *NATO Status of Forces Agreement 1951*.

¹¹¹ The specific recommendation of *Options for Change* in relation to Germany are briefly outlined in Library Research Paper 04/71, *The Defence White Paper*, 17 September 2004

¹¹² HC Deb 29 March 2004, c1252-3W

The approximate cost of permanently maintaining British forces in Germany was outlined in a Written Answer in April 1998 by the then Secretary of State for Defence, George Robertson:

I estimate the total cost in the previous financial year of our armed forces based in Germany to be about £1.3 billion, the vast majority of which would arise wherever those forces were based. There is no offset agreement with Germany, although the armed forces benefit from barracks, some quarters and training areas, for which no charge is made [...]

Indeed, it is estimated that the additional costs of basing the Army in Germany last year were only about £150 million, in return for which we have leadership of the Allied Command Europe rapid reaction corps, we maintain our substantial influence in NATO, we show solidarity with our allies and we improve the multinationality of training with our allies to face any threat, whether on the continent of Europe or elsewhere [...]

Although there may be scope for changes in the size of our garrison in Germany, we believe that a substantial majority of our troops should stay there. If we brought back our troops from Germany but did not disband the organisations that were there, the British taxpayer would face substantial costs in building new barracks. Moreover, many extra training facilities in this country would be needed, as that resource is currently at a severe premium [...] it would cost about £2.5 billion in extra infrastructure and training ground to bring all our troops back from Germany. In addition, we would lose considerable influence in NATO and in the NATO tasks that British troops currently carry out. At a critical time in NATO's history, we would be breaking solidarity with the Americans who are still there, as well as with the Germans and all our other allies.¹¹³

b. Army

At present there are approximately 23,000 Service personnel permanently based in Germany, although 4,000 of those are currently deployed on operations elsewhere.¹¹⁴ Those personnel are also accompanied by approximately 30,000 dependants and 2,200 civilian support staff.

British Forces Germany is structured into two commands: UK Support Command (Germany) (UKSCG) which provides administrative and logistics support for personnel in Germany and across mainland Europe; and 1 UK Armoured Division which provides the combat troops to meet UK and NATO defence requirements.

1 UK Armoured Division has been based in Germany since 1960 as part of the UK's commitment to NATO. In 1993 the divisional Headquarters moved to its current location in Hereford. At present the Division has three Brigades under its command, equipped with 300 Challenger II tanks, 275 Warrior Armoured Personnel Carriers, 96 self-propelled AS-90 howitzers and 18 Multiple launched rocket systems:

¹¹³ HC Deb 6 April 1998, c2-3W

¹¹⁴ HC Deb 2 February 2005, c901W

- **7 Armoured Brigade** HQ and Signal Squadron based at Hohne Garrison, near Fallingbommel¹¹⁵
- **4 Armoured Brigade** based at Osnabrück
- **20 Armoured Brigade** and support units based at Paderborn/ Sennelager

102 Logistics Brigade (HQ) is also based in Germany at Gütersloh Garrison. It is under the direct command of HQ Land Command in the UK and has regular units based both in the UK and Germany.¹¹⁶

As part of the Future Army Structure (FAS) set out in the 2004 *Defence White Paper: Future Capabilities*¹¹⁷ 4 Armoured Brigade is scheduled to 're-role' into a mechanised brigade by 2008. It is unclear at present whether this change of role will require the new mechanised brigade to deploy back to the UK permanently.

c. **ARRC**

The UK also serves as the Framework Nation for the NATO Allied Rapid Reaction Corps (ARRC), which has its Headquarters at Mönchengladbach. UKSCG provides the ARRC with logistics and infrastructure support. The British Army provides over 60% of the headquarters staff (272 personnel) and two of the ten divisions available to the Corps (1st (UK) Armoured Division and 3rd (UK) Division). The UK's overall commitment to the ARRC is approximately 55,000 troops, half of which are based in Germany with 1st (UK) Armoured Division. In addition the UK also affiliates the majority of the ARRC's combat support and combat service support units, including the UK's 16 Air Assault Brigade.

