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GERMANY'S NEW ROLE IN THE EU: The Future of the Berlin-Paris Axis in Terms of the Czech Foreign-Political Interests

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1. INTRODUCTION

The ongoing financial crisis, which at the level of the global economic market left the most profound mark at the European continent, has raised doubts about the efficiency of the existing arrangement of the European Union and emphasized Germany's leading role in that organization. It is precisely Germany that, in cooperation with France, dictates the capacity and the manner of foreign financial instruments' functioning, such as EFSF, what role the European Central Bank should take in the whole process, or, broadly speaking, the manner in which the EU should further function in terms of fiscal harmonization and economic stability.

But, it is gradually more certain that the French-German "engine" of European integration is becoming progressively more unbalanced. The latter can be typically illustrated by observing the behavior of markets which refuse to perceive both countries as equally important. Although governments contest economic indicators, these figures affect and will affect the political distribution of powers within the European Union as well. The authority of the German-French duo has, therefore, significantly faded, while all the emphases shift to Berlin itself as a decision-making player of the further EU development.

The German Federal elections have also confirmed this trend. The third government headed by Angela Merkel will, at all foundational levels, continue with the set direction of European politics, while the policy correcting capacity of SPD to get closer to France is rather moderate. In terms of the basic economic and budgetary politics, it is the CDU - CSU that the SPD shares its views with and not so much the French PSF.

From an economic, political and social point of view, the current situation of the European Union will directly depend exactly on the capability and willingness of political elites of the member states to present and retain a persuasive plan of the future EU functioning. Whilst the EU continues to function, the prospect of deeper integration becomes more questionable. The states of South - Western Europe headed by Greece or Cyprus struggle with doubts raised about their further participation in the European group itself, while we can observe the growing aloofness towards the EU (predominately economic) plans in the United Kingdom as well. The states of Central and Central - Eastern Europe then face difficult decisions related to the processes

of euro adoption and total adjustment of their economics in order to tie them with the western partners.

A very exposed position of the Czech Republic is also connected to the situation described above. Its location and historical experiences preordained it to, in this or that way, be a part in the European integration; only very extraordinary conditions could lead it to its voluntary or involuntary detachment from this process. Not to mention the enormous bond of its domestic economy with the German one. For these reasons, the team of authors from the Faculty of Social Studies of the Masaryk University and the Institute of International Relations in Prague with its academic partners from the United Kingdom and France prepared the study mapping the whole situation and conveying particular recommendations to the diplomatic bodies of the Czech Republic based on the findings of the research.

The entire research was originally initiated and supported by the Ministry of Foreign Affairs of the Czech Republic and other bodies of the Czech public administration. The team of authors then modified and, at some points, fine-tuned information originally prepared for these institutions, making it available to a broader professional and lay audience.

The study is structured as follows.

The text, in the first place, analyzes the position and the role of Germany in the European Union. Next to the assessment of priorities and conducts of the Germany, including the part devoted to the analysis of local political parties, the authors also observed related activities of France, Poland and the United Kingdom. Potential scenarios of the further Eurozone development were also evaluated, namely the forthcoming events that might affect the German - French tandem.

This brings us to the next point of this analysis, which is the observation of the dynamics of German - French cooperation within the European Union.

This core of the whole study will be completed by the chapter focused on the two constituent present problems, which will help in illustrating the whole examined issue. The first one is the issue of the EU economic development, more specifically, what consequences the instability of balance of payments (primarily at the relation Berlin - Paris) might bring to the stability of the European Union. The second problem is the energy sector, i.e. possible consequences of the conversion of the German energy sector (*Energiewende*), which is the strategy Germany strongly asserts to be adopted at the EU level as well.

2. GERMAN EUROPEAN POLICY DURING THE EURO CRISIS AND THE GERMAN – FRENCH TANDEM

Describing and analyzing the position of Germany in the European Union during the Eurozone crisis, cooperation with France and consequences which the new Germany's role has in terms of the EU and Czech functioning stand at the center of this chapter's attention.

In the first part of the chapter, the authors analyze several partial issues arising from the principal features of German politics in the EU. They initially focus on the period prior to the Eurozone crisis; they picture Germany as the key, but quite restrained actor which had a clear vision of its future connected to the functioning and always stronger European Union. Then they focus on the internal and external conditions which influence the formation of the German European policy. They indicate that the space for the German government (and its Chancellor), as the main foreign-political actor of the Federal Republic of Germany, is getting narrow. Even though Germany is the most influential European state, this does not make the scope of its foreign policy-making unlimited.

The authors then evaluate the changes in German policies during the Eurozone crisis, pointing out the main approaches and courses of the Eurozone crisis management. They ultimately put forward the three hypothetical scenarios of the EU/Eurozone development and the role of German policies in them.

The German – French relationship in the process of European integration is the subject of the second part of this chapter. The authors present traditional features of the German – French relation prior to the unification of Germany, after 1990 and, in parallel, the new features manifested in relation to the Euro crisis. They also bring in a brief discussion referring to the French possible response to the three mentioned scenarios of the Eurozone and German policies development.

In the third, concluding part of the entire chapter, the authors provide us with a brief assessment of Czech policies' chances arising from the abovementioned scenarios of the EU/Eurozone development

2.1. GERMAN EUROPEAN POLICY

2.1.1. German Integration Policy by the Period of the Eurozone Crisis

Germany's attaining of hegemonic status in the Eurozone was a gradual process, where it was trying to avoid this change of its status, as the role of hegemon is connected to the economic and political costs which complicate German policy and opens up the prospect of large support costs for the Eurozone. The prospect of hegemony challenged the presence and confirmation of the specific interplay of interests, identity and institutions of Germany and the EU. Germany itself could develop only a limited bilateral agenda. At the EC/EU level, it, naturally, had a greater "institutional power" at its disposition than other EU countries (Karp 2009:14). German power and influence were associated with a great degree of its interconnection with Europe, because it was held true that Germany was too great not to invoke an awe of its neighbors, but, also, too small to solely execute the leadership in Europe. The EU was, in reality, the only acceptable form through which Germany was able to frame its power and interests (in terms of European partners, but also in terms of the German identity).

Despite some of its flaws, the emergence of the monetary union presented a logical continuation of the monetary policy initiated during the previous years. However, abandoning the Deutsche Mark, which the Germans were very attached to, was also the price to pay to allow the German reunification to take place, as some EU partners, among others France led by the Socialist François Mitterrand, were at that time very prudent regarding the new place that a larger Germany would take in Europe. The de facto existing monetary union centered around the German Mark in the form of the European monetary system thus transformed into a supranational monetary union aimed at diluting the prominence of the German currency and, therefore, of the unified Germany in a deeper European integration (Janning 2013). Nonetheless, this in reality has imposed several years later the leading role on Germany, which, paradoxically, Germany had in the early 1990s accepted to tame.

This recent change came suddenly and unwillingly also for Germany itself. The Lisbon Treaty was charged with tensions as it was bringing about foundational EU reforms. The Federal Republic of Germany was again meeting the Maastricht criteria, it had an unexpectedly successful presidency in 2007, and the adopted reform of treaties and institutions basically corresponded to German and French ideas (the idea of a "mini-treaty" was proposed by French president Sarkozy in order to come out of the deadlock following the French and Dutch "no" to a European constitution). This held true both in normative and interest terms.

Following Lisbon, German politics had, in reality, retreated to “a pragmatic nirvana” – the Federal Republic of Germany (and not only Germany, but also the “new” member states) redirected their attention towards the economic field, without expressing any further ambition but to pursue its interests within single political sectors. Germany was, moreover, growing more dissatisfied with representation in the new EU institutions, primarily in the European External Action Service (EEAS).

Germany suddenly did not have any especially ambitious agenda of its own addressing the development of EU institutions and fundamental treaties as the issue was not a part of current priorities. The Federal Republic of Germany did not search for a long term vision of the EU issues, and even the government's program addressed the integration policy in a surprisingly superficial manner (Wachstum, 2009: 114-115). There were also the signs of an effort to maintain the position of German governmental actors – see the disinterestedness to appoint prominent leading figures to the new EU institutions stipulated by the Lisbon Treaty, who could throw a shadow on German Chancellor and Minister of Foreign Affairs. The support for the further EU enlargement also declined. The active German role in the enlargement process, however, enabled Berlin to play the role of a norm exporter and propagator of the development embracing the entire region. Neither was the government itself unified concerning the key issue of Turkey's accession, whereas the political scene had come to an agreement only on the matters of Croatia's accession and the position of Iceland.

The features of “conditioned Europeanism” in that manner came to a forefront, directed to the return of investments and budget - saving measures. It was not strategic, long term goals that played the leading role, but direct (primarily economic) interests and tactical objectives. This would have enhanced a so called Ressort principle, i.e. autonomy and mutual competition of single ministries in the Federal Republic of Germany.

Germany was also acting indecisively in the field of European Security and Defense Policy (ESDP).

On the one hand, in comparison to the period preceding the unification and following the decision of the Federal Constitutional Court of Karlsruhe of 1994, the country had been far more involved in multilateral foreign missions, when possible, under a persuasive mandate. Of course, it had been also engaged in missions without a real international mandate, such as the involvement in the air strikes against Yugoslavia in 1999, deployment of her KSK Special Forces as part of the American operation Enduring Freedom in Afghanistan, and so forth.

In 2010, Germany refused to commence a more intensive military cooperation with France and kept the activity at a lower, but never insignificant level, which can be illustrated by the formation of the European HQ in Potsdam or its participation in the European „battle groups“. German policies had, therefore, presented a surprise for other actors at the time of the Lisbon Treaty implementation. In terms of an effort to enforce the Lisbon Treaty and, in parallel, with regard to the tradition of an active shaping of the European milieu through the means of integration process, the Federal Republic of Germany was suddenly devoted to the pragmatic interests only. It had a deficiency of clear visions of the further EU development course and it had not set any perspective objectives to itself either. It was the financial crisis and resolution of the Eurozone crisis that proved to be an incentive for altering this situation and pushed Germany towards the new, albeit (as indicated below) restrained activism.

2.1.2. The Alteration of the German Policy Conditions in the European Union

The crisis of the Eurozone was, without doubt, the main impulse for changing the German policy in the EU. In order to understand the conduct of the German government it is, understandingly, necessary to turn attention to the internal and external conditions having a direct impact on the German policy-making: these are economic, domestic political and institutional factors as well as was the status Germany enjoys world-wide.

Economic Conditions

Germany has become „an economic anchor of Europe“, it represents the most important EU economic actor, the only European economy which went through a successful globalization and became the fourth strongest economy of the world, a dominant economic actor in Central Eastern Europe. Germany is directly dependent on export and on the positive balance of foreign trading.

Such a direction used to be criticized as a departure from the norms and principles applicable in foreign policy (Lau 2013).

German export is progressively more oriented to the non-European regions, which, among else, means a decline of German business' dependence on the Eurozone countries and the EU in general. Only in the years 2008 - 2011 German export to China grew by 20.40% (placing the latter with 6.11% at the 6th place at the scale of the most important destinations of German export), to India by 17.13% (India's share in German export, however, maintains at the level of only 1.03%) (Der deutsche Außenhandel 2012: 12).

Under the pressure of economic interests, German strategic bilateralism is growing stronger with countries such as China. These relations are developing outside a multilateral structure and they bring new competitive features into the relation between the two allies. The Federal Republic of Germany, however, needs the EU in order to enforce the acceptable normative and legal frameworks of economic relations when engaging with these partners.

Although Germany has, as a result of this successful foreign trading expansion, gained the ranking of the second greatest exporter in the world, this does not buy it a sustainable position at the world economic peak; if the German economy today ranks as the 4th greatest economy in the world, it can decline as far as to the 10th place in a half of the century (Kleine-Brockhoff-Maull 2011). From a perspective going beyond the trading interests, the EU proves to be the only way for Germany to preserve its relevance as the world actor. Enormous German exports are, naturally, of immense importance for feeding the EU strategic substance and they should be accompanied also by exports of other EU countries. When the German exporting model is assaulted and criticized as egoistic (based on the logical reflection that, when one state permanently reaches a surplus of foreign trade, it means the other state or states decline into a deficit), German actors and experts point out two facts:

Firstly, wages in Germany are currently rising which will increase purchasing power and, therefore increase imports, which should lead to a gradual leveling of the trading balance at the EU level. This should gradually satisfy primarily France, which places great emphasis precisely on this leveled trading balance in the EU.

Secondly, Germany keeps the main surpluses of the trading balance outside the European market and, principally, in segments in which it does not contest with other European exporters, for example, in the case of cars, those are predominately the vehicles of C category and higher, where other European producers are not that active in, then special chemistry and mechanical engineering. Such a policy will be continued and Germany underlines that its export policy should set an example for other EU countries. Unlike France, it thinks of a leveled trading balance not only at the European, but at the global level. In order to be a partner and a competitor to China and the USA, Europe cannot focus only on the European, but on the world market and struggle for a balanced trade precisely at this level, including trade with China. Only in that manner will it ensure a corresponding place in the world economy and politics.

Already today, however, there are limitations related to the economic capacity of the Federal Republic of Germany. In 2010, as a result of the government's

effort to lift the economy out of crisis, the public debt reached the figure of 139.4 billion EUR. The government had therefore already in 2009 adopted the legally binding measures, the so called *Schuldenbremse*, a constitutionally grounded “debt brake“. In 2010, the release of the new “saving measures package” (*Sparpaket*) followed, on whose basis the state was supposed to save €80 billion by 2014 and, in that manner, observe the provisions of “the debt brake“. Budget cuts, therefore, limit the political activities even of the prosperous Germany. Given the high demands of the German social state and demographic crisis, it is hard to believe in the upcoming cardinal betterment: alongside with the increasing work productivity and controlled immigration, every German government will strive to preserve a surplus of the foreign trade (in 2012, Germany had for the first time recorded a net population growth, mainly due to immigration). The reform of the German social state and the labor market helped to revive the German economy, but the growth of German exports at the EU level had, however, underlined an asymmetry in which Germany did strengthen its model role, but this model highlights the existing imbalance and South – North axis division of the EU. The Grand Coalition (CDU-CSU/SPD) will also maintain this export-directed economic policy with expectation of only marginal changes: they will balance the improving trend of German economy competitiveness (stimulation of domestic investments and innovations, compensations of German enterprises disadvantaged by the growing electricity price, etc.) coupled with the enhanced protection of work and introduction of a guaranteed minimum income. However, the introduction of a guaranteed minimum income, strongly supported by the SPD, questions the capacity of the German economy to remain competitive and flexible.

Local Political Conditions of the German Foreign/European Policy-Making

It is a truism that Germany (for that matter, as any other state) strives to “externalize” its internal obstacles. In the German case, the situation is, however, somewhat more complex when compared to other great countries as all the main western partners have either a presidential system or a parliamentary majority system, alternatively the combination of both. In its freedom of conduct, the German government is, on the contrary, substantially limited by institutional and political pluralism.

A vertical level of institutional pluralism is presented mainly by the German federalism, within which the competences are divided between the states (*Länder*) (predominately represented by the Federal Council) and the federation (represented by the chief federal bodies – the Federal Government, the Federal Chamber of Deputies and the Federal President). At the horizontal level, institutional pluralism finds its expression primarily in the relation between the Federal Government, Federal President and Federal Bank;

accordingly, the single ministries enjoy a relative autonomy as stipulated by Article 65 of the Fundamental Law. Moreover, a coalitional character of the government – and, therefore, political appointment of resorts – strengthens traditional tendencies of sectorial politics (Veselá, 2011). From the point of view of the CDU-CSU excellent results of September 2013 and the formation of the Grand Coalition confirm these tendencies. Elections do not grant unlimited power to Chancellor Angela Merkel; Peter Katzenstein's thesis about the limited sovereignty of the Federal Republic of Germany (semi - sovereignty) refers primarily to the German Chancellor's limited possibilities to independently direct the course of German politics.

From 1990, in the context of the ratification of the Maastricht Treaty, a counterbalance of the German states and the Federal Council increased as they had de facto obtained the right of veto in case of any further transfer of competences. In the 2000s, during the ratification of the Lisbon Treaty, the competences of the Federal Chamber of Deputies were further enhanced.

The Federal Constitutional Court has had a crucial significance; its jurisdiction affected indirectly the whole EU. From the very start it claimed a right of veto and constituted the most efficient instrument of indirect German (non - governmental) influence in the EU. Following the decision on the Lisbon Treaty from 2009, which confirmed the compatibility of the Treaty with the German Constitution, the Federal Constitutional Court became, however, understood not only as a player with the right of veto, but as an actor taking part in the EU policy formation: it already in advance sets the boundaries of where the German politics can arrive at. Eventually, a last case is recently under discussion: in February 2014, the Federal Constitutional Court has for the first time asked the European Court of Justice to check if the outright monetary transactions (OMT) programme proposed by the European Central Bank in order to save the Eurozone is compatible with the EU treaties.

Along the integration process, a so called “domestication” of European politics has been pursued: integration, on the one side, increases the autonomy of government's conduct, while the Parliament, Constitutional Court and federal republics, on the other, strive to limit and control the former (Harnisch 2006: 330–34).

The British political scientist T. G. Ash for that reason stresses that Chancellor Merkel, unlike the top USA, French or British representatives, acts in the context (in German) of “four B”: Federal Chamber of Deputies, Federal Bank, Federal Constitutional Court (we would also add the Federal states) and, perhaps the most important, Bild-Zeitung newspaper.

Reference to the importance of a tabloid, which in relation to the Eurozone had mobilized the public opinion against “a lazy South”, marks out the social atmosphere in the German society: political space for foreign policy-making has been, since recently, getting narrowed. Following its unification, Germany was largely implementing a consistent European policy because it was based on a broad political support, the so called permissive consensus, at the level of the German parliamentary system. The consensus is currently weakened by discrepancies over a number of issues, but German European policy can, in essence, continue counting on a rather stable support of the majority of political parties. As the political parties are the subject of special analysis, this part is narrowed to the behavior of the German public.

The reform of social welfare benefits (Hartz IV) and almost a ten-year long freezing of wages helped in ensuring the country's prosperity, but contributed to the increase of social differences and, by the same token, jeopardized the social cohesion. Six million Germans are employed in so called mini-jobs, where they can earn a maximum of 450 EUR per month. (RFI, 2012). The German socially consolidated democracy is, in consequence, even more dependent on export surpluses and improvement of social cohesion. The German public and media, especially the abovementioned Bild-Zeitung, very critically monitor all the signs revealing the EU changing into “a transfer union” and where Germany is supposed to assist “the lazy” South Europeans.

Chancellor Merkel and Minister of Finances Schäuble, however, succeeded in creating (lately, for example, as a result of an uncompromising attitude regarding the Cyprus assistance) an atmosphere of trust within the society that the German government was acting rationally and that it would not permit the Eurozone to “waste the money” of the German taxpayer. The public was settled in conviction that its government was making right choices and that there was an eruption of an anti-German atmosphere in the affected states where Chancellor Merkel had been frequently pictured with Nazi symbols. The tough policy towards the debtor states also creates the atmosphere of trust and particular togetherness which is important not only for providing the Eurozone saving measures with the social support, but which had ensured Chancellor Merkel and the CDU-CSU a truly historical election victory. The elections became a de facto confirmation of Angela Merkel's political course and style: 41.5% of votes correspond to the predominance of satisfaction with political and economic development, 60% of the German public expressed its confidence in government before the elections, while 80% trusted in Chancellor Merkel herself. This is an entirely unprecedented degree of support expressed for a head of government, who had been in office for two terms already. As a matter of fact, even the sympathizers of the radical opposition (Die Linke) expressed a 58% confidence in Chancellor Merkel (for the above data see for example Neu 2013). Support

and satisfaction accordingly indicate a tendency to center the social debate around Germany and German people, which is the idea that can be observed already since the 1990s, whereas the unification with the EU proves not to be exceedingly emphasized. For that matter, even during the election campaign, European policy was scarcely raised.

As long as this local trust in politics lasts, the stance of the German public is distinguished by “a loose fatalism,” which is different from the public in the affected states: Germany both experiences a generally positive economic development and also has a feeling that the German government is finally successful in exporting a German way of economic thinking to the EU (Köcher 2012).

The support for the EU is, however, not declining, but, in comparison to 2009, the number of federalization proponents has moderately increased (2012: 20%), while the greatest support (one third), however, keeps going to the idea of the EU's return to the pure economic community: the latter was in 2009 demanded by 32%, in 2012 by only 25%. Support to the EU disintegration increased from 10 to 15% (dominant among the voters of the Pirate Party: 29%). Voters of other parties were somewhat more restrained regarding the EU disintegration. It is, nonetheless, quite strongly supported also by liberals (17% of FDP voters) and the radical left-wing Die Linke (15%) – whereas the proponents of this party, at the same time, give the strongest support to federalization of the EU (44%) (DGAP, 2012).

In terms of German interests, the public, generally, perceives the EU balance as a predominately leveled, without recording any dramatic drop.

Neither has the attitude towards euro changed significantly: 58% believe that it is either advantageous or that advantages and disadvantages will balance each other; 33% of residents perceive euro negatively (Köcher, 2012).

The results of the German Federal elections of 2013 can be understood as a plebiscite on the European policy pursued by Angela Merkel: for the first time the German public had the possibility to elect a politically and culturally acceptable party (Alternative für Deutschland), which came out with a Euro-critical program and requested, for example, a secession of the Eurozone. Even though the party was quite successful (4.7% of votes), it has not reached the Federal Chamber of Deputies (yet); it can be expected to do better at the elections for the European Parliament in 2014.

International Position and Security of the Federal Republic of Germany

Germany enjoys a favorable and stabilized security situation, without a direct military threat (a threat of terroristic attack, of course, still lasts). The major change rests in the fact that the USA transfers its main activities outside Europe and expects from its European allies a contribution to a better distribution of work and expenses.

A transformed NATO is in force, whose defense dimension benefits from a strong German support. Germany is not and it does not wish to become a military power, as the cultural constraints keep the political reins in terms of restraint of the use of force in international relations. Germany is, however, one among few countries in which the military budget is increasing, surpassing the military of the United-Kingdom and France when excluding their expenditures to the nuclear forces. The German role in the military and defense policies, in that manner, does not decline, but, on the contrary, we can expect its rise in the forthcoming period as none of the fundamental European projects in this field can go ahead without the German participation (and money).

However, strategic and geostrategic thinking are not developed in Germany. The preference of a "soft power" in the German political culture (mainly the appeal and democratic legitimacy of the German politics) is not sustainable on a long term basis without a persuasive "hard power". The principal tendency of the current development is, according to experts, not geopolitics but geo-economy (Maull, 2010). Germany has been in this context criticized for behaving as a geo-economic power which, by using its strength, enforces its own terms and gives little attention to joint interests (Kundnani, 2011).

The previously mentioned overview shows that the German politics maneuvers in a rather limited space of possible and acceptable. Regardless of its good economic foundation, it does not possess a free field of maneuver and it has to choose means and diction with carefulness. It is clear that it is rather the domestic political issues and the public that are getting on their importance, which was especially evident in the period prior to the elections in September 2013.

If Germany is, therefore, a "reluctant hegemon" (cf. the thesis of W. E. Paterson), then not only is this hegemony unwanted, but also incomplete – it entirely lacks a military-security dimension and it is restricted to the Eurozone only. The new government of the Grand CDU-CSU/SPD Coalition will hardly change radically the character of politics as far as this issue is concerned: an attempt to turn Germany into a more active actor and to simplify the appointment of armed forces to the missions abroad (de facto

condition for developing a functional European security and defense policy) has been only gradually gaining support from all coalitional parties so far, as the retreat of troops from Afghanistan and the sending of soldiers to Central Africa indicates. Post-election changes will address issues such as toughening the process of arms export (priority indicated in the SDS's program).

2.1.3. German Politics and Resolution of the Eurozone Crisis

Germany is, therefore, in a dilemma on how to confront a dynamic pace of the crisis and, accordingly, to ensure local and international support. Not only does this problem encompass political aspects (political will to commence with the changes and their democratic legitimacy), but also the institutional ones: EU-27 and, especially, in EU-17 functioning must undergo the major changes, nonetheless, without fundamentally jeopardizing the EU togetherness and halting the dynamic of its growth. German post-war politics in Europe was based on the compatibility of the two strategic interests: European integrations and an imperative of the stable currency (Wolf, 2010). The crisis had put this interplay to a risky place, whereas the German society had been for the first time truly discussing the possibility of the Eurozone termination triggering potentially catastrophic events for the EU existence itself.

Germany for that reason started working on the reform of the system of decision-making in the EU. The crisis, from the German point of view, has revealed the implications of the Eurozone's asymmetric construction, where the ECB implements a joint monetary policy under circumstances where the joint economic and fiscal policy does not exist and where the euro is not grounded in a full-fledged European Economic and Monetary Union (EMU). The explanation is that Germany had failed to convince enough EU-member states as regards building a full-fledged EMU in Maastricht 1991 as well as later during the negotiations over the Amsterdam and Nice Treaties or during the European Convention.

Another indication of crises can be also spotted in the enormous imbalance in the field of trade and payments at the EU level, mainly arising from the German enormous excess of trading balance, to a great extent financed by capital flows to "the peripheral" EU regions.

A devastating effect arrived from the public debts of some countries dating from the period prior to their entry into the Eurozone and (instead of solving indebtedness through the advantages provided by the euro) further increase of that debt after the entry. The essential cause of crisis is to be, accordingly, seen in a fragmentation of the EU financial system and problems of the banking sector (Schwarzer, 2013; Prota - Viesti, 2013: 2).

The whole development, moreover, proceeds under the pressure of the world financial markets, which, on one side, function as an important (according to some opinions, the most important) external engine of reforms, but can, however, accordingly function destructively as well and even destabilize a rather healthy economy.

Crisis management, aimed at the Eurozone stabilization, proceeds in parallel with the improvement of governing structures. In that manner, a distribution of competences between the member states and the EU has recently been at the forefront of discussions. Should the development of crisis mechanisms and later, even, a takeover of guarantees for particular member states continue, Germany (and other financial contributors to safeguarding measures) insist on a thorough external control of the affected countries' economic activities and the right to intervene in cases of discrepancies and the risk of crisis.

Crisis management is, in that manner, directly connected to the elimination of shortages present in "the economic governance" of the whole EU and primarily of the key Eurozone. This is the only way of rectifying the confidence in the Eurozone on both sides of the North – South EU axis.

Time is working against the EU and there is a permanent real risk both of an EU disintegration and its de-legitimation. The majority of measures which has been adopted so far had a rather formal democratic support: parliamentary control at the national and European levels must be substantially bettered in the future, otherwise, the EU risks both a public departure as well as departure of a good part of the political class from the given measures and from a wide portion of the European project in general.

In the first phase (by 2010), the German policy had pursued an entirely defensive strategy, focusing on budgetary "undisciplined" Greece. A delay of the promise to provide it with assistance left Greece exposed to the pressure of financial markets and made the Greek "rescue" even more expensive. Angela Merkel, who had in March and April 2010 relied on the advice from economic experts, mainly of Josef Ackermann, Chairman of the Management Board of the Deutsche Bank, has learned her lesson from the course the development took. She turned away from Ackermann and other economists and rather oriented to the advice of lawyers and political scientists. She recognized a strategic importance of the situation and concentrated on a whole scale of measures directed to the pragmatic EU reform, intergovernmental coordination (for example, Pact Euro plus) and differentiation of integration which would not demand any fundamental institutional changes (and, therefore, a substantial reform of treaties).

German policies urged the formation of a permanent crisis mechanism which would protect the euro as a tool of ultimate help, among else, by assisting countries which ended up at the edge of bankruptcy. This was conditioned by a progressive reduction of the public debt and increased competitiveness of weakened economies. An entirely basic condition of the German position is refusing a so called bail-out which was prohibited by Article 125 of the EU Treaty. Germany insisted that each provision of help must be adopted unambiguously and, in that manner, provided national states (and, therefore, itself as the principle assumed creditor) with the right of veto. Accordingly, as previously indicated, Berlin in that manner “externalizes” the internal restraints of its politics – primarily the limits against a bail-out set by the Federal Constitutional Court.

As far as the reform of “the economic governance“ is concerned, the German politics closely cooperates with the European Commission (EC) and the Nordic Group. In terms of final arrangement, the EC is, however, rather inclined to the French position and suggests an establishment of European bonds; Chairman of EC Barroso made this proposition in the way that must have unavoidably caused a strong reluctance in Berlin and emphasized a gulf between Angela Merkel and the EC.

The integration process has been permanently accompanied by the German effort to solve the essential issues of the European integration, inter alia by forming the structures. A differentiated deepening of integration had been repeatedly occurring and it is occurring in the regions such as the Schengen Treaty. Already now, there is a two-speed Europe existing in those regions.

German policy has, however, basically always expressed its interest in solving the crisis which would make a new or improved ground for “the economic governance“ not only of the Eurozone, but of the whole EU. German political approach is, in sum, characteristic for the following features:

- 1) Germany wishes the foundations of the EU as a whole to rest on a healthy and competitive economy which would be able to compete on the global markets with the mature economies and dynamically developing states of BRICS group. It is, therefore, a structural reform of the member states' economies that the whole German political scene shares in common (except Die Linke). Austerity policy should not be applied in terms of reckless budget cuts, but as a recovery and improvement of “the economic governance's” efficiency and public administration, which basically falls under the category of a common sense: it has nothing to do with “the German hegemony”. A frequently used argument, for example, with reference to Greece, is that everyone must be clear that they cannot keep more public officials than does a much greater and efficient Germany.

- 2) Similarly, there is a general agreement in Germany about rupturing the union between the key banks and national states, which had been so far carrying a risk of connecting the public debt and the economic activity of banks. Formation of the banking union, for that reason, belongs among the key objectives of German politics, naturally, with substantial limits. When Commissioner Barnier spoke about 1,300 banks and financial institutions, the Federal Republic of Germany immediately refused that the ECB should get control over all provincial and financial institutes, mainly the German provincial and saving banks. A scope of the control will be, for that reason, limited to around 600 largest banks.
- 3) In the case of Cyprus' rescue, a principle was imposed according to which the risks and expenses should be shared also by the banks and private creditors themselves. Distribution of responsibilities and risks is understood as a principal issue of the economic governance (it should lead the private sector granting loans in a more responsible manner) and as a just distribution of burdens inflicted by the social and political compactness of society.
- 4) Democratic legitimacy becomes a progressively more important issue. The opposition on one side and the Federal Constitutional Court at the other (much more vigorously) side request a thorough democratic control of the application of such mechanisms' competences, such as ESM or the banking union. Critics point out that although the German Chamber of Deputies has the right of veto, it, nonetheless, cannot constitute policies addressing these institutions and control their activities: on the contrary, a counterbalance of the executive is rising as the only one who can react on crisis "in the realistic time scope". The Federal Constitutional Court had also pointed to the insufficient parliamentary control in its decision of September 12, 2012.
- 5) German politics is split over the idea lying behind the support for economic growth; the split is primarily, with reference to a notion to set a separate budget for the Eurozone or the European bonds. On one side, there are conservative and liberal parties which took a rather skeptical or even negative stand regarding the both projects, especially until a common economic and budget policy starts functioning. The left-wing actors, by contrast, act in favor of the pro-growth measures and (at least declaratory) for introduction of the European bonds. The proposition of the Board of Expert Advisers under the Federal Ministry of Finances gained support as a compromise option, specifically to form the fund which would under precise structural reforms take over the debts of the member states exceeding 60% and enabled to transfer the installment payments to the fund for 25 years (Handelsblatt, 2013).
- 6) German policy is principally interested in incorporating Great Britain and the countries of the Central and Eastern Europe into the system of "economic governance", in order to counterbalance the predominance of

France and the South-European countries. This effort received an explicit support of David Cameron, who does not insist on any preliminary conditions and carefully keeps good relations with Chancellor Merkel (even to the measure that, after the death of Margaret Thatcher, he did cancel a short visit to President Hollande, but not a long weekend with Chancellor Merkel). German actors and experts express that they will go far forward to Great Britain, including a particular form of “Europa à la carte”. This will be, however, conditioned by making this status nontransferable and unique, otherwise the EU building would fall apart.

2.1.4. Two Lines of the Eurozone Crisis Management

EU unity has been up to now maintained by being coded in treaties (*acquis*) and through the unitary EU institutional framework which grants the same rights and obligations to all the member states. However, both these features of unity are currently being weakened: a low rate of acceptability of the stabilization mechanism and reforms for the entire EU-27 resulted in the fact that the EU is in parallel advancing along the two lines which are significantly departing from each other (here Kunstein - Wessels, 2012, 2013).

The first line of the crisis resolution proceeds at the level of treaties addressing the EU and it involves all its member states. During the global financial crisis, the EU expressed its strong support to the German Ministry of Finances by forming institutions which were supposed to detect and stop the approaching financial crisis in a timely manner. These institutions were the European Systemic Risk Board (ESRB) and the European System of Financial Supervision (ESFS). In May 2010, the German government (after the abovementioned hesitation) took part in the construction of a so called firewall against the debt crisis by founding the European Financial Stabilization Mechanism (EFSM). The Federal Republic of Germany took an opposite stance from France by allowing IMF to also contribute to the mechanism with its loans, which, in that manner, had a significant role in supervising the budget activities of the affected countries. This currently involves the initiation of the supervision of banks within the Single Supervisory Mechanism (SSM) framework. Setting up a banking union would prove to be a foundational and visionary project. For the abovementioned reasons, Germany at this point plays a rather cautious role.

A so called „Six-pack“ then followed as a revision of the Pact of Stability and Growth, introducing “a hard coordination” and aimed at, along with another measure – newly introduced “European semester” and, therefore, “soft coordination” – endorsing the surveillance of the budget policy and coordination of economic policies in order to precede a macroeconomic

misbalance in the EU. Another two legislative adaptations („Two-pack“) are currently negotiated, bringing further toughening of the Eurozone rules. Although this trend had encompassed the entire EU-27, it proceeds in the light of predominance of intergovernmental cooperation, where Germany, as the main creditor and “successful economic model” inevitably took a position of the main actor, therefore, leading negotiations with other key players and the whole EU at the intergovernmental platform.

Since 2008, a profound cooperation of the Eurozone countries has been gradually accomplished as a result of similarly inevitable circumstances. EU-17 is not only a more flexible (because smaller) negotiation platform, but it is, accordingly, a more homogenous one, not in terms of the economic culture (France and southern states are predominant in the Eurozone) but in terms of the political will to reach a consensus and implement an agreement within the given time framework.

As one of its principal dilemmas, German policy has to solve precisely the following discrepancy: the tension between the homogeneity of economic models in the so called Nordic group, on one side, and institutional and political homogeneity of the Eurozone on the other. Berlin is, accordingly, well aware of the fact that on the manner this dilemma will be solved depends both the further EU functioning and German position in it.

The response theoretically rests in the approach towards forming a true European Economic and Monetary Union; the latter was implied also by the Chancellor when she began acting in favor of the further intensification of EU relations and foundation of the European Political Union (EPU). Political union would indicate a transformation of the EU into a political community which would have strong supranational foundations, in many aspects assuming the competences which have been so far entrusted to national states. Such a community would need to be provided with all necessary instruments for reaching its goals and for granting its conducts with a democratic legitimacy.

The EU Summit of December 2012, nonetheless, confirmed that there was the lack of political will for EU reforms towards the EPU formation both in the EU and Germany itself and that there was a predominance of uncertainty regarding the risks of such a major movement. The Summit decided to postpone the negotiations and adoption of the time schedule for forming a true European Economic and Monetary Union for June 2013.

The priorities of the German government are currently directed elsewhere: to the adoption of internationally and legally binding treaties between the EU and EC member states which would oblige them to implement controllable (and enforceable) reform measures.

The second, parallel line of the Eurozone crisis resolution presents a progressive differentiated integration incorporating the Eurozone countries, but also voluntarily joined by some of the countries which (in majority for now) have not adopted the euro. It is the cooperation of the Eurozone with a different number of the EU members standing outside the framework of the EU treaties. All these reforms are marked either by an initiative role or support of the Federal Republic of Germany.

The Pact Euro Plus (March 2011) has been conceptualized as the least binding instrument. It is grounded on a voluntary basis, aimed to assist in reaching a greater competitiveness of the participating countries.

The EFSF had been emerging already as the ground of “a firewall”, providing the convenient loan conditions and then offering them to the affected countries. Based on the Decision of the European Council (and through smaller changes of European treaties), a permanent safety instrument emerged – the European Stabilization Mechanism (ESM). It is founded on the intergovernmental treaty of the Eurozone countries and it will gradually replace EFSF. Assistance is, however, conditioned by the implementation of reforms under the surveillance of “an institutional trio” (ECB, EC and IMF) – German voice was prominent here, supporting the role of both IMF as well as the European Commission as the controlling organ. Such a promotion of the EC role entirely corresponds to Berlin’s, normally, distant attitude towards the EC because it enforces it with a merely controlling function.

So also does the Treaty on Stability, Coordination and Governance (TSCG), which inter alia involves a so called Fiscal Compact, which additionally conditions the assistance. The treaty transfers to the EU Court of Justice the issue of signatories’ obligation to incorporate and abide by the rules of “a debt brake” within their legal framework. In parallel, it envisages a sanction mechanism; even though Germany did not manage to drive through the automatism of sanction imposition, they can be blocked only by a majority vote.

What we speak of is the case of a direct export of the German model which goes beyond the Maastricht criteria and enhances the impact of the German model onto the Eurozone operation.

Crisis management, therefore, proceeds along two lines – one within, the other outside the framework of the European treaties. In both cases, the initiative is run by Germany supported by other actors. A difficulty of the fundamental reform within the EU-27 platform signifies a progressive predominance of a faster development of the second dimension (EU-17 plus

the other Eurozone non-members), which is more flexible and it cannot be blocked by individual states. This is a shift that is basically convenient for the German pragmatic policies, among else, for it emphasizes the role of large states. Accordingly, in German society it provokes discussions and concern about the weakening of the EU unity and insufficient democratic control and legitimacy.

2.1.5. Institutional Aspects of the Crisis Management

What are the effects of the previously described differentiated development of the crisis management on the EU institutional building?

The Fiscal Compact gives a further push to the idea of a differentiated Europe and departure from the united EU; not only the whole EU-27, but the whole Eurozone does not have to ratify a treaty prior to its actual effect (12 signatories suffice). Under the pressure of events and in cooperation with France, German politics took a pretty unorthodox and utterly pragmatic way. It uses all the tools possible in order to stabilize the situation, but without implying a direct socialization of debts. In addition, it accepts a great institutional differentiation of the EU. The parallel structures emerged, transforming the Euro group into “a special group” and “the new center of gravity” (Lippert, 2013: 5).

It is untrue that the EU would redefine itself to a union of national states as there is an approximate balance preserved between the intergovernmental and supranational principles. During the progress of crisis, the European Council and the Council of the European Union are unambiguously demonstrating themselves in “an enhanced and more intensive leading role” in the EU (Kunstein-Wessels, 2013: 5), because they are fundamentally engaged both in the EU system-building and realization of concrete policies. German and French terms of mutual understanding play the key role in the resolution of the debt crisis, whereas the President Herman Van Rompuy also plays a discreet but effective role, assisted by the Task Force for Strengthening Economic Governance (founded in 2010). It is the Eurozone general meetings rather than the European Council Summits where the principal decisions are being brought.

The positions of the EU supranational institutions, the European Commission and ESD, also grew stronger, naturally only in terms of their controlling and implementation roles. If the EC's position rather declined after Lisbon, the new instruments of “the economic governance”, such as TSCG and ESM, entrusted the EC with the strong controlling functions. It is, however, true that ECB obtained greater authorities and that permanent President of the European Council Van Rompuy plays a progressively greater role in proposing the new norms.