The ARRC, under the leadership of the UK, is expected to assume command of the International Security Assistance Force (ISAF) in Afghanistan in May 2006.¹¹⁸

d. **RAF**

The RAF's last operating base in Germany, RAF Brüggen, was closed in 2002. However, the RAF has continued to maintain a presence of approximately 700 personnel in Germany and elsewhere in mainland Europe to provide specialist support. In Germany that specialist support is focused mainly on 1 UK Armoured Division and the ARRC, although RAF officers are also based at a number of Luftwaffe bases such as Memmingen and Wunstorf. Although RAF aircraft are no longer based in Germany, RAF squadrons are regularly deployed in the country on training exercises.¹¹⁹

¹¹⁵ 1st Battalion The Black Watch, which is part of 7 Armoured Brigade, is based in Warminster, UK.

¹¹⁶ 8 Transport Regiment Royal Logistics Corp is based in Catterick, UK; 5 Regiment Royal Military Police is based in Edinburgh and 334 Field Hospital is based in Strensall, North Yorkshire.

¹¹⁷ More information on the recommendations of the Defence White Paper is available in Library Research Paper RP04/72, *The Defence White Paper: Future Capabilities*, 17 September 2004

¹¹⁸ More information on ISAF and the deployment of the ARRC in 2006 is available in Library Standard Note SN/IA/2601, *International Security Assistance Force in Afghanistan*, 21 November 2005

¹¹⁹ More information on British Forces Germany and the UK's contribution to the ARRC is available online at: <http://www.bfgnet.de/bfgnet/home/homesub/home.htm>; http://www.bfgnet.de/bfgnet/Information/bfginfobro/english_bro.pdf; <http://www.rrc.nato.int> and http://www.rrc.nato.int/national_pages/uk/index.htm

2. Defence Policy

a. *NATO and the EU*

The 2003 UK *Defence White Paper* reiterated the long-standing view that NATO remains the cornerstone of the UK's collective defence and approach to global crisis management. However, the paper also acknowledged the UK's commitment toward the development of an EU military capability, albeit to complement NATO, rather than compete with it. Germany has always maintained a similar stance, although it has placed greater emphasis on the EU. Like France, Germany has regarded an EU collective defence capability as central to the goal of deeper EU integration. In May 2003 the then German Defence Minister, Peter Struck, presented the *Defence Policy Guidelines*, which set out the re-orientation of Germany's defence and security policies in light of the changing international environment.¹²⁰ The *Bundeswehr* website outlined Germany's approach to NATO and the EU as follows:

Germany aims to prevent crises and conflicts in conjunction with its allies and partners in NATO and the European Union. The transatlantic partnership remains the bedrock of Germany's security. The European zone of stability is strengthened by a broadly based, cooperative and effective EU security and defence policy.¹²¹

Despite this broadly similar outlook, there have been several examples in the last few years where UK and German defence interests have diverged. The conflict in Iraq and the subsequent training of Iraqi security forces has been one of the most divisive issues, while defence aspects of the European Constitution and Germany's calls for a far-reaching review of NATO have also resulted in conflicts of interest. At the Munich Security Conference in February 2005 Chancellor Schröder called for a review of transatlantic relations, and in particular for reform of the NATO alliance. He stated:

Close transatlantic ties are in the interests of Germany, Europe and America. However, we cannot look to the past when it comes to translating this maxim into practical policies, as is so often the case when transatlantic loyalty is professed [...]

Every now and again during the last few years, there have been misunderstandings, strains, mistrust, even tensions across the Atlantic. I suspect that these were due not least to the fact that this process of adjustment to a changed reality has still not been completed [...]

My country sees its international role in a different light. As part of the European Union, Germany today feels that it shares responsibility for international stability and order. And our active commitment in numerous crisis regions around the world demonstrates that we Germans are living up to this responsibility.