The European Parliament did succeed in distinctively improving its role, taking a constructive part in the legislative process and urging for a greater control of the ongoing processes. Its more prominent role was, however, supposed to result from a closer cooperation with national parliaments: the German Federal Chamber of Deputies has been recently (also under the pressure of the Federal Constitutional Court which had criticized its passivity) attaining a greater audience; this is, however, not the mode of activities which the European Parliament usually performs. Proposals to form a special parliamentary body of the Eurozone incite strong oppositions exactly because it would lead to a principled separation of both EU zones.

ECB had gone through a major reinforcement due to the role it played while rescuing the euro (improvement of the banking sector's liquidity handling, purchase of government bonds at the secondary markets). It also obtained the new role (instead the EC) of perform bank surveillance as part of SSM, from where it also had had an impact on the EMU reform. German policy does not comment on the ECB's measures and nor it does take a unitary stance on it. Jens Weidmann, Chairman of the Federal Bank, belongs among the critics who especially underline that its actions are getting into a conflict with the principal task – provision of monetary stability.

These efforts produce institutional changes in “the economic governance” which progressively intensifies the cooperation at the EU – 17 level, while the EU – 27 is gradually becoming a community of secondary importance. The states outside the Eurozone are either accepting or refusing the decisions brought by the Euro group and, in doing so, pushing the cooperation beyond the frontiers of the EU treaties. The arrangement of the key EU bodies is in that manner going through major changes in terms of their competences and influence on the ongoing process, paving the way for a two-speed integration.

German policy rests on conviction that the centripetal force of the Eurozone will make its way through and that both the member and non-member states will be essentially inclined to cooperate with these new EU “political center of gravity”, to observe always stricter criteria and terms and strive to influence the further development of this EU integration nucleus “from the inside” rather than from the outside. So far, this strategy has been applied rather successfully; except the United Kingdom and the Czech Republic, all the countries of the Eurozone and its non-members are either within the main stream or they are striving to approach it.

2.1.6. Possible Eurozone Scenarios of German Politics

For purposes of this analysis, we will concentrate on three scenarios of further development and the consequences they might have on the German position in the EU. These are:

1. Formation of fiscal and political union and, therefore, a fundamental intensification of the communitarian principle.
2. Breakdown of the Eurozone and, alternatively, German's withdrawal followed by the return of national currencies, potentially the formation of smaller (and economically more balanced) monetary unions.
3. Intergovernmental coordination – if it proves necessary – outside the framework of European treaties, involving the intensifying cooperation at the EU-17 level.

Scenario No. 1: Formation of a fiscal and political union presents a long term (and insufficiently developed) direction of all political parties in Germany (to some measure, of Die Linke as well). Naturally, treaties' reform leading to the formation of the political union is not even theoretically on "the agenda": this was evident before the German elections 2013 and it also holds true for the period until the EP elections in 2014. German politics, therefore, endorses the perspective of political union rather consistently and at all levels without explicitly furthering the integration progress. Jürgen Habermas for that reason criticizes Chancellor Merkel for being the first Chancellor who pursued the German pragmatic interests in such an undisguised manner (Habermas, 2011).

Some of the measures applied for euro saving, however, lead to the union of different formats. Only the "Six-Pack" itself implies the introduction of such a control over the fiscal policy that it could be interpreted as "a rule-based union" (Ian Begg as quoted in Kunstein – Wessels, 2012: 10).

The actual emergence of a fiscal union is currently rather unlikely because it would, among other things, imply the direct financial transfers in affected countries' favor. That would entail Germany as the chief creditor establishing, and other countries, a European Ministry of Finances with a full scope of authorities. On one hand, it would lead to the substantial weakening of the member states' sovereignties, on the other (based on the experience with the EMU formation in the 1990s), to the further enhancement of the German role. We can assume that, similarly like in the case of the ECB's formation and formulation of Maastricht criteria, the EU would "remunerate" Germany's willingness to accept the institutionalization of de facto transfer union by adopting its model fully and guaranteeing German national influence.

However, the chances that this scenario would be acceptable for the German side are slim as well. The leading position of the Eurozone hegemon reflects on the self-confidence which some German representatives stand out with and present propositions for crisis resolution; both politics as well as the media and the public audience of the political central and right-wing understand the recent progresses in the Eurozone as the confirmation of "Modell Deutschland"; the left-wing has its reservations in some aspects, but, generally it does share the main parameters of the economic model. Greater self-confidence, nonetheless, does not lead that so far as to enable Germany to claim the direct leading role and exchange it, for example, for the acceptance of direct transfers, not to mention European bonds. Historic experience is still fresh enough for Germany to fear from negative reactions arising in the other countries; this restraint is, for that matter, supported by the anti-German circles and historic reminiscence in the Southern Europe – that is the assaults which had used to, almost exclusively, appear in the British tabloids.

Scenario No. 2: The second radical scenario – **breakdown of the Eurozone and, alternatively, German withdrawal from the Eurozone**, for now remains as the unacceptable solution in German political terms (including Die LINKE) for economic and even more for political reasons. Some German measures are interpreted as if the German political platform had been preparing for this scenario - or that it made pressure on other countries to take the possibility of Germany's departure seriously (The Economist, 2013). According to various estimates, disintegration or Germany's departure from the Eurozone would cause following severe consequences:

- 1) Even if the German economy would overcome the consequences in a medium term, the price would be enormous: re-introduction of German mark would mean its appreciation by 50% in several months and, therefore, liquidation of small and middle businesses (Belke, 2011: 10). It is exactly these businesses that present the spine of German economy, making around a half of German GDP and employing 60% of manpower. Furthermore, they are directed to global export and present the top instances of German industrial innovations. There is a strong concern that the departure from the Eurozone would accordingly force the departure from the EU, of weak countries (Greece) as well as strong ones (Germany).
- 2) Return to protectionism that would follow would destabilize the whole integration process, posing major consequences to the political relations and, especially, to the Germany due to her central position (Belke, 2011: 12). The German-French relation would be especially threatened: the existing asymmetries would even intensify, moreover, with slim chances to make a balance in the field of defense.

- 3) Ultimately, the EU's position in the world economy and global institutions (IMF) would be strongly jeopardized as well as it would diminish an already quite limited EU role in international relations even further.
- 4) The chances of "the European civilian power" to emerge would cease, and, therefore, Germany's ability to maintain a rather low profile of its own "civilian power" and to contribute to European and international security according to its abilities and according to the expectations of the domestic and international public would decline. A failure of attempts to establish the European defense would at best lead to a better cooperation within NATO framework. In the worse case, the ongoing individual / group activation of the military role of some states (Great Britain, France) would have to continue outside the EU framework. In order to support its continental and global economic interests, Germany would have to strengthen its individual military activity.

Scenario No. 3: Approaches of the leading German political figures (Chancellor Merkel, Minister of Finances Schäuble, Minister of Foreign Affairs Westerwelle) are somewhat different at points of accent and direction, but not at points of implemented policy (see the attachment). Germany follows the path of **intergovernmental coordination and intensification of „economic governance“ at the Eurozone platform**. This scenario enables a great degree of flexibility and multispeed EU, whereas its variously defined spheres of participants encompass only the indispensable and determined EU members. In a narrower circle and beyond the basic EU treaties, the intensification of mutual relations and building of one's own institutional and legislative architecture takes place.

Such a solution for the Eurozone crisis and continuation of integration process allows other EU states to join the cooperation once they are ready.

The risk of this process rests in the growing differentiation of the EU. Such tendencies can be exemplified by TSCG treaties and emergence of ESM: Although both function on rather informal grounds, the framework of the EU law and its institutions are, however, the indispensable requisite for such an arrangement.

The role of the European Commission is reduced to only a mere controlling function, whereas a parliamentary control for now remains at the level of COSAC, respectively the body composed of national parliaments. The Federal Constitutional Court had with its criticism drawn attention to this matter in February 2012, finding the specially established controlling organ of the

Federal Chamber of Deputies for an entity insufficiently equipped to perform an efficient control of ESM.

The necessity to intensify interconnection between the Eurozone and the Eurozone non-members among the EU member states represents a great challenge to German politics.

Overall, in terms of German politics, this scenario enables both a progressive efficiency of stabilization mechanism applied on the Eurozone „economic governance“ as well as the preservation of a centripetal pull of the integration process: as demonstrated by a broad engagement in the Fiscal Compact, the absolute majority of the Eurozone non-members is striving to get close to the EU-17 as much as possible, while some of them seek an accelerated adoption of the euro.

The development we have seen so far, moreover, demonstrates that, in addition to intergovernmental cooperation, some supranational institutions, primarily ECB and European Court of Justice get stronger, whereas the European Parliament struggles for a greater influence. According to some estimations, it is, nonetheless, possible that a communitarian principle will gradually find its place also in the activities of the European Council itself (Kunstein – Wessels, 2013: 10).

The September 2013 elections showed that the government's policies hitherto pursued raised the public trust, primarily because it is determined regarding a strict conditionality of help to the southern European countries and it strongly supports their reforms. The Grand Coalition will make basically no changes on this route: German politics will keep advocating the conclusion of agreements between the EU member states and European Commission which would oblige states to work responsibly within their budgets and to increase competitiveness of national economies. Formation of the banking union will present the key matter where German politics refuses the Europeanization of decision-making considering bankruptcies of national banks. It cannot be expected that the SPD would manage to enforce a so called redemption fund, which would partially Europeanize national debts.

2.2. GERMAN – FRENCH TANDEM: INDISPENSABLE, BUT WEAKENED AND LESS RELEVANT

In the post-war period, when the pillars of European integration were set, a dilution of both countries' sovereignties allowed their cooperation within the integration mechanism. The absence and, later, restraint of the United Kingdom then provided the tandem with a leading role, which had a substantial influence on EC / EU development during the whole course of 50

years. Germany conceded the first position to France and balanced the latter as a great (primarily military) power by its economic predominance. The advantages of a peaceful cooperation were for Germany so persuasive that they consolidate a pro-European multilateral identity as a foundational component of the German foreign-policy culture.

The 1990 unification of Germany meant for both countries the emergence of asymmetric relations between the two countries and the dismantling of the last obstacles to German sovereignty and the supervision of the victorious powers. François Mitterrand attempted to solve the situation by asserting the intensification of European integration and communitarization of the dominant German currency (and, therefore, neutralization of a dreaded and acknowledged German Federal Bank). These were the measures which Chancellor Kohl, interested in conserving the cooperation and progressive accomplishment of a federalist vision, more or less willingly consented to. The cooperation, therefore gave rise to the theory of “cooperative hegemony” of both countries at the EU level.

To benefit from a successful functioning of the German-French tandem, the capacity of both countries' leading representatives proved important in tuning the mutual cooperation which made a bridge between individual mismatches and ideological differences. A productive cooperation of ideological opposites can be illustrated by Kohl-Mitterrand or Schröder-Chirac tandem – which had in their own ways (not only positive ones) left a mark on the EU development.

Although the asymmetry of this relationship grows stronger, the political elites of Germany and France are aware of mutual interests that bond them. Even a hardly compatible pair Merkel and Sarkozy managed to efficiently cooperate at points of mutual concord – for example, when it was needed to protect the substance of the EU reform in the form of the Lisbon Treaty.

A more or less reliable support arriving from other EU members proved to be another precondition of successful cooperation. Confidence in a pro-European “added value” arising from the joint advancement of Germany and France constituted a particular “soft power” of both countries; on the contrary, whenever Germany and France turned off the course of the European interest (for example, when they breached the Pact of Stability and Growth and forestalled the application of the sanction mechanism), the punishment arrived in the form of lost confidence and weakened pro-European commitment of other countries.

Economic (not military) “hard power” was also a significant resource of both countries' influences. Their relative economic significance in the EU is

currently on decline; if in the 1960s Germany and France contributed to 60% of EEC's GDP, the latter is today at the level of 48%. What proves even more significant is the fact that an economic asymmetry of mutual relations grows stronger as well. The latter does not much refer to GDP per resident, where Germany records a steady lead in front of France for 30%, which will, however, gradually decline, or at least stay at the same level, as a result of high birth rates in France (in 2012, Germany had for the first time recorded a net population growth, mainly due to immigration). A true shock for French politics, however, arrived after Germany experienced an export boost: if export in 1998 made 27% of French and 29% of German GDP, in 2011 these indicators reached the levels of 28%, respectively 48% (Schild, 2013: 7). Since the 1960s, German exports had steadily exceeded the French ones by 30%, except in the first decade after the unification of Germany; in 2002 – 2012, this difference reached 85% (Gros, 2013). German business is, moreover, constantly more oriented towards countries outside the Eurozone and the EU, making China the main German target of increasing export, being the first country to precede France as an exporter to Germany (France is still holding the principal place in German exports).

2.2.1. The Eurozone Crisis and the German – French Relationship

The resolution of the Eurozone crisis presents a special strain for German – French relationship in many aspects.

- German and French politics depart from each other already in assessing the origins of the Eurozone crisis. While the first reforms were more inspired by French ideas, the later ones have inherited of a stronger German imprint.
- German-French interplay presumes a time-demanding deliberative process, which is in the crisis management in terms of time practically unattainable. This additionally brings the leading role into the hands of Chancellor Merkel, contributing to the further deepening of asymmetry of both countries' influence.
- The logic which the crisis follows divides the EU along a South-North axis. Germany automatically coordinates its direction rather with Austria, Finland and the Netherlands, whereas France strives to represent the countries of the southern Europe and act as a bridge between both EU regions. Unlike France, Germany is for that reason trying to minimize the possibilities of political intervention into the crisis management and incorporate IMF in it.
- The crisis highlighted the asymmetry in terms of economic potential of both countries and traditional differences which both countries grow with regard to “the economic governance”.
 - Losing AAA evaluation and, on the other hand, continuing strengthening of the economic position of Germany represent a

great burden for France.. Further weakening of France's evaluation would for both countries present a critical political problem.

- The leading role of Germany means primarily a dominant position of the German model and, therefore, stronger self-confidence with which the German actors enter negotiations.
- A previously balancing factor of the tandem, i.e. the undeniable leading role of France as a nuclear and intervening power and the permanent membership of the UN Security Council, on the other hand, lost its importance. Since the Eurozone was established European politics at started focusing on the functioning of the euro, nowadays dominated by the crisis resolution. Military issues, including the interventions in Libya and Mali, are in comparison important, but nevertheless just episodes of the EU development. The military policies of France and Great Britain have very limited budgets, pointing to the dependence on the USA and emphasizing a necessity to adequately include Germany. Security and military policy is in that manner the field which does not counterbalance the German role in the Eurozone, but, on the contrary, calls for greater German engagement.

Due to this imbalance, both countries try to reach a consent and compromise.

- German policy expressed its preference of the automatic imposition of sanctions, while it gave in this request under France's pressure in October 2010 in exchange for French agreement to depart from the idea of introducing European bonds which it had been permanently advocating;
- German policy acceded to France's traditional effort to implement "the economic government", even though Germans rather thought of it in terms of "economic governance", that is management and administration and not government in the real sense of words.
- The German-French draft of Pact for Competitiveness encompassed the German model of debt brake, unification of the corporate tax and lifting the retirement age to 67 years. The draft emerged from the German-French negotiations without other member states being consulted - which brought the concern from German-French domination anew.
- As was always the case in the past, a particular convergence is taking place. German policy at least temporarily accepts compromises, such as, for example, intervention politics ECB and the increasing stress on the pro-growth measures. France is, on the other hand, aware that it will have to draw from the German economic know-how, which is reflected by the French debate on the "German model".
- Some measures are initiated by France, in that manner compensating for the compromises it consented to the predominately German scenario with regard to the resolution of the euro crisis - for example, the act on separation of investment banking and the pressure on taxing financial transactions.

When referring to the options of further development of the German - French relationship, we should stress the following:

- From a German point of view, the solution lies in the economic reform of France, something President Hollande is aware of. In France, there is a debate about the German liberal economic capture that is taking place, where the left-wing maintains a critical stance and fears for its widening in Europe.
- For now, there are no chances lurking on the military horizon: Germany (as well as France) does not show the willingness to employ the possibilities given by the Lisbon Treaty or the Weimar Triangle for development of military programs. While the German Ministry of Foreign Affairs as well as the Ministry of Defense are aware that the activation of the German defense engagement is indispensable, the political will was missing until most recently; German policy seems to be re-evaluating her approach since early 2014 - see the surprisingly outspoken calls for a more active role of Germany during the Munich Security Conference in January 2014, presented by top German politicians. Doubts remain as to whether more resources would be provided or mass opinion support an increase in body bags.

The initiatives on European politics pursued by Poland have a particular positive potential and were very much welcomed by Germany. German policy must build further bonds in the EU necessary primarily in response to the decreasing influence and engagement of Great Britain and the often uneven dynamic of cooperation with France. The joint steps of Germany and Poland are, for now, among else, limited for Poland's non-membership in the Eurozone, which makes this closeness rather virtual than based on fundamentally joint steps.

German policy wants to cooperate with Poland primarily with reference to the issue how to preserve the unity of the EU regardless of the intensification of the Eurozone, especially for it presents one of Chancellor's priorities. Intensification of relations is confirmed also by the public administration: offices of the Ministry of Foreign Affairs confirm that some sort of "Weimar consultation reflex" has been set, i.e. an automatic effort to consult all the essential issues not only with France, but automatically with Poland as well.

None of the representative government coalitions in Germany would wish to bring any major changes in the relation with France. The Grand Coalition CDU-CSU and the SPD will also keep searching for ways of maintaining the functionality of the German-French tandem, among else, because it has slim chances to exercise an effective leadership in the EU without it. However, all this presupposes the absence of the increasing economic asymmetry between the two countries. The CDU-CSU and the SPD agree that it is France that needs to do its "homework" and execute the necessary reforms.

2.3. WHAT OUTCOMES DO THE THREE ABOVEMENTIONED SCENARIOS OF THE EUROZONE DEVELOPMENT BRING IN TERMS OF THE GERMAN-FRENCH TANDEM?

Scenario No. 1: France, similarly to Germany, does not have a clarified scenario of European finality (emergence of the political union) and it does not perceive it as the topical issue at the moment. France is traditionally not entirely in accordance with some German federalist stances, but these differences do not play essential role because they are not on the agenda of either of the tandem parties. Moreover, making a political union would require enormous financial expenditures mainly from Germany, consequently followed by an even greater strengthening of the German role in the EU management.

Scenario No. 2: Disintegration of the Eurozone is a catastrophic scenario not only for Germany, but for France as well: EMU is to a great degree a French political and economic project (in which Germany has been enforcing its norms), whereby Paris is concerned to lose the common currency as the most efficient “control mechanism” over German economy and, hence, its politics.

Scenario No. 3: President Hollande declares the making of a differentiated EU as his objective, while Germany and France meet on the idea of intergovernmental coordination of a multispeed EU, intensification of EU-17, modifications of institutional division of competences between single bodies. Unlike Germany, France is not too active in establishing relations with the new EU members, which are not the members of the Eurozone (yet). These are the issue areas which will make the German-French tandem progressively more unbalanced. A counterbalance of this development depends on France's ability to implement structural reforms (see the debated economic reform measures announced by President Hollande in January 2014).

2.4. THE OPTIONS EACH SCENARIO BRINGS TO CZECH POLITICS

The Czech Republic has an interest in maintaining the multilateral, and, primarily, European commitment of Germany, stabilization of the euro and, therefore, a functioning German-French tandem. Czech politics, for that reason, must work with several variants of development and search for adequate answers for each of them. In relation to the three abovementioned scenarios, we can list the following position and related recommendations.

1. Formation of a fully-fledged European political union would place before Prague the question to which Czech politics currently does not have a clear answer nor does it have a unified opinion on it. A fast advance in this direction would present even a greater challenge for the Czech

Republic than for Germany. The issue of the Czech political perception of “the European finality” needs to become an obligatory agenda of the political and expert debate. The Eurozone crisis was the example of how enormous and sudden pace of changes can be and that politics should have its positions and scenarios developed which can under specific circumstances deliberatively (like German-French tandem) agree with and then define this agreement as national interest.

2. Breakdown of the Eurozone and its economic and political outcomes would threaten the Czech Republic's political and economic dividends which it had obtained upon its entry to the EU. This would cause the increasing asymmetry in relation to Germany, which multilateralism in general and the existence of Euro denationalize and, therefore, relativize. A return of German Mark or independence of the “Nordic group” with its own monetary union – would turn Germany into a much more national actor than the current arrangement of the Eurozone and the supranational ECB allow. The result would be a dramatic increase of asymmetry in relations with Germany. Disruption of the Eurozone would jeopardize the functioning of the EU as such and, therefore, also the possibility of the Czech Republic exercising its interests and political ideas.
3. Multispeed EU opens notable possibilities to the Czech Republic to exercise flexible politics and it paves the way for at least two theoretical variants:
 - a. The Czech Republic can take an indirect part in the resolution of the Eurozone crisis at the frontier of the EU-17. This option allows the Czech Republic to choose between the activation of Czech policies (to a great measure, based on the Polish example) on the one hand and keeping distance from the developments dependent on international constellation and her own interest on the other. To keep a distance from the EU-17 and, in that manner, limit its relations with Germany to the economic sphere and support to the responsible budget spending policy and reforms. Such policies, inspired by the British political strategy, would constitute some sort of an insulation position of the Czech Republic within the EU framework without the prospect of a more forthcoming German attitude which Great Britain can rely on.
 - b. Independently from the development of EU and euro issues, the Czech Republic should build an active agenda for relations with Germany as a presently leading power of the EU/Eurozone. For example, as a component of a great economic space with its center in Germany, the Czech Republic should intensively develop scientific-technological exchange and cooperation and in that

manner increase an added value of “the Czech labour” as well as the appealing look for German and other investors.

Furthermore, the Czech Republic should search for topics where it can cooperate with Germany in parallel with the developing politics within the EU – for example, supporting the talks on establishment of the Transatlantic Trade and Investment Partnership, or to in more details specify the cooperation within the framework of the Eastern Partnership.

Attachment: Discussion on the direction of government’s politics demonstrates the existence of particular differences in accents which are summed up in the following scheme.

	Merkel	Schäuble	Westerwelle
The current crisis management	Conditionality	Conditionality + Commissioner for monetary issues	Without particular propositions
	All - Structural reform of economies in the Eurozone / EU countries - Conditioned socialization of the EU members’ public debts - Pressure on harmonization of the monetary and economic policies - Pressure on adjusting the election mechanism in the E – Parliament.		
„Visions“	Primarily the formation of the real European economic and monetary union; prospectively EPU	European federalism	European political union - legislative role of the EP - .EC as the executive body - Directly elected president - The Council as the Upper Chamber

Source: Merkel, 2012; Bundesministerium der Finanzen, 2012, Westewerlle – Sikorski, 2012, Future of Europe Group, 2012 and others.

3. EUROPEAN POLITICS THROUGH THE LENSES OF GERMAN POLITICAL PARTIES

The aim of this text is to draw the analysis of the European politics exercised by German political parties SPD, FDP, Bündnis90/Die Grünen and Die Linke. Given the results of the post - election negotiations between the CDU/CSU and the SPD and the continuing crisis of Euro, it is necessary to turn attention to the changing of European policy - making performed by political parties with reference to the probable government composed by the CDU/CSU and the SPD.¹

Introductory part of the text briefs the development of the German European politics from 2005 to the present. The analysis is divided into the following parts: a) defining three approaches reflecting how the German political parties were changing their perception of European politics in 2005 - 2013, on whose basis we can evaluate every step made by political parties in a wider context; b) the manner each party perceived the issue of joint European bonds. The issue of bonds reflects a recent development in the European politics practiced by political parties and accordingly has the potential to form another frontier between political parties; c) scenarios of the European politics development reflecting the changes after the parliamentary elections and, with that connected, change of German priorities. Scenarios of the future development were primarily referring to the issue of joint bonds.

The development of German political parties' perception of the European politics underwent a significant change in the last decade. Although, on the outside, it might seem that it is not the change that could have a major impact on the manner the political parties would pursue European politics, the changing context and environment of its making should not be understated either. This process can be simply marked as a gradual vaporization of the European integration imperative² of political parties³, which was only partially substituted by the social dimension of the European

¹ For purposes of this analysis, we set the issue of joint bonds as the basic (political) point in protecting the joint currency.

² This term marks the concord of political parties regarding the support to the supranational integration EU; this term can be simply explained that parties under almost all circumstances support European integration and in case of their participation in government, they do not change the course of German European politics in any significant manner.

³ Except the post - Communist Party Die Linke which takes a negative stance regarding the European politics exercised by the rest of parliamentary parties.

integration pursued by the SPD and the Green Party. We, accordingly, argue that German European politics has been since the beginning of the 90s characteristic for sidelining its own (national) interests – i.e. de facto their almost complete Europeanization.

As Paterson (2011) argues, traditional consensus of political parties is gradually veiled in uncertainty, finding a pretext in the departure of the old political generation from the active scene, while the domestic political issues are becoming increasingly more relevant. The latter overlap with the European politics or form it. That shrinks the space where to form the European politics. This can be entirely clearly evidenced by a gradual erosion of the integration consensus with the FDP. The FDP is an evident illustration of the strike on the European imperative of the party which was the most important element of the German integration politics in the post – war period right after the CDU / CSU. Not only did the party for the first time in history turn to the European – reserved campaign, but its divided attitude was reflected also in terms of resistance to the possible decrease of Bundesbank's role in the group of European Central Bank or in terms of propositions of an explicit incorporation of the price stability into the German constitution.

3.1. THE MANNER THE POLITICAL PARTIES APPROACH THE CURRENT EUROPEAN INTEGRATION

For establishing the stance which the political parties took regarding the European integration, we started from the analysis of their election programs 2005, 2009 and 2013. Single approaches delineate the main characteristics of the European politics pursued by the German political parties. These were divided into three approaches which are represented by the parliamentary parties in the mentioned period. It is 1) pragmatic and 2) social approach, making the present European integration mainstream of political parties and 3) approach named selective integration, referring to the cases of deviations from the main integration approach.

Each of the alternatives is divided into three sections: a) description of its typical characteristics; b) parties belonging to the respective category; c) brief outline of possible development within the respective category.

The chosen period corresponds to the period during which the post of Chancellor was and has been occupied by Angela Merkel and where the CDU/CSU presents the strongest political party. The examined period was also marked by the unsuccessful adoption of the Constitutional Treaty and following negotiations and bringing the Lisbon Treaty “to life”. It is for that reason necessary to take into consideration the occurrence of the sidelining of the anti – national German politics – mainly in case of the CDU/CSU and the FDP – with significant intensification of supranational integration in the form

of the Lisbon Treaty's and, from recently, integration shift in the monetary politics.

3.1.1. Pragmatic Approach

German European politics experiences a progressive weakening of the European consensus among its political parties. This approach can be distinguished by the following features. Firstly, although the imperative of supranational integration plays an important role for the European policy - making, the term supranational integration itself is mentioned notably less frequently when compared to the beginning of the 90s. Secondly, the latter is followed by a greater effort to pursue one's own particularistic goals, respectively national interests. The last point is the specific effort to transmit German „best practices“ at the EU level.

The typical feature of this approach is, in that manner, an effort to combine the implementation of particularistic interests with supranational integration support. One of characteristics is the perception of Germany as the fundamental element of the successful European integration. Within, Germany pursues its national interests, that is, other countries take a sufficient account of Germany's interests. This can be illustrated by an understanding of how the Euro had replaced the German Mark: although the common currency is observed as the sign of supranational integration, nonetheless, in parallel, the advantages of the German social - market economy as well as the spillover of these principles at the European level are highlighted as well. This case also refers to the necessity to have the independent European Central Bank.

Moderation of integration interest evidently occurs also when perceiving the EU effects on Germany, because not all the EU norms are not favorable for Germany, but even present cause significant burden. Germany's role in the integration process is no longer perceived in the following order: what is good for the EU, is also good for Germany, but what is good for Germany, is also good for the EU. Further sign can be spotted in differentiation of the integration of selected political fields. In an effort to preserve German economic and social model, parties refuse the harmonization of tax policy. In parallel, support is provided to the harmonization of some technical political fields - for example, energy policy.

Given the fact that the Eurozone crisis is still in progress, attention should be turned to the perception of the ECB's form and role that political parties would ideally replace by the model of German Bundesbank functioning. Here we can best identify the limits of support to supranational integration and enforcement of national ideas of the EU (resp. ECB) functioning.

Although many experts assume the arrival of a progressively profounder erosion of integration consensus, a negative image of the EU – for example, in terms of the negative side of German EU membership – has not (yet) met with the significant support either among voters or political parties. That, however, does not change the fact that, despite a declaratory significant intensification of supranational integration, it is the enforcement of particularistic national objectives/interests and not only supranational integration that grows stronger, like it was the case at the time of Germany's unification.

The CDU/CSU and the FDP advocate this type of perception, because they see the domination of economic interest over supranational integration imperative. The crisis of euro strongly contributed to this situation, as it for both parties (from 2009 – 2013 governign parties) meant a necessary concentration to the economic aspects of the European politics. Although CDU/CSU give a declaratory support to supranational integration in relation to the legacy of Konrad Adenauer and Helmut Kohl, but, especially with Angela Merkel's arrival, one can observe the arrival of the pragmatic approach to integration. One of the reasons is an effort to preserve a wide consensual support at the regional, federal and European level. In the FDP's case, its agenda in the last election period (2009 – 2013) comprised a notable domination of the economic elements of integration over the support of supranational integration. In comparison to the CDU/CSU, Liberals gave a significantly lesser support to social and political dimensions of integration.

Pragmatic approach means the closure of the CDU/CSU and the FDP integration phase which was primarily dominated by an effort to form a strong supranational community. Pragmatic approach, among else, grasps the fact that the parties reflect national priorities and interests to a greater measure than in the past and that they are also willing to pursue them. Over time, this approach will get on greater importance and, therefore, contribute to the efficient prevention of Eurosceptic tendencies.

3.1.2. Social Approach

Social approach comprehends supranational integration as the floor for enhancing the social and societal dimension of the European integration. The parties belonging to this category are typical also for a more intensive support to the European population and strong appeal for the enforcement of post – material values not only in the European politics, but on global scales. This objective is not meant to be reached primarily by employing aggressive measures – for example, by building joint union military units – but though the means of peaceful enforcement and widening of norms. The typical sign of parties in this category is an effort to Europeanize the closest ring around

the EU and continual support to the EU enlargement. This also refers to the support to the Turkey's accession to the EU.

This approach aims at creating the social and political EU unity and at least declaratory spreading of democratic mechanisms of the EU functioning. This effort is also related to evading the usage of terms such as nation or Europe of nations and their replacement by communitarian terms. Contrary to the previously described approach, here it comes to the emphasizing of political (higher) dimension of the European integration and necessity of an active enforcement of this approach. At a declaratory level, social approach departs from the pursuit of national preferences in favor of a higher – union – whole. Originally political – economic sense gradually attained a political – social connotation of the term supranational integration. Hereby, we can, therefore, speak not only of the change of the dominant position towards the European integration, but also of the change of actors advocating the supranational approach to the integration policy.

Parties mention the risk of the EU nationalization as the real threat causing “the crumbling” of the EU political integration. The parties see the response to this process in an effort of supranational grasp of civic society at the European level together with the development of deliberative mechanisms in the EU structures. Inter alia, they support this effort by further development of joint policies which are not at the center of economic (integration) politics. It is primarily the environmental issues and social and human – legal field of the EU that come to the forefront. In these fields, political parties find a greater pace for developing the joint union values and principles.

The proponents of social approach are the SPD and the Green Party. Both parties build their profile on traditional topics, therefore, the strong pace of integration in terms of harmonization of social standards, enhancing the incentives for the social unity of the EU, etc. This approach is de facto the opposite of the pragmatic approach discussed above.

It must be underlined that the SPD and the Green Party formed their European priorities in the period when they had been the opposition and, therefore, not so burdened by responsibility a government carries, respectively the need to address economic issues with realistic economic measures.

In case economic and social circumstances go worse, this approach can get radicalized, leading to an even greater gap with pragmatic approach. That could mean the disruption of integration consensus' stability. With regard to the long term increasing role of societal and social topics in the EU, German politics will witness a firmer version of this approach.

3.1.3. Selective Integration

The typical mark of this approach is narrowing the European integration unto two dimensions. The first one is sidelining the use of force in the European politics. The latter does not refer only to the force in terms of military forces, but as an approach to the understanding of globalization, capitalism, which is related to the integration of the single market in the EU.

In terms of military power, parties which can be classified under this approach strongly oppose the formation of the EU as the global actor. They prefer to create the joint EU defense units and military engagement in various regional conflicts on a global scale. The party advocating this approach protests against the formation of the EU as a world superpower. Although, when compared to the above described social approach, selective integration emphasizes social and pacific aspects, but does not insist on their explicit expansion at the EU level, respectively behind the borders of the current Europe. The goal is “to fight” for a just society, but the party accordingly strongly sidelines the actual political enforcements which remain only at the declaratory level.

The party belonging in this category have a very similar policy in terms of stressing the enforcement of the social dimension of the European integration – although they perceive this issue as the most foundational aspect of the integration process, this in actual propositions and announcements often remains at the level of declaratory statements.

Pro – communist party Die Linke belongs in this category, building its profile as the party advocating interests of socially excluded and residents of the former German Democratic Republic. Although the party has in the recent years “centered” its approach regarding the European integration (from the fundamentally negative one), it keeps imposing the integration of only some political fields, such as, for example, the rejection of the Lisbon Treaty.

According the 2013 general election, the party did not rise on its relevancy in field of European politics in Germany. Although, based on the previously described categories, it seems that the integration consensus between the political parties is changing, this tendency is in parallel balanced by the restraint of negative politics towards the EU. On these bases, we cannot expect the shift to the European negative politics or the increasing relevance of this approach.

3.2. THE JOINT EUROPEAN BONDS - THE MANNER THE POLITICAL PARTIES PERCEIVE THEM

In this part, we will in the first place briefly present the current German discussion on the joint EU bonds, including the related propositions. We will then turn our attention to the positions of each political party with respect to the related topics of the 2013 election campaign. The issue of joint bonds provides us with the best insight of not only different positions of the relevant political parties, but also of future points of dispute that these parties might have. The issue of European bonds also demonstrates the growing discrepancy of the economic and societal aspect of integration – see above the main approaches to the present European integration.

For a better preview, all the positions will be also graphically displayed, in order to capture not only the development of parties' stands, but also the internal disunity of political parties, respectively the individual waves of opinion.

As of the second half of 2009, the discussion regarding the financial integration of the Eurozone was dominated by the financial assistance to Greece. At the same time, the separate waves of opinion crystalized. Based on the debates led in Bundestag considering the adoption of the financial assistance to Greece (5. - 7. 2010), followed by the adoption of the financial rescue mechanism EFSF (19. - 21. 2010, 8. and 29. 2011), the political parties revealed the following argumentation scheme: government coalition parties are to implement rescue tools only if the coherent budget – saving measures are introduced in the incriminated countries, while the related measures would be introduced at the European level, leading to the stabilization and intensified integration of the Eurozone. This had primarily referred to the European Financial and Stabilization Mechanism (EFSM), formation of a banking union (EBU) and, finally, also the introduction of a financial transaction tax.

Criticism arriving from the opposition had underlined the lack of clear strategy of Chancellor Merkel and a long hesitation whether to provide Greece with financial assistance. The opposition's then re-directed its criticism to the particular political measures: to the previous unwillingness to impose taxes on financial transaction or to incorporate the private sector in the restructuring program (Wimmel, 2012: 30 – 31). As Andreas Wimmel (2012) adds that, while the opposition was aware that any major opposition to the Chancellor's propositions was futile, since, with exception of Die Linke, it found them right, the parties in opposition also felt an urge for their own profiling, respectively adding the social dimension of integration to the propositions for the Eurozone stabilization.

One of the main reasons for a thought – through approach which Chancellor Merkel and Minister of Finances Wolfgang Schäuble practice is the fact that the government had to settle with the following factors. It is a conservative the CDU - wing with a very reserved stance towards any German financial commitments, then the influential opinion clusters regarding the German Bundesbank, influential economic establishment represented by the head of Bundesbank and, accordingly, the German representative in the ECB Council, Jens Weidmann, and, lastly, the internal crisis in FDP representing the German rigid approach in case of financial integration (an effort to reach balanced state budgets, each proposal to be supported by realistic economic measures).

Apparently indecisive way of the Eurozone crisis resolution corresponds to the consensual implementation of politics, respectively of parties' own objectives. Chancellor in this manner tried to weaken its critics by providing them the space for expressing their own ideas.

The major turn of not only political discussion was brought by an essay of Jürgen Habermas calling for a profound European integration and especially for its (repeated) democratization. In the same period, he directed a strong criticism to the European politics pursued by Chancellor Merkel and the former Chancellor Helmut Kohl. This impulse left a trace on the ambivalent political scene. SPD and the Green party then openly opted to support the joint bonds and greater democratization of the integration process, for example, by declaring a referendum on joint bonds.

3.2.1.A Preview of the Manner the German Political Parties Perceive the European Bonds

The table that follows briefs the development of parties' stance considering the issue of European bonds by introducing not only their transformations, but also the unity the parties reached regarding this problem. The last column presents the classification of parties along the above defined approaches and it serves as a demonstration of the long term reference framework of the European politics pursued by German political parties. More detailed information about each political party are examined below in sections devoted to providing the profile of each party.

The Parties' Perception of the European Bonds

Party	The initial stance regarding the European Bonds	The presence of the opposition / opinion clusters	The stance during the pre-election campaign	Approach to the European integration / correspondence with the respective approach
CDU/CSU	Overall, rather negative	Yes, the existence of the influential group in the EP; the first deputy president of CDU, Ursula von der Leyen. In CSU's case, it is a solitaire Peter Gauweiler at the federal level.	Refuses the introduction of bonds	Pragmatic / yes
SPD	Positive with reserves	To a minimum degree at the federal level, a negative stance possible, but not distinctive at the regional level.	Support to the introduction of bonds, the issue of referendum requirement remains opened.	Social / yes
FDP	Entirely negative, concessions imposed by the government participation	The prevalence of a negative stance, bonds supported only by individuals.	Negative	Pragmatic / yes
B90/Die Grünen	Rather positive	Homogenous support	Support to the introduction of bonds, enhancement of the EU social dimension	Social / yes
Die Linke	Continually negative	European wing eliminated	negative	Selective integration / yes

Source: authors, based on the election campaign programs

CDU/CSU

Chancellor Merkel does not find the introduction of bonds as a favorable solution, which she had noted in her nomination speech at the party's congress at the beginning of December 2012 in Hannover. The main goal in solving the problems with euro is, in Chancellor's terms, a disciplined budget handling and elimination of debts. This conservative stance has also found its expression in negotiations addressing the budget perspective, when the EU budget had for the first time in history experienced a drop. According to the CDU, the system in the future has to be set so to prevent further indebtedness and, by the same token, settle down the situation at the financial markets (CDU, 2013).

The final politics of a party is a result of a balance of interests between the conservative and European wing, where the latter supports the emergence of joint bonds. Minister Ursula von Leyen or Chair of the Committee on Foreign Affairs of the European Parliament, Elmar Brok, for example, belong in this group. Although the European wing is a very influential one, in terms of capabilities, it does not threaten the official position of the Chancellor – one of the reasons is the unwillingness to sunder the party's policy, because the partial advancement in terms of integration was already accomplished. The CDU's view of the European politics is, in that manner, prevailed by a rather economic approach, which is characteristic for its very reserved stance towards the monetary relaxation of the ECB.