¹²⁰ A summary of those guidelines is available online at:

<http://www.eng.bmvg.de/C1256F1200608B1B/CurrentBaseLink/N264WS4R915MMISEN>

¹²¹ <http://www.eng.bmvg.de/C1256F1200608B1B/CurrentBaseLink/N264WRW9865MMISEN>

However, this responsibility also brings with it a right to be involved in decision-making. Our wish to see Germany become a permanent member of the UN Security Council derives from the need to base responsibility on legitimacy.

I believe that the transatlantic partnership must take such changes into consideration. And, to be honest, it does so insufficiently at present. This becomes clear when we look at the institutions which are supposed to serve this partnership. The admission of new members is proof that NATO continues to be attractive. And NATO's presence in Afghanistan has highlighted how helpful its military organisation can be even in distant crises. However, it is no longer the primary venue where transatlantic partners discuss and coordinate strategies [...]

We should focus with even greater determination and resolve on the task of adapting our cooperation structures to the changed conditions and challenges. To this end, the governments of the European Union and the US should establish a high-ranking panel of independent figures from both sides of the Atlantic to help us find such a solution [...]

This panel should submit a report to the heads of state and government of NATO and the European Union by the beginning of 2006...¹²²

The proposal was met with shock and criticism. An article in the *Financial Times* commented:

The substance and timing of the Chancellor's idea shocked NATO loyalists because it appeared to suggest a fundamental rethink of the organisation's role as the primary forum for transatlantic relations just when great efforts are being made on both sides to heal the wounds caused by the Iraq war.¹²³

German officials, including the then Foreign Minister, Joschka Fischer, were forced to clarify Mr Schröder's remarks, stating that they were "not aimed at the end of transatlanticism, but at its renewal",¹²⁴ suggesting that divisive issues such as the lifting of the EU-China arms embargo and negotiations over Iran's nuclear programme should be discussed within NATO. The proposals were rejected by US Defense Secretary, Donald Rumsfeld, who outlined NATO as the forum to discuss important issues".¹²⁵ Although NATO Secretary General, Jaap de Hoop Scheffer, was reported to be critical initially of Mr Schröder's comments, he has since been seen to be working to promote NATO as a political forum. An article in *RUSI Journal* pointed out:

During his first eighteen months in office, Secretary General Jaap de Hoop Scheffer has re-stated the importance of setting NATO's military transformation within a broader strategic and political agenda [...]

He has encouraged a thorough review of NATO's relationships with the United Nations and the European Union and has called for the Alliance actively to shape

¹²² A copy of Chancellor Schröder's speech is available online at: http://www.securityconference.de/konferenzen/rede.php?menu_2005=&menu_konferenzen=&sprache=en&id=143&

¹²³ "Germany suggests far-reaching NATO review", *The Financial Times*, 13 February 2005

¹²⁴ *ibid*

¹²⁵ *ibid*

the international security environment in line with the shared strategic interests and values of its members. He has also called for the reinforcement of the North Atlantic Council (NAC) as the essential forum for security consultation between Europe and North America [...]

The attempt to reinvigorate the NAC is a highly controversial political move. It responds directly to Chancellor Gerhard Schröder's assertion earlier this year that NATO is 'no longer the primary venue where transatlantic partners discuss and co-ordinate strategies' [...]. It is a bold approach, designed to accelerate discussions about the future of NATO-EU relations on terms more favourable to the Atlantic Alliance.¹²⁶

Since taking office Chancellor Merkel has been keen to emphasise the political and military importance of NATO, although she has stopped short of calling for a panel to be established to review the fundamental direction of the Alliance. At a NATO press conference on 23 November 2005 she stated:

The fact that we've come here [NATO] within 24 hours after the government was formed and after I took office, is meant to be an expression of the fact that NATO is important for us. Not only as a military alliance, but also as a political alliance, important for the Transatlantic Security Dialogue [...]