CSU's position can be observed from two entirely different perspectives – at the level of the Bavarian politics, an observer can get an impression that CSU is nearly an anti – European party. At the federal level, however, president Horst Seehofer acts against the European politics of Chancellor Merkel only moderately. Even though CSU is in the Bundestag represented by Peter Gauweiler, seen as „a prominent Union plaintiff“, who had, among else, initiated filing a complaint to the Federal Constitutional Court on the subject of Lisbon Treaty's compatibility with the German Constitution, CSU's influence does not have the key role in the establishment of European politics and public opinion (Plottka, 2010).

SPD

The position of the social democracy will, in comparison to the CDU, probably change in relation to the responsibility imposed by the government appointment. The party has been so far rather united on the issue of European bonds. The main issue of SPD discussion, however, is not the economic foundation of joint bonds, but the social impact on the profound intensification of the Eurozone. Especially in the 2013 general election a

candidate for the Chancellor's post, Peer Steinbrück, very often criticizes the lack of social and societal appeal of integration, which would be, according to Steinbrück, fully replaced by economic technical plans of the government coalition (Das Parlament, 2013). That is also the reason why the president of SPD, Sigmar Gabriel, was careful in commenting the introduction of bonds and, similarly like Steinbrück, laid emphasis on returning the legitimacy of the integration process. Unwillingness to give a clear position on euro rescue efforts is provided also by a significant understating of that issue in Peer Steinbrück's nomination speech (Steinbrück, 2012). As of 2012, there have been no signs of an explicit support to joint bonds by SPD, whereby the party supports the joint resolution of the EU debts without outlining the actual practical steps thereof. That is the reason why the CDU criticized SPD, for it is, in the CDU's opinion, insufficiently aware of the necessity to reach the return of the economic growth.

However, a part of SPD at the regional level acts with reserve towards the bonds, as they would represent the means dedicated to the federal republics which traveled and travel as a financial assistance to the affected states. Nonetheless, in comparison to the opposing part of the CDU, this wing is less influential (Plottka, 2010).

FDP

Since 2009, the Liberals have experienced much turbulence which caused the disunity of the party and a drop of public preference by almost 15%. Internal disunity left a mark also in terms of the governing coalition's hesitation to deliver clear proposals for solving the Eurozone crisis. FDP's agenda was in the light of economic problems, which was also one of the reasons why President of FDP fraction in Bundestag, Rainer Brüderle, had put so much effort to make at least those basic FDP ideas enter the former government propositions on the Eurozone stabilization. FDP emphasizes a budget discipline, coherent implementation of agreed rules and, in the extreme case, also the refusal to assist the affected states; financial help is primarily intended for supporting the economic growth and reforms (FDP, 2013). Unlike other parties, the party's leadership stands against the enthusiastic help of Germany to weak countries. Furthermore, it strictly opposes the introduction of joint bonds, which would, according to Rainer Brüderle, lead to the creation of the joint union of debts.

Although FDP presently respects the line of European politics pursued by the government, at the party's congress, it tried (for now, very uncertainly) to set the liberal limits of the European integration, specifically in the form of limited centralism (FDP, 2013). In comparison to the CDU and the SPD, the distribution of European blocs is less transparent. For German standards, Brüderle acts relatively reserved towards the EU, but at the level of partisan

interests, we speak of a truly moderate stance (Plottka, 2013). In case of FDP, we must also mention that the current economic priorities of the party are significantly far from what the voters demand. Despite its internal turbulences, FDP had voted for the European propositions in the spirit of the EU consensus, however, the form of propositions did not correspond to the party's priorities, which results from a more detailed observation of parliamentary debates from 2012 and 2013.

FDP puts a significant amount of strength into constant assurance that it keeps supporting the supranational EU integration, whereas the complete EU unification presents the most significant integration goal chased by the Liberals. However, this goal does not have to be reached immediately and at any price. The important fact is also FDP's previous influences at the position of the Federal government in case of the EURO rescue – if FDP were not in the government, the joint bonds would be introduced at least partially, as the CDU would not be willing to defy the hypothetical pressure of the SPD, the Green Party and part of society.

Bündnis90/Die Grünen

The position of the Green Party is in all principles very coincident with the social democrats. During the approval of legislative acts leading to the Eurozone stabilization, in addition to the principal support to the European integration, the Greens had been also persistent in taxing financial transactions, which took place in June 2012 (Greens, 2013). The leader of the Green Party for parliamentary elections, Jürgen Trittin, has welcomed this adoption as a breakthrough of the ideological wall in German politics, providing the open space for a deeper political and social integration of the EU.

Unlike SPD, the Green Party more passionately advocates the introduction of the joint bonds as a means for a true EU integration, whereas the current situation is signified as no longer sustainable. Their further argument is that the bonds can help return the Eurozone its credibility and efficiently contribute to the solution of problems related to the debts of the EU member states. In comparison to the above described political parties, the Green Party's agenda practically does not involve any resistance against the introduction of bonds.

Die Linke

Die Linke is the only Bundestag party not supporting German integration politics. This attitude had also found its expression in the disapproving voting on propositions referring to the stabilization mechanisms and assistance to

Greece. Die Linke has been permanently criticizing Chancellor Merkel for the German European politics lacks the social dimension. It sees the European bonds as a tool which grants large banks a control over the member states and not for serving the citizens. The party had also initiated filing a complaint to the Federal Constitutional Court on the matter of ESM (Die Linke, 2013).

Pro - European wing of the party has been significantly weakened in the last three years, while there is no relevant wing in the party which would be able to debilitate the politics with negative aspirations to the EU.

Post - Election Arrangement

The CDU/CSU election result and the following negotiations to form the government coalition with the SPD confirmed that the issue of the joint currency or the EU in general was not the main subject of elections. The CDU had not made any major comments to the issue of euro or solution for reduction of debts. W. Schäuble's August challenge that another rescue package for Greece might be needed passed without a great media follow up. The effort to keep the euro issue off the campaign's mainstream was successful especially in terms of keeping the preferences of the euro - skeptic party AfD under the level of 5%.⁴

Although the SPD and the Green Party had during the election campaign urged the intensification of the EU integration at a declaratory level, parties had never actively elaborated on the subject of the prospect of the joint currency. That proved to be the case also during the negotiations about the government's arrangement. Both potential partners the CDU/CSU dropped the issue of joint bonds and fundamental system reforms of the single currency functioning. For that matter, you can find about the result of coalition negotiations between the CDU/CSU and the SPD in the Chapter dealing with the EU introduced only in terms of a joint concord regarding the efficient taxing of bank transactions.

It is very likely that both government coalition parties will in a short term (by May 2014) leave the issue of joint currency and, potentially, joint bonds, outside the main government agenda. In case of the external acceleration of the Eurozone problems, the process will proceed in an effort to reach a consensual solution of the problem rather in the form of particular measures than through the wished reform. The reason for this situation may be spotted

⁴ President of AfD, Bernd Lucke, had in this relation noted that the representatives of the government coalition intentionally disqualified the issue of joint currency out of the pre - election campaign.

in an effort to sideline AfD, which could build a strong profile on this issue related to the elections to the European Parliament in May 2014.

3.3. SCENARIOS OF THE MANNER THE GERMAN POLITICAL PARTIES' PERCEPTION OF THE ISSUE OF THE JOINT CURRENCY MIGHT DEVELOP

During the negotiation of the Fiscal Compact, the topics had crystalized on the matter of the Eurozone stabilization which will in the upcoming period become one of the main issues of the German politics towards the EU. It is primarily the manner of looking for the joint solution for debts of the south part of the Union.

Especially the parties of government coalition realize the importance to enforce national priorities particularly in the economic field, while the principle of integration politics continues to be established through a consensual politics resting on agreement and not conflict. This fact can be illustrated on the example of the European bonds – although the parties try to build their profiles on this topic, they accordingly refuse that it would trigger the change of the European consensus supporting the EU integration. The approaching elections for the Federal Parliament will cause a postponement of important decisions, but they will with a great likelihood not mean a sudden pragmatic change of German priorities.

3.3.1. The Scenarios of Development

All the scenarios have a common “time” denominator, which is the expected stability of development. This was, among else, exemplified by Cyprus (May 2013), which, despite its major impact on the further development of the monetary union, has in no manner disrupted the parties' positions.

Scenario No. 1: Sustenance of the current politics leading to a gradual intensification of integration in the economic field

The main prerequisite is the sustenance of the CDU/CSU at their leading role in the government coalition. The CDU/CSU will keep insisting on the implementation of the German economic thinking in the EU while expecting the participation of other states. This might result in applying a differentiated integration to the group looking up on Germany and those “others”. The relevance of this scenario will notably increase in case the CDU/CSU sustains as it strongly prefers the German economic culture to the social dimension of integration. Although the FDP is not yet a parliamentary party, 2017 general election elections might bring possible redrawing of the map at the political field. The potential success of AfD could lead to slight corrections of the CDU's stance.

Scenario No. 2: An effort to maintain the present status quo - a minimum of integration movement in any field

This scenario would take place in case the issue of euro rescue becomes the subject of high priority within the political and social discourse and, in parallel, the clear lines of conflict are established between the political parties. This situation is to be probably expected in case the economic problems become intensive; FDP AfD will apparently build its profile more distinctively on the traditional German economic culture, while the great coalition between the CDU/CSU and the SPD will evidently struggle to act as one in the public. Like in the first scenario, a dominant role will be played by the CDU/CSU.

Scenario No. 3: Establishment of the new German European politics: dominance of social topics - intensification of the social dimension of integration

This scenario has been based on the assumption that the left - wing coalition will be formed after the elections. This coalition will not, with the greatest likelihood, mean a sudden paradigmatic change of German priorities, however, it could come to slight "corrections", for example in terms of changes in Bundesbank's leadership and, generally, of enhancement of indirect influences on the European politics. Sidelining of economic issues will be compensated by the increasing relevance of societal issues - joint social standards, minimum wage and, among else, a more energetic effort for financial capital regulation.

3.4. CONCLUSION

German politics experiences a gradual increase in enforcing national interests. This trend is evident despite SPD's and the Green Party's declarations to enforce a profound social and societal EU integration. Any major changes of German politics in this respect are not to be expected as the German parties will continue defending from a factual "admittance" of this tendency. In case the CDU/CSU government sustains, we can expect a constantly stronger tendency of German politics to implement national interests in the European politics, which will enable the CDU/CSU to efficiently prevent the strengthening of the Eurosceptic tendencies in Germany. Generally, the implementation of German economic customs at the European level will keep taking place, which will not be so vehemently pursued and enhanced in case of the left -wing coalition.

In case of joint European bonds, the continuation of the present situation is to be expected, meaning a postponement of their actual introduction. Angela Merkel's staying at the post of Chancellor means that any fundamental correction of priorities is practically expelled. However, changing the

coalitional partner (SPD) brought more flexibility in case of potential crisis scenario, as the positions of the CDU/CSU and the SPD mutually correlate more than they do inside the FDP.

4. CASE STUDY I. ECONOMY AND COMPETITIVENESS

The chief normative basis for preparing this part of the text was the protection of the Czech Republic's national interests. This, in the first place, refers to the assurance of its safety, assurance that the crucial state apparatus units function properly and to the provision of indispensable requirements for a decent life of the local population. In other words, this is not just an economic analysis.

4.1. THEORETICAL REMARKS

Before drawing the analysis of the current situation and presenting the scenarios of the future development, we need to clarify a number of concepts related to the functioning of states and their economic relations with foreign partners.

The first chief concept is a **monetary sovereign state**. It is the state that issues its own currency and has a political control over it. The Czech Republic is the example of such a state. Following the adoption of the euro in 1999, France and Germany ceased to be monetary sovereign states by delegating their monetary sovereignty to the European Central Bank (ECB). It is important to mention that, technically, a monetary sovereign state cannot go bankrupt if it is indebted in its own currency. A monetary sovereign state can decide to go bankrupt if its representatives decide so (Wray, 2012).⁵ Such a decision can have both an economic and political background. However, states usually avoid opting for such a solution and they seek to cover at least a part of their debts.

A monetary sovereign state imposes financial restrictions on itself in order to enable itself to ensure foreseeable rules and a stable management of its own monetary system. (Wray, 2012) It must be emphasized that, in terms of state, it is a voluntary self – imposed restriction, whereby a particular form of restriction is historically conditioned and it is the result of a political process. Such restrictions can be exemplified by a budget – setting process where a

⁵ Or if they are not under almost any conditions aware of their capability to cover the commitments in their own currency. Russia in 1998 was an example of the state that decided not to cover its commitments in its own currency, despite of its technical capability of doing so. However, we must note that this had taken place at the time when the Russian state had been at the edge of political decay and incapable to ensure the functioning of its own institutions in its entirety.

legislative power sets the basic structure of incomes and expenditures for an executive power in the form of the state budget. Another type is the independence of the central bank as an institution responsible for managing the monetary system and the ban on monetary financing of the government through the central bank.⁶ Finally, we must mention the restrictions imposed by establishing some sort of a monetary convertibility, where state promises to exchange its currency for the currency of a foreign state or for a particular amount of commodity (the gold standard and the Bretton Woods monetary system fall under this type of restriction).

Deficits of the public budgets and the public debt in one's own currency do not technically imply a serious problem.⁷ In the case of monetary sovereign countries that own in their own currency, the role of rating agencies proves marginal. These states can "decide" to go bankrupt for political reasons, however, "markets" cannot compel them to go for such a scenario. The central bank is capable of setting a provisional interest rate in domestic currency at the level that it finds adequate (Wray, 2012).⁸ The entire Eurozone is a monetary independent whole (albeit with a complex political structure) that technically cannot go bankrupt in the euro currency and it can protect any of its parts, if there is a political will for such a measure.

In the last instance, a monetary sovereign state can purchase anything that is on sale in its currency and it is theoretically capable of overpaying anybody in its currency. Such a state does not suffer from (despite the self - imposed restrictions) financial restrictions in its currency. Its financial restrictions in that manner have majorly a political background. A state, however, keeps suffering from **the real restrictions**. When the financial system is run by an irresponsible administration, acquisition of the actual resources from state's own citizenry proves to be very costly⁹ (a state forces its own people to accept

⁶ In the Czech Republic, it is §34a of Act No. 6/1993 Coll. on the Czech National Bank. We must realize that Act on the Czech National Bank is a common act and that the Czech National Bank is a state institution which had emerged based on the decision of the Parliament, which can change its decision at any time. In the current practice, a circumvention of a ban on monetary financing through different central bank means is much more frequent, even despite their declaratory political independence.

⁷ Deficits and public debts cause political problems because they cause a redistribution of wealth, and they can also have an influence on the productivity of the local economy, but these factors stand outside the main focus of this analysis.

⁸ Japan is a very good example of a monetary sovereign state. The Japanese have by far the greatest public debt in GDP in the world, but they accordingly have the lowest interest rates. The Japanese government is indebted in yens and the Japanese Central Bank keeps the interest rate at minimum. Even Japan can go bankrupt if it decides so, but no one can force it take that route.

⁹ The first historically known monetary systems had emerged just in order to mobilize the resources of local inhabitants for "public purposes", although the latter was majorly dedicated for rulers' needs. There are some exceptions, such as the Athens monetary system which was

the domestic currency for products and services they make) and it can come into conflict with a democratic state arrangement. Far more often are foreign restrictions which result from the fact that one can only hardly force foreign nationals to provide their goods and services in someone else's domestic currency. For foreign production supplies, a state as a whole (the public and private sectors together) must pay either through the means of its own exports or through the inflow of capital denominated in a foreign currency. State's relations with abroad can be in that manner truly aligned with a household financing. This relation can be captured by the balance of payments. The key indicator is the current account.

Then we need to clarify the relation between exports and imports. Large exports are never the goal as such, but they always rather present a means to reach some goal.¹⁰ The most evident one is to pay for foreign production – imports. By definition, a total volume of exports and imports in the world needs to be equal. That also means that any surplus of a particular state on its current account must be followed by deficits of some other country. World – wide surpluses and deficits on the current accounts must also balance out. A number of countries, such as Germany, intentionally strive to reach a surplus on the current account. It is clear that, by definition, all the states cannot reach a surplus on their current accounts, which is why the German model proves inapplicable at a world – wide scale. The adherence to that possibility again means to succumb to the fallacy of composition.

What is the result of the long term surpluses on the current account? It is the accumulation of financial¹¹ or real assets from the importing country's nationals, who in that manner de facto accumulate a foreign debt. With an overly simplification, we may argue that the states with the current account surpluses consume below their possibilities and accumulate financial claims, whereby the states with deficits consume above their possibilities and get indebted.¹² Although this event is theoretically sustainable, in practice,

established in the public interest and under the patronage of a democratic government (Graeber, 2011).

¹⁰ Let us, for example, reconsider the idea to export to a country which would refuse to provide any contra – value for our exports. In that case, exports would have the same meaning as the Hunger Wall building, in order words, they would reduce social tensions to a maximum effect due to a lower unemployment rate. We might only speculate that this is the current policy of China.

¹¹ Foreign financial assets can be understood as claims on future production of the country that issues them.

¹² For that reason, we can to a degree agree with the stance that states such as Greece live above their means. This stance can, however, arise only from the fact that Greece has high current account deficits and it has nothing to do with deficits of the state budget, which is rather a reflection of the domestic political fight over redistribution of available resources. On the other hand, high deficits of public budgets are one of the factors that can (but not

however, investors refuse to provide further purchases once a particular debt limit is reached. In this situation, flows must be turned, while an originally surplus country must get into deficit and an originally deficit country must start creating a surplus.

According to the mainstream economics, deficits and surpluses on the current account are a reflection of local and foreign entities' free will to rather spend or save and they do not present much of a problem (Krugman and Obstfeld, 2009). In practice, a majority of dangerous currency, financial and, often, also political crisis is related to the long term deficits on the current account. Reaching excessive deficits on the current account and accumulation of an exceedingly high foreign debt can, for that reason, indicate a security risk. States which do not have a political control over the reserve currency (i.e. the individual Eurozone states or the Czech Republic) have to repay their debts by some period of time and, therefore, change their current account deficits into a surplus. In relation to the current account deficits, we can differentiate a state **sensitivity** and **vulnerability** (Cohen, 2006). A state sensitivity refers to how great adjustments of its economic structures one state has to implement if the settlement of unbalanced current accounts renders abruptly urgent (when foreign entities refuse to keep borrowing in a foreign currency is the typical case). The actual magnitude of the current account deficits and the measure of economic openness can be approximately measured. Vulnerability is related to the costs of the long term state adjustment to the balanced current account. This is much harder to measure, as it involves the measurements such as the measure of food and energy self - sufficiency.

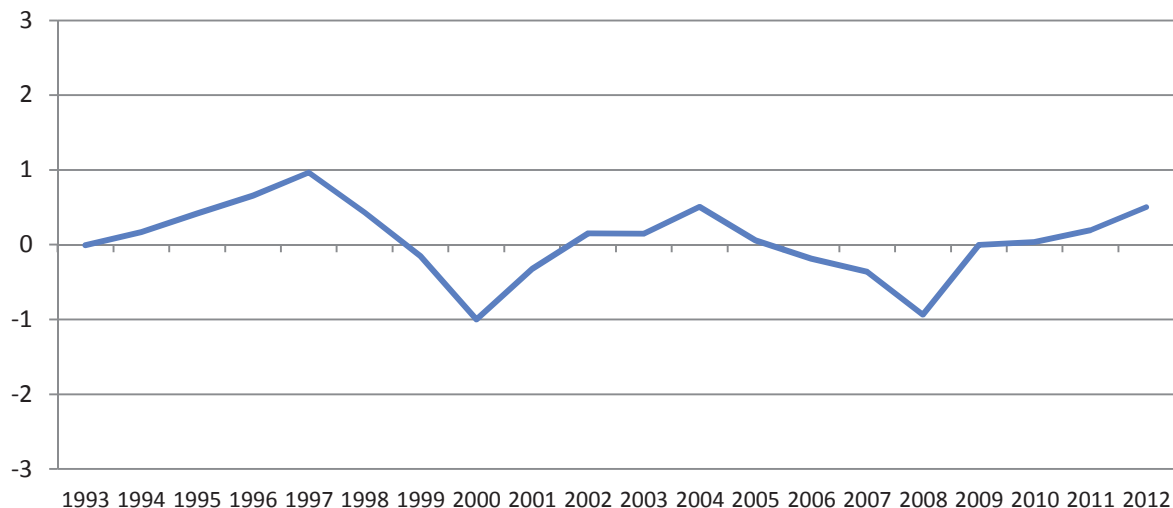
To make a better picture, see the following example. At the break of 2001 and 2002, Argentina had declared a state bankruptcy (its monetary system took the form of the currency board, meaning that it had practically all its debt in USD, making it a monetary non - sovereign state). Argentina was a highly sensitive country, where the high levels of the current account deficits had indicated that the state needed to change its economic structure very quickly and painfully, making 2002 an exceedingly hard year for this country. On the other hand, Argentina is the country with a low vulnerability as it has a sufficient stock of energy sources and the food production above its needs. For that reason, since 2003, the country has not faced difficulties with reaching the record - breaking economic growth despite the uncooperative attitude of the international environment. On the other hand, a state like Greece is extremely sensitive and vulnerable at the same time, and subsequently, little likely to refuse fulfilling its international obligations and leave the Eurozone.

necessarily - see Japan) lead to the increase of current account deficits. That was probably also the Greek case.

In this light, we can **redefine the term competitiveness**, as a state's ability to produce enough goods and services which will in the middle term suffice for covering the foreign imports. Devaluating the local currency can under particular circumstances lead to competitiveness gains. We should, however, again lay a warning that the policies of a conscious currency manipulation cultivate a great conflict potential at the international level.

The EU as a whole, however, currently does not have competitiveness problems, because its current account usually oscillates around zero, in the recent years even reaching the level of a moderate surplus (see Graph 1). Moreover, the EU has been traditionally reaching high trade surpluses in the segment of goods with a high added value, in that manner making it also one among the most competitive economies in the world. The only field in which the EU faces some difficulties is her export share in highly technologically advanced goods, which is lower than a total EU share in the international trade. On the other hand, we should note that the EU position, for example during the years 1995-2005 (the period when the Asian economies arrived) have not changed practically at all, which cannot be told for the other developed countries (the USA and Japan), which had experienced significant losses in this segment (Krpec a Hodulák, 2012: 350-356). The problems of the European economy are far more of internal than of external nature.

Graph 1: Development of the EU Current Account to GDP between the Years 1992 -2011 (%)



Source: International Monetary Fund, 2012.

4.2. A BREAKDOWN OF THE CURRENT SITUATION (DELINEATION OF THE KEY CHALLENGES)

This part aims at picturing the development in the EU following the 2008 financial crisis while focusing on the Franco-German monetary relations. We will also describe the current situation and identify the key challenges.

The world financial crisis had intensified the problems which had been appearing in the European economy for a longer period of time and demanded from the EU states to take a particular stance in this regard. The first problem was an exceeding exposure of the European banks to the credit-related risks, the second problem was an amount of public debt which was a result of the specific institutional setting of the Eurozone. The problems with the long term imbalances of the member states' balances of payment within the Eurozone are somewhat sidelined, which is, ironically, the key challenge in terms of the long term functioning of the Eurozone.

Firstly, concerning the **issue of the banking sector**. Paris and Berlin had taken a similar stand how to solve the banking crisis. Both states had at the critical point decided to assist its banks, while insisting on averting similar events in the future by forming the banking union and taming of speculative capital flows through the financial transactions taxes. Establishment of the banking union was approved at the meeting of the European Council in December 2012 and it was agreed to enter into effect from 2014.

In terms of the Eurozone functioning as a whole, the difficulties of the banking sector do not present a fatal problem. As the lender of last resort that disposes with de facto unlimited resources, ECB can rescue any bank or any state which gets into problem by rescuing its banking sector. Bailing out of any entity can, however, lead to the fundamental redistributive effects, which is why it is a highly sensitive political issue. It is likely to expect that the states that are not important for the system, such as, for example, Cyprus, can serve as an example to deter others and that they will be treated harshly. The states important for the system which face problems in the banking sector, such as Spain and, possibly, France, will be likely treated in a much more moderate manner. A change of rules or of their interpretation would not in their case be disqualified either.

Among all the problems related to the Eurozone functioning, **the debt crisis** has attracted the most attention in the recent years. It is the specific problem of states which pay in the euro. As suggested in the theoretical part of the text, states owing in their own currency do not have problems in the majority of cases, while the evaluation by rating agencies is usually irrelevant for them. It is either the Eurozone countries or the countries which allowed its important economy sectors to get into debt in a foreign currency (Latvia,

Hungary) that have stepped into serious debt problems and, in that manner, met external limitations which even a monetary sovereign state could not overcome easily.

Germany insists on preventing further problems related to the Eurozone states' financing and on implementing the policy of austerity measures. For that reason, Germany had asked for a more restrictive version of the Stability and Growth Pact, which resulted in signing of the Fiscal Compact by the majority of EU states in 2012. A newly established European Stabilization Mechanism (ESM) was accordingly associated to the Fiscal Compact. States with financial difficulties would have an access to the ESM funds only in case they would be willing to implement the requested austerity reforms and to abide by the Pact rules. As of the commencement of the financial crisis in 2008, Germany has been intensively trying to impose progressively stronger restrictions of budget - related decision making mainly in the southern wing of the Eurozone. Based on the experience with the original Stability and Growth Pact, which had proved to be inefficient, the Germans utilized the Fiscal Compact to enforce the obligation of each state to accept the laws that limit their budget deficits. France takes much more reserved stance towards the Fiscal Compact.

The ECB plays an absolutely decisive role in the resolution of the Eurozone crisis. Its role has been changing at a gradual pace. Initially, the ECB had in 2010 introduced the program of the limited bonds purchase (program SMT), while, since September 2012, it has decided to move to their unlimited purchase at the secondary market (program OMT).¹³ The ECB had in that manner de facto performed a monetary financing prohibited by the EU Treaty under the veil of maintaining financial stability. The ECB's decision on the unlimited purchase of bonds means the fundamental defeat for Germany. From the beginning, the Germans have perceived the enhancement of its role in a very inimical manner and the German representative was the only who voted against it. Officially, purchase of a country's bonds is tied to its request for help from ESM and adoption of the austerity measures. The purchase decision is, however, de facto in the ECB's competence.

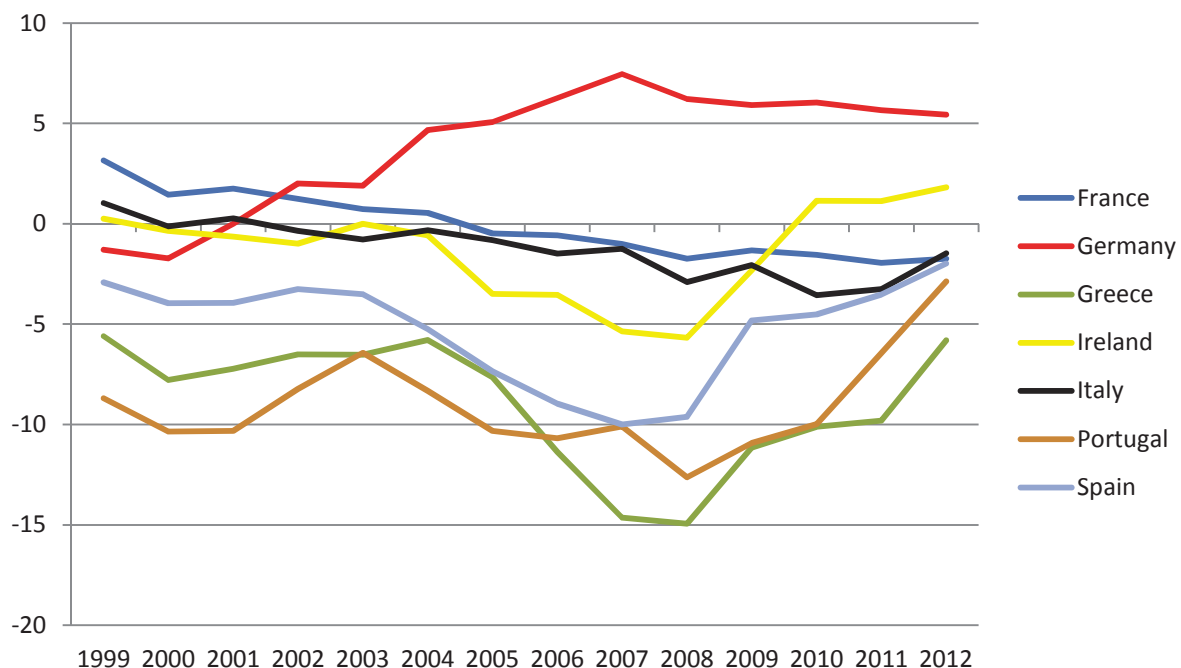
We should also note that the EU as a whole will always be technically solvent, because the ECB is capable of creating practically unlimited amount of money. However, without its help, individual states can become insolvent. The dynamic of the recent years demonstrates that, the greater problems it has, the progressively more does the Eurozone break the ban on monetary financing. Germany strives to stop the whole trend, however, it had to yield because its in compliance would likely lead to the dissolution of the Economic

¹³ It had allocated 207 billion EUR within the SMT ECB program. The OMT program replaces the original SMT program.

and Monetary Union. It is clear that, as a creditor, Germany aims at disabling monetary financing of debts for it could lead either to the moral hazard or potentially real reduction of its financial claims due to inflation. The first variant appears as the likely outcome, which the Germans try to counter, for example, through the means of the Financial Pact. The unbalance of the balances of payment between the Eurozone member states, however, cause by far greater problems in comparison to the budget deficits, without whose solution the previous remedial measures will end at best incomplete.

Furthermore, we should emphasize that the debt crisis is a purely European problem and, therefore, with a solution resting in Europe. The EU in any case does not need to borrow, for example, from China. The member states' debts are denominated in the euro and the ECB is capable of providing the necessary financing in case of urgency. We can, theoretically, imagine that the EU would need a loan in abroad, but only if it was indebted in a foreign currency or if it needed to assure imports from importers who would not be willing to receive the payment in the European currency and, accordingly, that it would not be able to sell euro at the international monetary market. However, both scenarios are highly unlikely in the near future.

Graph 2: Current Account to GDP in the Years 1999-2012¹⁴ (%)



Source: International Monetary Fund, 2012.

The third and the most foundational problem which is, however, insufficiently addressed, is related to the **imbalances on the current accounts** within the Eurozone. This is somewhat paradox if we consider that imbalances of the

¹⁴ 2012 data are IMF's estimations.

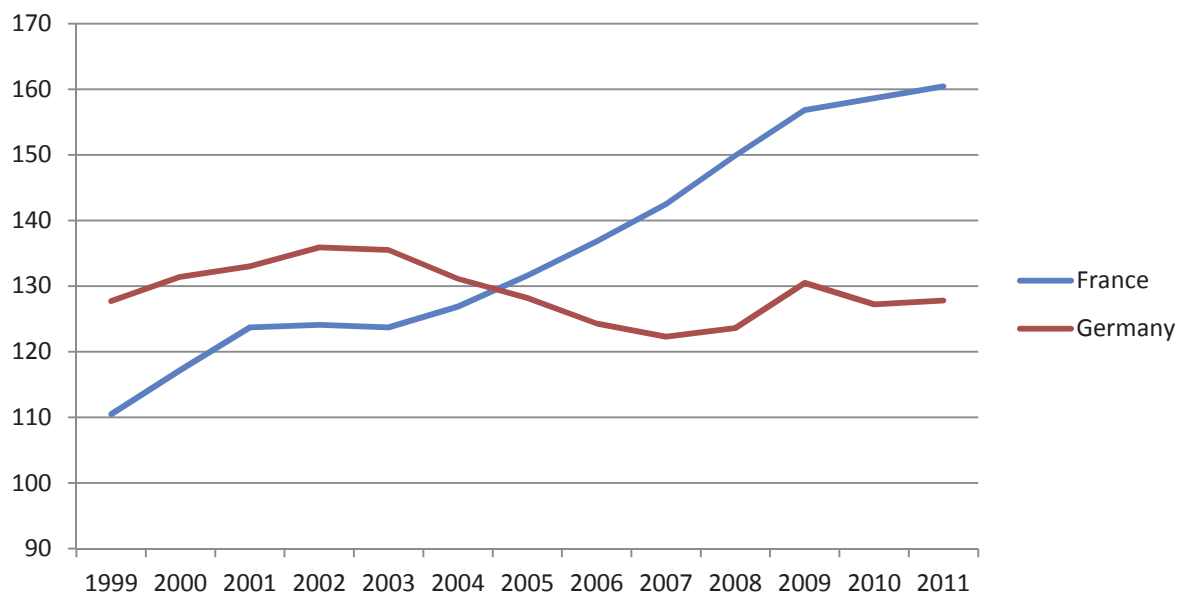
current accounts were the main topic of the European monetary negotiations already in the 1980s. It is not a coincidence that the states that got into problem had rather high current account deficits, while the states usually considered “deficit-responsible” had their current accounts in surplus. Germany is proud of its export surpluses and it perceives them as a proof that the chosen route is the right one. It asks from other states to, more or less, accept the German way of solution which rests on the internal devaluation - mainly the reduction of labor costs.¹⁵ On the contrary, the states of the Eurozone south wing and France complain that the imbalances are the result of the German neo-mercantilist policy and that they are unsustainable in the long run. German surpluses are possible only because other states are capable and willing to spend. If Germany, as their greatest creditor, asks the southern countries to balance their budgets, the former must accordingly admit that it would need to create a sufficient demand for their production and, in that manner, enable its current account to turn into deficit.

The Eurozone crisis has also put France in a problematic place. As displayed on Graph 2, the French current account is in deficit and the situation in the country has been slowly, but permanently getting worse. Such a state of affairs results from the chosen solution of the Eurozone crisis and the German reaction it had evoked. Austerity measures in the states with budget problems mean that these countries need to start generating surpluses on their current accounts in order to even be able to repay their foreign debt.¹⁶ As Graph 2 demonstrates, this is indeed what has been gradually happening. If we take into account that Germany does all it can to maintain its surpluses, there must be someone who could absorb “the excessive” production. Given a moderately positive development of the current account of the whole Eurozone, it is apparent that a part of production is absorbed by the countries within the Eurozone which purposefully do not apply a neo - mercantilist policy and still do not have a debt problem, namely France. This has been facilitated by both high budgeted deficits of the French government and French banks’ credit creation and increased indebtedness of the French private sector, as demonstrated in Graph 3.

¹⁵ The effect of internal devaluation was achieved in Germany through the Harz I-IV reforms.

¹⁶ It is a simplification which, however, well correlates with empiric data. It is theoretically possible that the state with a high foreign debt generates sufficient level of incomes as a result of a high domestic economic growth drawn by a domestic credit creation. In such a scenario, those states could allow themselves to keep very moderate deficits of their current accounts for a long period of time.

Graph 3: Development of the Private Debt in the Years 1999-2011, in% of GDP (without the financial sector)



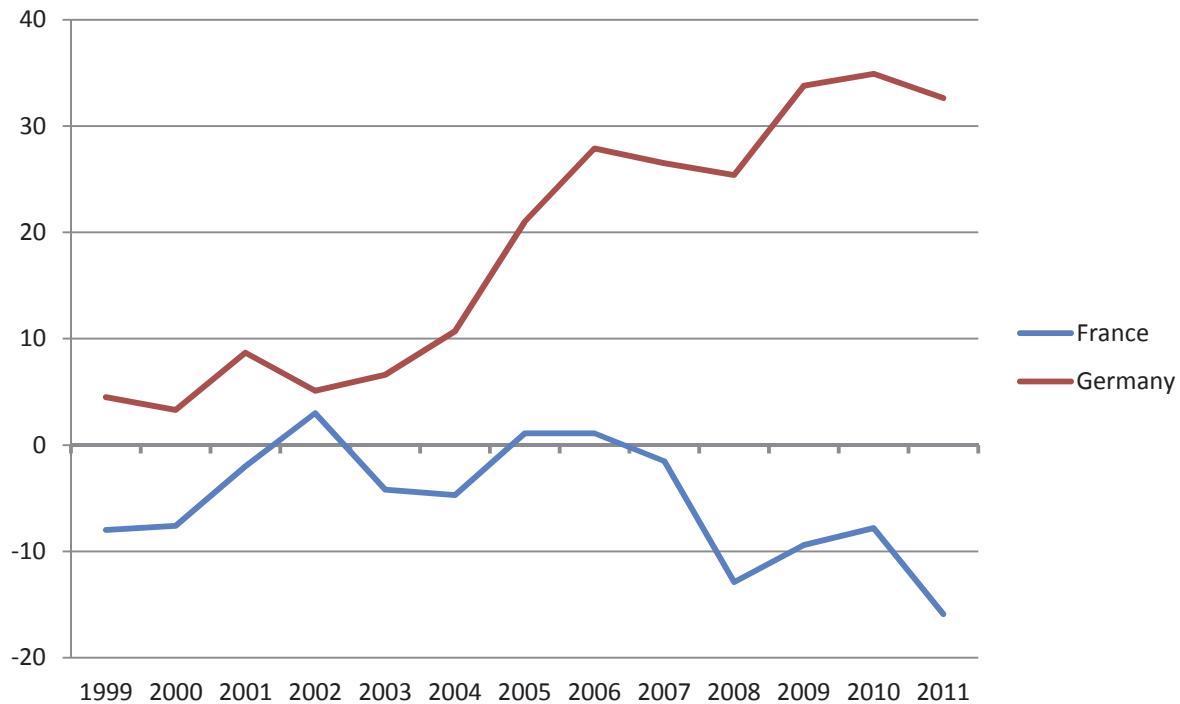
Source: Eurostat, 2013.

We can assume that the new socialist president Hollande will wish to at least partially adhere to its program and refuse to introduce a German version of the austerity measures. That can lead to the further amplification of budget deficits, which at the time of the current account deficit increase can contribute to the outflow of capital from the country (or increase in a foreign debt). In that manner, the similar dispute from 1982-83 is looming under the new institutional circumstances. This situation is very dangerous for France. It implies that it is gradually getting into similar problems like other states of the southern wing of the Economic and Monetary union. Graph 4 demonstrates net international investment positions of Germany and France. It lays evidence of a pretty evident issue that, along with the lasting current account deficits/surpluses, Germany is becoming an important creditor and France is, on the contrary, getting into debt.

France is gradually finding itself in a paradoxical situation. Its long term goal in the monetary field was to constitute such a monetary system which would prevent a dominant position of any state, so France would not have to submit its economic policy to it. Due to the emergence of the euro, France succeeded in eliminating only the symptom (a strong German mark), but not to resolute a core of the problem – German tendency of sustaining permanent current account surpluses. During the crisis in 1983 or 1993, France had always had an option between a monetary sovereignty and continued integration, where it had in both cases chosen the latter. However, setting the rules of the Economic and Monetary Union based on the German ideas has gradually become a strategic problem for France. In case its difficulties get more severe,

France's willingness to stay in the system, which it helped establish as one of the main actors, is questionable, as this systems fails in its original function – i.e. binding Germany.

Graph 4: Net International Investment Position (in% of GDP)



Source: Eurostat, 2013.