We have made it very clear, in our discussions today, that despite the difficult financial situation Germany finds itself in right now, we are, of course, more than willing to shoulder our obligations and to face up to our duties as a member of this Alliance, and that we intend to continue to be a reliable partner [...]

NATO should be, I believe, the place where people turn first, where member states turn first, to discuss political issues of common concern. Only when it proves...when NATO proves not to be a place in which agreement can be reached, should individual partners be allowed to pursue their individual parts.¹²⁷

In recent weeks the German Government has also expressed its concern over NATO plans to expand the International Security Assistance Force (ISAF) in Afghanistan into the south of the country, and integrate ISAF operations with US-led counter-terrorism operations. The south and the east of the country have historically been more violent than the areas in which NATO is currently based;¹²⁸ while the use of ISAF peacekeeping forces in potential combat situations will also require a change in the Rules of Engagement to accommodate the presence of German peacekeeping troops within the coalition.

An article from *Reuters* in October 2005 commented:

¹²⁶ "NATO's return to politics", *RUSI Journal*, June 2005

¹²⁷ A copy of this transcript is available online at: <http://www.nato.int/docu/speech/2005/s051123a.htm>

¹²⁸ As of 18 November 2005 US casualty figures for Operation Enduring Freedom in Afghanistan were 203 personnel, 123 deaths of which were the result of hostile fire. US troops in Afghanistan are concentrated at present in the south and east of the country.

NATO's chief said on Thursday he was optimistic about a consensus to resolve differences over alliance plans to take over counter-insurgency operations in Afghanistan as well as peacekeeping after expanding into the violent south.

The United States, which has about two-thirds of the foreign troops in Afghanistan, and is looking to cut its commitment [...] has been trying to get European allies to take on more of the burden of the war against Islamic militants.

But NATO allies France, Germany and Spain last month rejected the US call, insisting NATO should stick to peacekeeping rather than become involved in the counter-insurgency work of the US-led Operation Enduring Freedom.¹²⁹

b. Iraq

In the run-up to and during the conflict in Iraq Germany was one of the most vocal opponents of pre-emptive action, even with the backing of the UN Security Council. Prior to the September 2002 general election Chancellor Schröder made it clear that Germany would not participate in any intervention in Iraq, would not provide financial assistance (as it had done in the Gulf War in 1990-91), and would withdraw the use of specialist *Fuchs*-tanks for detecting chemical and biological weapons that were stationed in Kuwait at the time.¹³⁰

The British Government did not think the differences of opinion over Iraq affected bilateral relations:

Mr. MacShane: The United Kingdom's bilateral relations with France, Germany and Russia remain close. We work with France and Germany effectively on important issues such as European defence and the Convention on the future of Europe, and with Russia on the fight against terrorism. There are areas of policy on which we do not agree on tactics e.g. Iraq. But although our approaches on Iraq may differ, there is no difference between us on the fundamental point of the absolute need to disarm Saddam.¹³¹

However, one of the most serious consequences of German opposition was the detrimental effect it had on NATO and its ability to act on the international stage. At the end of major combat operations in Iraq in May 2003, a number of NATO Member States advocated the involvement of the Alliance in the post-conflict stabilisation force. The experience of NATO peacekeepers was regarded as a valuable asset in securing peace and stability in the country. However, Germany, along with the war's other biggest critic, France, opposed the deployment of troops to Iraq under a NATO banner. The German Government also opposed the training of Iraqi Security Forces by NATO troops within Iraq.

Because of the requirement for unanimity in NATO's decision-making process this uncompromising stance by France and Germany had the effect of crippling the Alliance's

¹²⁹ "NATO head says optimistic about Afghan consensus", *Reuters*, 6 October 2005

¹³⁰ The reaction of European states to the conflict in Iraq is examined in greater detail in Library Standard Note SN/IA/1939, *The European Union and Iraq*

¹³¹ HC Deb 20 March 2003 c 878W

ability to act. Questions over the future credibility of the Alliance were asked and parallels with the United Nations during the Cold War were drawn. At the same time German support for European defence initiatives that appeared to undermine NATO, such as the establishment of an EU military planning cell outside the NATO framework, were considered provocative and drew considerable criticism from other NATO Member States, in particular the UK.