The present situation in the EU is even more complex for it requires cooperation between the conservative German government and socialist French government. In terms of the long term development, that is the worst possible constellation. Given the approaching German elections, whose result is very hard to predict, there are many variants of further development. However, based on the theoretical part and historical retrospective, we can make the following preliminary conclusion regarding the development of the German – French relations. The two states have great difficulties to make compromises in their economic policies at critical moments. The tendency to take a path of least resistance prevails. In the past, this was the broadening the ERM fluctuation band; now it is the transformation of responsibilities in the ECB. Such an approach, however, for the most part only postpones the actual resolution of the problem.

4.3. SCENARIOS

There are three main scenarios of the future development of German – French relations. The main observed indicator in scenarios is the development of the current account imbalances. The analysis is primarily based on the development of the French current account, because France is currently at

much more vulnerable position than Germany. The analysis is not primarily focused on budget deficits, albeit that indicator, naturally, plays an important role. Budget deficits themselves, however, do not have to pose an international problem. Moreover, due to the ECB politics, it was indicated the bank would employ de facto monetary financing, if necessary, and that it would technically (but not politically) solve any problem related to the public debts. The current account deficits are a problem by definition itself, they reflect the change of financial claims and obligations of individual countries between themselves and, in that manner, they have a strong conflict potential. Unlike the deficits of public budgets, they need to be solved in the long term horizon.

Table 1: Scenarios

Convergence of interests	France's adjustment through the austerity measures
	Germany's adjustment through the demand stimulus
	Introduction of the rebalancing transfers
Status quo	External demand stimulus
	Maintenance of the French deficit level through the combination of measures
	Using the role of ECB, increase in German claims
Divergence of interests	Germany refusing the further increase in claims
	ECB refusing to finance the deficits of the French current account

Source: The authors

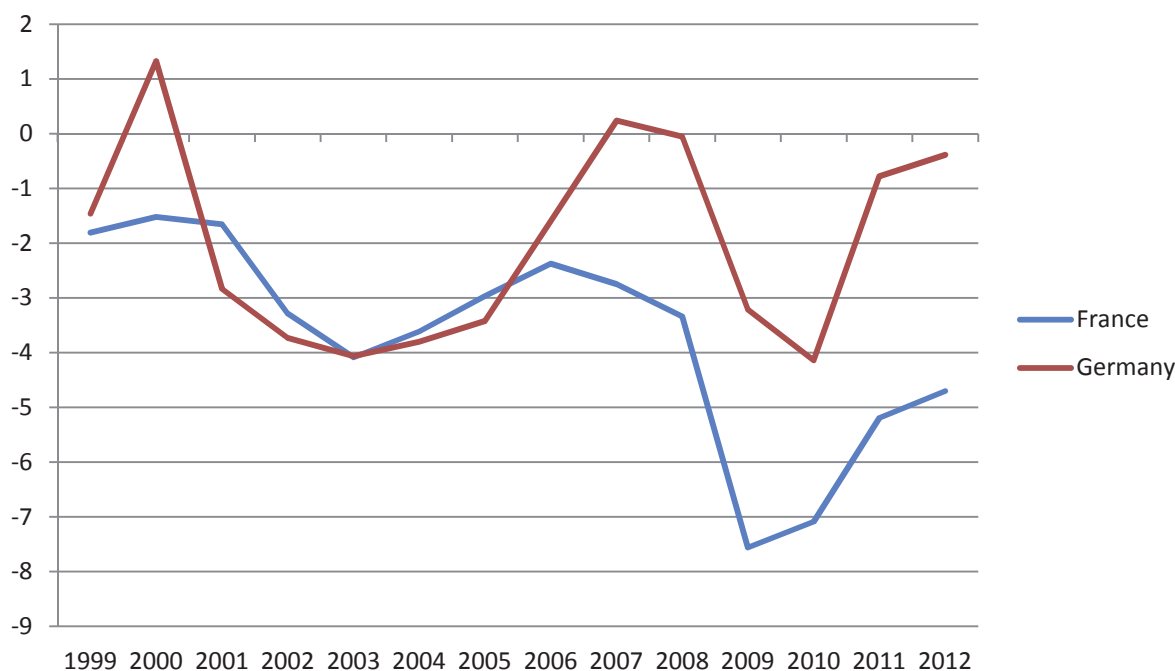
4.1.1. Scenario No. 1 – Convergence of Interests

The first scenario counts with a gradual successful turnover of the French current account trend of development by finding the positions matching the Germany's ones. That can take place in several ways which will be elaborated below in more details. The development in the real world then can take the form of the combination of individual subscenarios.

The first manner the convergence of interests and settlement of imbalances can occur is to adopt the similar solution like during the 1982/83 crisis, i.e. France's submission to the German leadership. This scenario presumes the settlement of current accounts by the French implementation of the austerity measures. That can take place in two ways. Either the growth of the private debt would be limited or the level of budget deficits would be lowered. Whatever the case, it would in the short term result in a decreased standard of living of the greatest part of the French society, which would likely cause intrastate tensions. France has a strong tradition of an active engagement of different political movements, whereby a tough austerity policy could destabilize the country. According to his announcements, President Hollande

seeks to lower deficits of the government budget under 3% GDP. He intends to achieve the latter both through the means of restricted expenses as well as increased tax burden for the rich. The aftermath of this policy is that France would experience the capital outflow. Given the unfavorable prospect of the French GDP development, it is very unlikely that Hollande will succeed in reaching a 3% limit. Even if the French leadership succeeded in implementing the sufficient austerity measures that would strengthen the French competitiveness, the impacts of the chosen policy for the indebted countries of the southern wing should be reconsidered. Due to the French policy, leading to the restriction of the current account deficits, these countries would probably experience a turndown of another channel which currently enables them to at least partially repay their loans.

Graph 5: Development of the Government Budgets in France and Germany in the Years 1999-2012 (in% of GDP)¹⁷



Source: International Monetary Fund, 2012.

Another possible solution is that Germany changes its politics. As an important net international creditor, Germany can afford to implement a significant demand stimulus that would enable to lower its high levels of the current account surpluses, which would certainly lead to the improvement of the current account in Eurozone southern wing and France. What challenges this scenario is the level of the German public debt that is very similar to the French one. A more extensive budget stimulus on German side is, for that reason, unlikely even in case the left wing won the elections. It is the German private sector that would need to generate the demand stimulus, for example,

¹⁷ 2012 data is the IMF's estimation.

through the increased loan creation. Graph 3 does not give much hope in this direction, as the German demand has been on a slow rise in the recent years thanks to the stagnation of the real incomes of the majority of the German society.

The third manner to find the joint stand and to solve balance of payment imbalances can be found in the emergence of the actual fiscal union and introduction of massive transfer payments. Factually, it is the solution similar to the one presented by the Marshall Plan and which exists within every individual state.

Within a state, there is a similar imbalance between the imaginary regional current accounts as it is between the states. In the majority of states, however, the massive transfer payments occur between the regions which level up these imbalances.¹⁸ If the EU is to perform the role of the fiscal federation, its budget would have to multiply in order to, at least partially, approximate to the USA federal budget. These financial resources would then have to be directed to the states with the largest current account deficits. The USA, for example, has its military bases in the states with the largest deficits on their imaginary current accounts, by which they benefit from an income of resources and have their deficient current account balanced by an inflow of investments and transfers from the center (Varoufakis, 2011: 64-65).

We should also mention the Eurobonds in relation to the fiscal union. The idea is to reduce the indebtedness risk and, consequently, to reduce interest rates under which countries take loans. It is self - evident that the Eurobonds are the logical choice in case the actual fiscal union emerged. However, their role is problematic without a proper agreement. The ECB can force lower interest rates through its OMT program. The program is, however, intended for states in the state of crisis, meaning that the Eurobonds make sense in case the ECB does not decide to apply them broader. Their potential emergence would likely signify a significant political gesture. However, that would not mean the resolution of the main Eurozone problems.

4.1.2. Scenario No. 2 – Maintenance of Status Quo

The second scenario presents the ways of keeping the status quo. That means that France would uphold its state - centered model of the economic policy and conduct its left - oriented policy directed to the demand stimulus and that Germany would continue in its conservative economic policy turned to

¹⁸ There are also other assistant channels of how to settle regional current accounts imbalances over time. One of them is the interstate migration. The increased migration can also help at the EU level, but given its permanently very low levels, it is not to expect that it could bring a foundational turnover in the present trend of development within the Eurozone.

the austerity and maintenance of an exceedingly high current account surpluses. Again, a three subscenarios can be identified, while the actual development can take the form of the combination of their separate characteristics.

In the first case, let us consider a significant growth of the current account surplus at the level of the whole Eurozone. Due to the latter, Germany could maintain its surplus, while the deficits of the southern wing and France would diminish, potentially even turn into surpluses. This development should come as an effect of a demand stimulus from abroad or significant weakening of the euro. The USA on regular basis assumes a role of consumer of the last resort, by which it had assisted, for example, the resolution of the German – French tensions both in 1983 and 1993. The USA has succeeded in overcoming the recent economic crisis rather successfully, however, the voices calling for implementation of the austerity measures alike to the European ones grow stronger so, in consequence, one cannot overly rely on the demand stimulus arriving from the USA.

Graph 6: Development of the USD – EUR Exchange Rate from 1999 to 2013



Source: ECB, 2012.

At the beginning of 2013, the debates regarding the formation of the Transatlantic Free Trade Area were revived. The Eurozone might, in result, obtain a particular market share at the expense of China and other Asian countries, which would lead to the increase in the European current account surpluses. With regard to the absence of significant barriers between the USA and the EU in the field of trade with industrial products and with a number of services, however, the final outcome will certainly be rather insignificant. Very likely, liberalization will not affect the fields where a notable trade growth might be considered because of their political sensitivity (typically agriculture). However, formation of the Transatlantic Area could have a

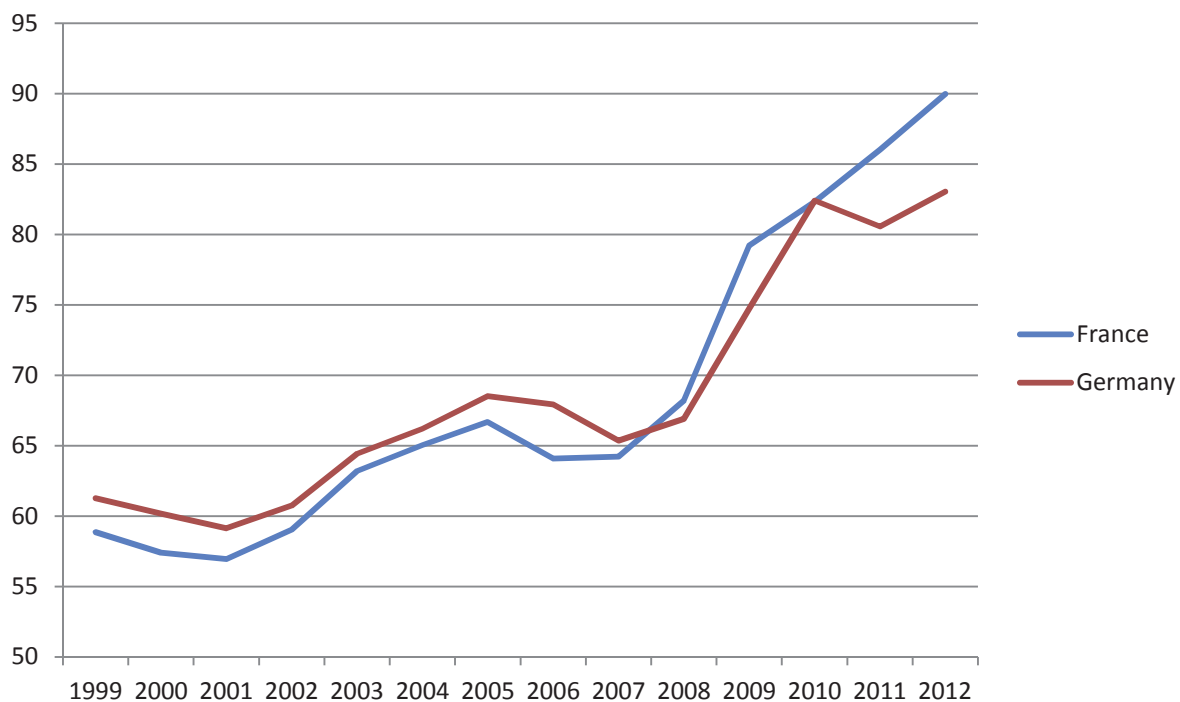
significant moral and political effect and, therefore, help resolving some internal European problems by enabling a smoother reaching of compromises. Besides the USA, there are also other countries that can be considered for triggering a demand stimulus. In the first place, we need to mention China, whose demand for European imports is on rise. The states of the South America (especially Brazil and Argentina) and Japan might be of help as well. The majority of mentioned countries has, however, learnt their lesson from the indebtedness and financial crisis that the developing countries had experiences in the 1980s and 1990s and they have been making a great effort to keep their current accounts at least in balance. They do that both through the means of various administrative import barriers as well as by controlling the value of their currencies. The typical example is Brazil that intervenes upon every more notable appreciation of its currency.¹⁹

The Eurozone can increase its own competitiveness (and, therefore, current account surpluses) if the ECB manages lowering the value of the euro in relation to other world currencies. As expected, France is seeking to implement the politics of the euro depreciation at the international financial markets, whereas Germany, however, stands against that policy and, as indicated on Graph 6, the Eurozone experiences no significant euro depreciation.

The second subscenario counts on bridling the trend of the increasing current account deficit in France. France can succeed in sustaining the current account deficit within the range between 1 and 3% GDP. Such a development would have to lead to the growing pressure on the government by creditors at the time of positive constellations (i.e. economic stagnation in the EU, in the worst case). President Hollande would have to limit a demand stimulus and redistribute currently available resources through the reform of taxes. Further development would depend on the development of a total country's debt. If French GDP would rise in a sufficient pace so that a ratio of a total government debt to GDP would grow only slowly or not at all, then France could continue such a policy until the next elections. A likelihood of such a scenario is somewhat weakened both by estimated poor economic growth of France as well as high government debts, which is evident from Graph 7.

¹⁹ Interventions that aim at depreciating the domestic currency can be theoretically implemented interminably, while interventions that aim at strengthening the domestic currency are limited by a number of foreign exchange reserves and access to a credit denominated in foreign currencies.

Graph 7: Development of Governmental Debt to GDP between the years 1999-2012 (in%)²⁰



Source: International Monetary Fund, 2012

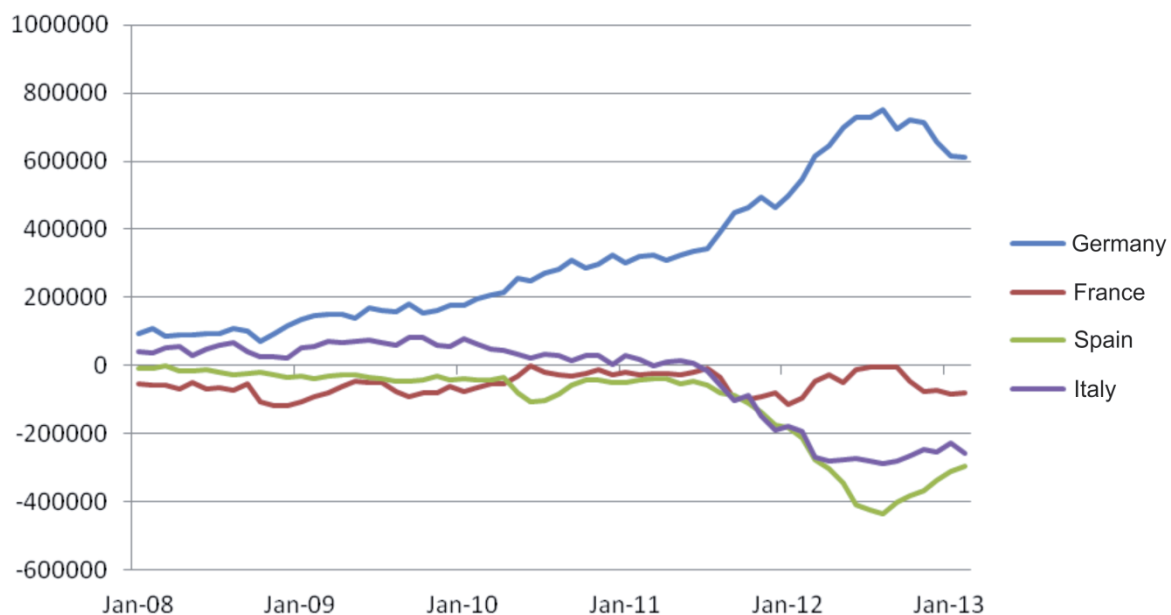
The third subscenario assumes that France decides to carry out a large fiscal stimulus which would result in a rising current account deficit. In such a situation, it is in the short term to expect at least the increase in the public debt along with the increase in interest rates in case of French bonds. France could get into similar situation as Italy and it would have to ask ESM and ECB for help. In this part, we will assume a passive role of Germany, while we will add a tough German reaction in the forthcoming part. France as the second largest EU economy has a much larger influence and it is capable of implementing a far greater “adjustment” of the Eurozone rules of functioning. In cooperation with the states of the southern wing, it might succeed in enforcing a purchase of its bonds (and, therefore, reduction of interest rates) by the ECB under very moderate terms. It is clear that, should be France threatened by a direct crisis with state budget financing, it would cause a massive capital outflow from the country. However, the Eurozone has already experienced such a situation, as Graph 8 demonstrates by depicting mutual balances of the central banks within the European payments system TARGET 2. It provides evidence that, together with the mounting financial problems of Spain and Italy, an outflow of capital from these countries and their relocation to Germany took place.²¹ That was revealed upon the increased number of

²⁰ 2012 data is the IMF's estimation.

²¹ And other states, including the countries outside the Eurozone, significant resources flew, for example, to the Great Britain, which makes sense given the fact it is a monetary sovereign state, moreover, with a strong financial sector centered in the City of London.

Bundesbank's financial claims on the rest of the Eurozone. Once the OMT program was announced, the trend reversed, the risk of the Eurozone disintegration was commenced in a timely manner and a part of a short term capital started returning to Spain and Italy.

Graph 8: Central Bank Balance Sheets within TARGET2 System (Millions of EURO)



Source: Osnabrück University, 2012.

There are several similarities of the 2012 development with the one in 1992. In both cases, it involved massive transfers of short term capital related to the uncertainty in international financial markets. In both cases, central banks were compelled to intervene, whereas the greatest burden was carried by the Germans. However, there are important differences between the two events. In 1993, Germany decided to reduce further interventions, which resulted in the broadening of the ERM fluctuation band, while such a decision (i.e. unilateral refusal of OMT) would in 2012 probably mean the dissolution of the Eurozone. In relation to the 2012 development, we should also mention another fact. As the ECB had announced a potentially unlimited purchase of bonds within the OMT program, Bundesbank can in that manner theoretically accumulate financial claims on other banks in the system for a very long period of time. In reality, of course, it is very unlikely, although this scenario should not be disqualified in the short term perspective.

4.1.3. Scenario No. 3 – Divergence of Interests

The third scenario presents a possible development in case the French and German interests diverged. With respect to the current governmental

constellation in both countries, we can in terms of development consider that both countries sustain at their current positions and that they are unwilling to make compromises in case the French problems with the current account got more severe. The scenario presumes that France would decide to support her economic growth through the domestic demand stimulus, while Germany would continue in its restrictive budget policy. In that manner, we speak of an analogous situation to the one from 1982/83. What speaks in favor of this scenario is the fact that both governments are answering primarily to the local inhabitants and that they could lose their profile if they opted to change their long term pursued strategies. This scenario is, however, counterbalanced by a weight of the European integration project, making the disintegration of the Eurozone a little likely scenario.

Scenario No. 3 is founded on the same development like the last subscenario in the previous part. That means that creditors would react on the French demand stimulus by downgrading the French bonds, which would lead to the growth of required interest rate. France would have to turn to ESM and ECB for help. Unlike the previous chapter, here we presume that Germany would not play a passive role. In that case, there are two options to consider.