At the NATO press conference in November 2005 Chancellor Merkel endorsed the position of her predecessor with respect to Iraq, and confirmed that Germany would continue to oppose the deployment of troops under a NATO banner and would not support the training of Iraqi Security Forces in Iraq. She stated:

We will continue to apply the approach that we will not support military training, the training measures inside Iraq, but we will continue the efforts underway to provide any kind of assistance in the surrounding, in the neighbouring countries.¹³²

c. ESDP Military Planning and Structured Cooperation

The creation of an independent EU military planning cell, based at Tervuren and outside the NATO framework, was first suggested at a mini-summit in April 2003 between France, Germany, Belgium and Luxembourg as part of their proposals for greater enhanced co-operation in European defence. The timing of the summit proved controversial as tensions over the conflict in Iraq remained high. Consequently, the proposals met with considerable opposition. Fears over the duplication of resources and capabilities and the potential for undermining NATO pitched supporters of an independent military capability for the EU against more pro-Atlanticist EU Member and acceding states, which continued to advocate the primacy of NATO as the provider of European security.

In August 2003 the UK circulated a paper entitled *Food for Thought* to all EU Member and acceding States. Along with proposals on structured co-operation and mutual defence, the paper presented an alternative to the 'Tervuren proposal' and one that would place any EU planning capability firmly within the NATO framework. The paper's support for EU planning within NATO was interpreted by many as a firm indication of the opposition of the UK to the Tervuren plans, a position supported by several Member States including Spain, Italy and Poland. However, it was regarded by others as an acceptance by the UK of the need to be involved in this debate, in order to shape any potential outcome and, as such, was the first step towards a compromise.

The creation of an EU planning capability was not mentioned in the draft European constitution in 2003, but progress on reaching a compromise on this issue was regarded as essential if a consensus was to be achieved on the other ESDP elements in the draft text. Compromise negotiations were therefore conducted on an intergovernmental level with a view to reaching an agreement ahead of a Ministerial meeting of the Intergovernmental Conference in Naples on 28-29 November 2003. On 26 November

¹³² A copy of this transcript is available online at: <http://www.nato.int/docu/speech/2005/s051123a.htm>

2003 government representatives of France, Germany and the UK met to try and reach an agreement on the more controversial aspects of ESDP, including military planning. The agreement reached at that meeting was taken forward and adopted at Naples.¹³³

D. Cultural relations

1. Königswinter Conference

The *Königswinter Conference* is an annual meeting of politicians, industrialists, academics and journalists from Germany and the UK to discuss matters of mutual interest. The last meeting was in May 2005 in Berlin. Reports on the May conference highlighted the opening speech by President Horst Köhler, in which he regretted the negative portrayal of Germany and the Germans by the British media, the school curriculum and UK society in general.

Germany's federal president Horst Kohler called on the British people yesterday to drop their "stereotypical" and "negative" views of Germany, in comments that look likely to revive debate on problems in British/German relations.

His comments, coming only days after the 60th anniversary of the end of the second world war, follow a German government decision to withdraw financial support from a leading German-British institute promoting bilateral economic and social research, in order to increase funding for youth exchanges between the two countries.

Speaking in Berlin at the opening of the annual Königswinter conference on British-German relations, Mr Kohler said relations between Germany and the UK were "not balanced".

"Germans have a bigger affinity to Britain than the other way round," he said. In unusually outspoken comments, he added: "I fear that German stereotypes in Britain are largely negative. Britain should take a more open view of Germany."

He criticised British schools for focusing only on the Nazi period when they taught German history.

[...]

One German official said Berlin was worried that young people in Britain were gaining an inaccurate picture of Germany, due in part to "exaggerated" British media reports.

In addition, a survey published by the British Council last year of 16 to 25-year-olds showed that while 97 per cent of young German people spoke some English, only 22 per cent of British young people could speak a word of German.

Peter Torry, British ambassador to Germany, warned in a recent newspaper column not to overdramatise the problem, noting that while "British people

¹³³ The decisions adopted at Naples, including initial reactions to them, are examined in Library Standard Note SN/IA/2949, *Developments in the European Security and Defence Policy*, 9 March 2004.

certainly know too little about the Germans of today", British people formed the largest group among foreign tourists visiting Berlin every year.¹³⁴

2. Youth links

Following talks on 4 July 2005 between Jack Straw and Joschka Fischer, a joint press release pledged increased support for British-German youth links:

Today, they endorsed a joint report into the state of youth contacts between the two countries. The report highlights that a great deal of activity already exists to bring young people from Britain and Germany together. But more needs to be done to take advantage of new opportunities such as better travel opportunities new technology and next year's World Cup. The old model of language exchange needs to be complimented by other non-language based activities.

As a first step, the ministers have announced some further measures to enhance youth links between Germany and the UK. They include:

- establishment of a UK-German Youth Projects Fund
- strengthening of the current UK-German Links Adviser service
- setting up of an information hotline
- enhancement of "the- voyage" (UK-German youth portal: www.the-voyage.com)

For the future, the ministers agreed to develop a "joint delivery plan" based on the recommendations of the Report to be published within 6 months.¹³⁵

3. Award for Lord Hurd

On 24 May 2005, Lord Hurd¹³⁶ was presented with the "Grand Cross of the Order of Merit of the Federal Republic of Germany" by the German Ambassador to the UK, Thomas Matussek, on behalf of President Köhler.

As Foreign Secretary, Lord Hurd helped to smooth the path towards German unification in liaising with the EU and Eastern bloc countries. The Ambassador said of Lord Hurd:

Nearly fifteen years ago, there took place what still seems to us Germans a miracle. And certainly the most wonderful thing we have ever experienced. Many played a vital part in making possible the reunification of our country. But among these, one certainly stands out. We owe it in good part to the diplomatic skill and vision of Douglas Hurd that this miracle could happen. Today relations between Germany and Britain are better than ever. But there is still an enormous potential. And we have an urgent need for exceptional figures of your stature, Douglas, if we are to use it to the full.¹³⁷

¹³⁴ *Financial Times* 20 May 2005

¹³⁵ German Embassy website at http://www.german-embassy.org.uk/fischer_fco05.07.pdf

¹³⁶ Douglas Hurd, British Foreign Secretary from 1989 to 1995

¹³⁷ http://www.german-embassy.org.uk/the_rt_hon_lord_hurd_of_west.html

Appendix: cultural, business, academic and political links

- German British Forum <http://www.gbf.com/links.htm>
- Anglo-German Foundation <http://www.agf.org.uk/>
- Institute for German Studies <http://www.igs.bham.ac.uk/>
- German Embassy in London <http://www.german-embassy.org.uk/>
- British Embassy in Berlin <http://www.britischebotschaft.de/en/>
- Goethe Institut, London <http://www.goethe.de/ins/gb/lon/enindex.htm>
- British Council (Germany) <http://www.britishcouncil.de/>
- The British-German Association <http://www.britishgermanassociation.org/>
- Friedrich Ebert Foundation, London Office <http://www.feslondon.dial.pipex.com/>
- Konrad Adenauer Stiftung <http://www.kas.de/proj/home/home/28/2/index.html>
- German-British Chamber of Commerce <http://www.ahk-london.co.uk/>
- German Industry UK: The Association of German Industry in the United Kingdom <http://www.di-uk.co.uk/>
- British Chamber of Commerce in Germany <http://www.bccg.de/>
- Association for the Study of German Politics <http://www.asgp.ac.uk/home.htm>
- DAAD (German Academic Exchange Service, London) <http://london.daad.de/>