In the first place, Germany would stand against French effort to avoid the agreed rules and the ECB would together with ESM request extensive austerity measures. France would have to either accept the requested measures, which would lead to the first subscenario in the chapter devoted to the convergence of interests. Or it would decide to sacrifice the euro and return to the monetary sovereignty. Unlike, for example, Greece, France can afford such an order of events. It is the country with a developed energy sector, which is self-sufficient in food and has a favorable geographic position. Realistically, the shift would not have to be so painful for France and its material costs could be even lower than in Argentina's case in 2002. Due to the depreciation of the newly established franc, one could in the course of several years expect an increase in the French export capacity and a pretty high economic growth. Of course, in the political realm, the situation would be entirely different. For the EU, such a movement would mean an enormous blow from which it might not fully recover. There is a small likelihood that the euro would survive without France, whereas other Eurozone states would suddenly have to face a much more competitive France. Situation would not have to be critical in case the integration level returned to the level from the start of the 1990s. In the midterm, departure of France and the following dissolution of the Eurozone would mean a much greater problem for Germany. German currency would probably appreciate, current account surpluses would disappear and the previous policy of the increasing competitiveness by reducing domestic expenses would under new conditions lead to much greater tensions inside the country.

The second case calculates with the situation where France would bend the Eurozone regulations (or their interpretation) in its own favor, but Germany would not be willing to tolerate it and it would return to the mark. The outcomes would be probably practically the same like in the first case.

In case the Eurozone collapsed, the current balance of TARGET2 system would be a problem as it de facto encompasses the mutual debts of individual central banks. Moreover, it is to expect that these amounts would steeply rise shortly prior to the Eurozone disintegration. Disputes regarding the settlements of financial claims would probably present the greatest problem in an effort to sustain a maximum level of integration. Like in the case of abandoning the Eurozone, it holds true that, in the midterm horizon, the French position is rather favorable while the German one is more vulnerable.

4.4. EVALUATION OF EACH SCENARIO

This chapter is divided into two subject parts. In the first part, we will focus on the general understanding of the main problematic points of the future development. In the second one, we will comment on each scenario.

The submitted scenarios are elaborated focusing on the emergence of a balance of payment disequilibrium. Historical experience indicates that it is exactly these imbalances that accompany the main historical turns in the interstate economic relations. Imbalances can be solved in two main ways.²² The first way is to depreciate the domestic currency. This move usually leads to an increased competitiveness by reducing the production prices for foreign consumers, while, in the short term, the local inhabitants experience a lowering of their living standards. The effect of a depreciated currency is usually, however, pretty broadly distributed and it does not exceedingly affect the basic living costs of the inhabitants. Furthermore, the major part of population accepts this situation as inevitable or non – discussable, which is why the adjustment through the depreciation of the domestic currency proves to be politically easier to implement. This sort of adjustment is not applicable in the monetary union, although it had been quite a common practice in the past at the EC level, which can be showcased by the situation from 1982/83.

²² Depreciation of domestic currency and internal adjustment have been the most frequently applied methods of adjustment at least since the end of the Second World War. However, there is a number of other solutions. A frequently used solution in the past was to attack the country with the current account surpluses, such as, for example, the Opium Wars, in which the Great Britain attacked China precisely due to the trade deficits. Another solution is a massive emigration of population, which is the form of adjustment currently experienced in Latvia. In sum, we can conclude that alternative ways of adjustment imply too great risks, but they are presently unacceptable choices for the majority of states.

The second type of adjustment is internal devaluation, i.e. nominal reduction of domestic prices. The final effect is the same like in the case of depreciated currency, i.e. an increased competitiveness due to the drop of prices for foreign consumers; however, this process brings great economic and political challenges along. The main economic challenge is the growth of the real indebtedness – unlike wages, nominal debt level (mortgage, for example) in foreign currencies does not get lower, which leads to the increase in real debt burden and to the repayment problems. Internal devaluation is usually interwoven with the years of economic collapse or, at best, of stagnation. A country can prove evading an economic collapse in case it increased its export in a rather prompt and massive manner. However, that is a likely scenario only in the environment of general international economic boom. Under internal devaluation, the political challenges render enormous. Interest groups inside a country fight among each other for who would carry the greatest costs that the adjustment imposes. Each sector in the economy and each group seek to relocate the costs to others, which triggers strong political tensions. The latter is rising relative to the measure of economic collapse, which is usually connected to the internal adjustment. It was, for example, Argentina that had been struggling to execute an internal adjustment for several years, whereas this effort had led to the economic crisis and social decay that ended only after the state bankruptcy had been declared in 2002, which was already discussed. Germany had undergone a very successful internal adjustment at the start of this century, whereby it is its success that is, ironically, the source of those main problems the Eurozone is currently facing. For implementing such a policy, Germany had a well composed economic and social structure and, moreover, it was lucky that the whole action was conducted at the time of the strong global economic growth. The southern part of the Eurozone has been struggling with their internal devaluation for several years having so far very little success.

The members of the monetary union, by definition, cannot settle the external unbalance by changing the exchange rate, which is, ironically, for internal political reasons usually one of the simplest ways and which is the reason it might be potentially appealing for some Eurozone member states. Nonetheless, such a choice would logically imply a disintegration of the monetary union, which is the possibility covered by the scenario number 3. In our opinion, disintegration of the Eurozone is unlikely. There are enormous international political costs outweighing potential gains. France and Germany would probably opt for this step only in situation that poses a serious threat to the state. We can picture the situation in which the policy of austerity measures implemented from the outside would lead to the immense culmination of social tensions in France and to the paralyzing of the state apparatus similarly to what has been lately happening in Greece. It is likely that France would react more swiftly to such a development, especially if we

take into account that, from the current perspective, France would return to monetary sovereignty rather easily.

Scenario No. 2 assumes that France would avoid undergoing the internal adjustment.²³ In the first case, it is because an external demand stimulus would take place that would stop the previous trend of the deteriorating French current account. In our view, this is a pretty likely alternative, however, the growth of the external demand will probably not suffice to President Hollande in realizing his plans in the economic field. In accordance with the second subscenario, we expect that the government will have to impose particular austerity measures which, however, will not exceedingly culminate the social tensions in France. The third subscenario seems little likely to us. Both France and Germany will seek to escape it because it would imply an enormous rise of internal political pressure on the German government.

Scenario No. 1 takes into account an amicable resolution of the external imbalance. In the first case, France would undergo the internal adjustment without severe problems. Given the previous historical experience with the policy of internal adjustment, the fact that we are in the phase of economic stagnation and if we consider the specifics of the French society, then we speak of a very unlikely alternative. The second case counts on the German assistance. This scenario is very dependent on composition of the German government. In case of a notable victory of the political left in the future, it is a possible one. The last subscenario presents a permanent solution of external imbalances within the Eurozone and we recommend it. However, it is a little likely scenario for cultural and political reasons.

The most probable variant of the midterm development is a mutual impact of features found inside a few described scenarios. The second subscenario of the second scenario will be the foundation. It is to expect that President Hollande would have to abandon his promises and that the demand stimulus by the French government will be very limited. Germany will probably somewhat loosen its budget policy in order to reduce the external economic pressure on its south - western neighbor. It is to expect that the world demand will grow, which will be contributed by the USA, China, states of the South - Eastern Asia and South America. The increased world demand will result in the increased current account surpluses of the entire Eurozone and moderated pressure on France. A downswing trend of its current account will cease, however, the overall account will stay in deficit. The European economy will be probably stagnating for another several years. A more vigorous solution of

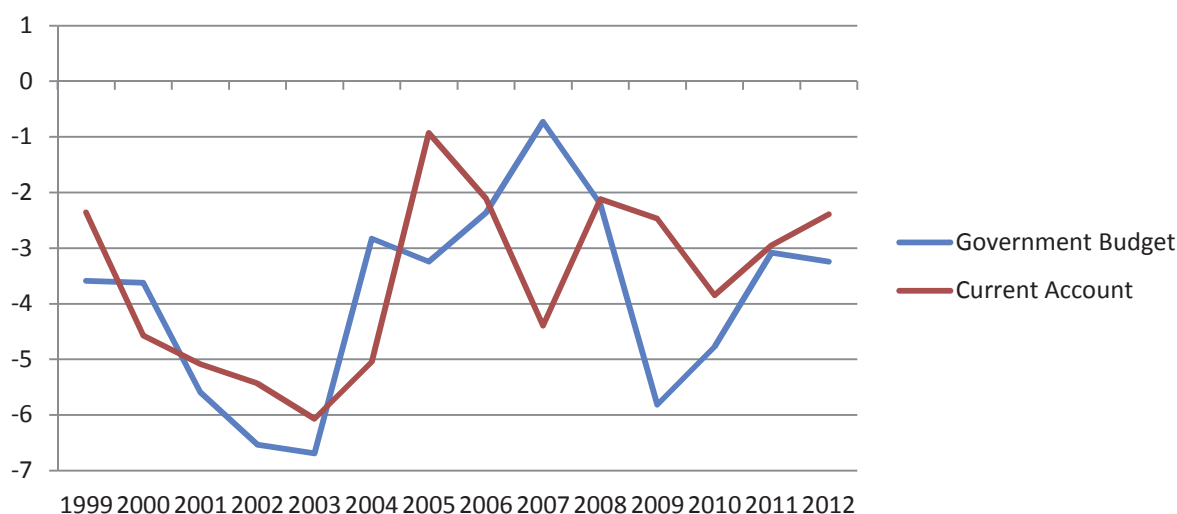
²³ In the short run, Germany does not have to undergo adjustments. As a country with high surplus levels at its current account, the Germans are only hardly vulnerable in the short term.

the imbalance issue will likely arrive only in a more distant future. The present Eurozone has means how to keep postponing it for a significant period of time.

4.5. IDENTIFICATION OF THE CZECH POSITION

The Czech Republic is a small but economically strongly opened state, identifying a peaceful cooperation of European countries and opening of the main European markets for the Czech production as the key factors of its success. A share of export (import) in% of GDP is usually used as the measure of an economic openness of a state. This indicator gives a good general idea of state openness at the international level, however, in the Czech case, its usage is very misleading. A measure of the Czech export of GDP exceeds 70%. This information is usually interpreted as if only 30% of production is consumed by domestic subjects. When considering the state economic policy, only a real added value of the Czech production aimed at export should be taken into account. This indicator was, for example, in 2007 at the level of about 31% of GDP. That means that practically 70% of domestic demand is supplied from the domestic production, which is the exact opposite of what is usually declared (Rojíček, 2008).²⁴ The actual measure of the Czech Republic's openness and its dependence on international markets is in that manner much smaller than it seems at first sight. At the international level, it is still a very high one and the Czech Republic is dependent on a smooth functioning of the European trade system. In accordance with the theoretical delineation, we can characterize the Czech Republic as a very sensitive and rather vulnerable state.

Graph 9: The Current Account and State Budget Balance Sheet of GDP (in%)



Source: International Monetary Fund, 2012

²⁴ The Czech Statistical Office unfortunately do not publically release these calculations, 2007 data are the most recent ones that are available.

The Czech Republic has a permanent deficit on its current account (Graph 9). At first glance, however, this unsatisfying situation is accompanied by other circumstances which make it pretty unproblematic. Firstly, deficits are rather low and they do not have a rising tendency. Secondly, upon a more detailed examination of the Czech payment balance, we will come to conclusion that the Czech Republic has been already for several years having surpluses in its balance in trade and services. A total current account deficit is caused by a high outflow of revenues, which is a reflection of the ownership structure of companies within the Czech territory.²⁵ A great part of companies is owned by foreign investors, which is why gains leave for abroad. From the long term point of view, this can be a factor of risk for the Czech economy. Under current circumstances, however, the greatest part of gains is reinvested and the influence of the ownership structure on national security is for that reason insignificant. A total development of the balance of payments for the recent years gives evidence of a positive effect of the country's entry to the EU. During the recent years, this development has been, moreover, supported by high surpluses of the capital account, which encompass the transfers from the EU budget to the Czech Republic. These flows, moreover, lead to the increase in foreign exchange reserves of the Czech National Bank.

The Czech Republic is a monetary sovereign state which, by signing the EU Treaty, is obligated to adopt the common currency, but, ever since its accession to the Union, it has been taking rather active steps in order to evade that commitment. Before the crisis, the Czech Republic, for example, had de facto met all the conditions for adoption of the common currency. Formally, we did not meet the conditions because the Czech currency was not part of ERM II. The Government had actually copied the Swedish route. Sweden had also signed the EU Treaty without negotiating exceptions, it de facto meets Maastricht criteria, but it does not meet them formally as it is not the ERM member.²⁶ In the last years of crisis, the Czech government has been having understandable problems with meeting deficit criteria. In terms of financial security, this is, however, not a fundamental risk. Only 17% of governmental debt is denominated in foreign currencies. Furthermore, a part of it is ensured against the currency risk and a total foreign currency exposition of debt reaches about 10%, whereas a strategic plan of the Ministry of Finances speaks of a maximum foreign currency exposition of 15% (Ministerstvo financí,

²⁵ On the contrary, France has the increasing current account deficit even though it has a very positive revenue balance, which makes its situation potentially even more vulnerable.

²⁶ Which is also the reason why Sweden's accession to the Fiscal Compact seems very problematic. The country has been taking a very reserved stand to the agreement and, with regard to the previous experiences, it is to expect that it will not abide by the Pact until it finds it suitable to do so. Sweden has permanently high levels of the current account surplus, which is why a potential exceeding of the limit for state budget deficit would not have to imply a serious problem.

2013).²⁷ As a monetary sovereign state, the Czech Republic is capable of paying its debt denominated in the Czech crowns at any time and to set a level for an acceptable interest rate of bonds issued in the domestic currency. The issue of the form of the state budget and the deficit level is, in the Czech case, entirely the matter of the redistributive conflict between particular social groups, which logically has its reflection in the interstate political fight. From international and security point of view, the level of state debt majorly denominated in crowns is little significant.

In practical terms, the Czech Republic would benefit the most if keeping its monetary sovereignty. At the level of practical politics, it can continue copying the Swedish example.²⁸ With its own currency, it can with easiness adjust to the external unbalance by changing the exchange rate and the state has a wider spectrum of politics at disposition for enhancing the economic security of the country. There are two facts that can be taken into account which can jeopardize the maintenance of the monetary sovereignty. The first one is the fact that the Czech Republic is by treaty bound to adopt the common currency. Secondly, from the system perspective, we should admit that the Czech Republic has been playing the role of a free rider. We would use advantages of the currency stability given by the common currency of the Eurozone member states, but we would not be willing to bear the costs of its maintaining. Such a stance could trigger international tensions.

4.6. REFLECTION OF THE CZECH POSITION IN SCENARIOS

The first scenario assumes a convergence of the French and German interests and, logically, it is the most advantageous one for the Czech national interests. The Czech economy is firmly tied to the German one and the growth of German economy has positive impacts also on the economic performance of the Czech Republic.²⁹ The third convergence subscenario is unambiguously the best variant. The emergence of the actual fiscal union of the Eurozone states would mean a resolution of the main economic problems of the Union and it could help in restoring the economic growth.³⁰ Also the scenario calculating with a demand stimulus in Germany proves to a very favorable for the Czech Republic. On the contrary, a relatively the least favorable out of the three convergence subscenarios is introduction of major austerity measures in France, which would also likely manifest by a certain drop of German and, consequently, of Czech economy. As part of this variant, it is also to expect a

²⁷ A problem could pose a hidden foreign currency debt, for example, a debt of regions or municipalities.

²⁸ It is not a coincidence that Sweden coped with the crises with easiness in comparison to the other European states.

²⁹ Although the dependence is not as great as usually indicated, see the previous chapter.

³⁰ Restoration of the economic growth, however, depends on a number of factors whose elaboration is not subject of this text.

growth of political tensions, because the French austerity measures would close to the southern Eurozone countries one of the paths for repaying the debts through their current accounts.

The second group of scenarios counts on keeping the status quo. The Czech economy would benefit the most from the alternative reflecting the external demand stimulus from regions outside the EU. Such a development would both help economy by restoring the economic growth and, secondly, enable the lowering of tensions within the Eurozone. The second, and the most likely subscenario, counts on the adoption of the short term measures, which would enable France and Germany to, to a certain extent, implement their own economic policies. This is a rather problematic scenario for the Czech Republic. In the event of such a development, the Eurozone would at best stagnate and, at the political level, it is to expect cold, even tense, relations between France and Germany as recently seen. The third scenario from this category would influence the Czech position in a similar manner.

The group of divergence scenarios is the most problematic one for the Czech national interests. Disintegration of the Eurozone and with that related significant worsening of economic and political situation might have a very negative influence on national security in the long run. The Czech Republic should in such a case prepare a plan including an entrenchment of the monetary sovereignty of the country and the lowering its sensitivity and vulnerability.

4.7. RECOMMENDATION

The Czech Republic should invest maximum effort to the Eurozone member states' struggle for the euro rescuing without regard whether we adopt the common currency in the midterm horizon or not. A threatened functioning of the common market goes counter to the Republic's vital interests. For that reason, it should try to adopt the measures leading to lower tensions between France and Germany. Accordingly, when formulating the policy, it is necessary to take into account those real limitations resulting from the present shape of international economic relations.

The Czech Republic should support the establishment of the Transatlantic Free Trade Area with the USA that could diminish the tensions within the Eurozone resulting from the current account disequilibria of its member states. Nonetheless, it is not to expect that the Free Trade Area would by itself solve the problems arising from the problematic institutional setting of the Eurozone.

The Czech Republic should not support Germany in an effort to enforce the agreed Eurozone rules (for example, the Fiscal Compact), if that would compel the representatives of other states to perceive a breakdown of the Eurozone as an acceptable alternative. The indebtedness issues of the Eurozone states are of political and institutional character. The Eurozone as a whole is entirely solvent and it will remain solvent (if it does not decay). In this relation, it should be emphasized that, out of all EU member states, it is particularly France that would experience the shift to its own currency least painfully. Germany would be, on the other hand, affected more severely, while the new German mark would be strong enough to eliminate the greatest part of German current account surplus. The Czech Republic would then feel the consequences at least in the short run.

If the Czech Republic decided to adopt the euro, the responsible agencies would have to put maximum effort to implement the reform of the Eurozone's institutional structure in a way to be able to cope with its main deficit - i.e. incapability to settle the current account disequilibrium of its members in no other way but through the imposed internal devaluation leading to the economic stagnation or even to the breakup of economic and political structures of an affected state (for example, adoption of the working fiscal union would present the solution). We should admit that, at the level of international relations, not all states are treated equal when the critical issues are in question and the Czech Republic is not in such a position within the EU framework to be able to impose the adjustment of rules like was the case with Italy and Spain, for example.

In case the Czech Republic decides not to adopt the euro, it will have a wider maneuvering space and the need to implement reforms would not be that urgent. If we take that road, the support from Sweden should prove vital for us as we currently share common interests. Furthermore, government would have to carefully monitor the indicators impacting level of a monetary sovereignty of the country.

5. CASE STUDY II: THE ENERGY SECTOR

While studying the reconstruction of relations between Germany and France, we have also focused on the energy issue. The change in the balance between Berlin and Paris, and the knock-on effects on the EU's functioning will have a significant impact on the development of energy and energy-related environmental issues resolved at the EU level, and consequently in the Czech Republic. This is the case for a variety of reasons, including matters related to the energy mix setting (expansion of the Temelin NPP³¹, or market changes affecting the potential extraction of shale gas in Poland, Germany, etc.), costs inflicted on the Czech economy for participating in the EU ETS system, or the availability of financial means for domestic energy infrastructure drawn from EU funds.

European energy policy consists of three foundational dimensions. These are the internal market dimension, environmental matters related to energy production, and the external market dimension – i.e. communication with supplier and transit countries. The following pages are primarily devoted to the first two dimensions, as a wide spectrum of diplomatic and commercial relations between the EU and third countries seem very distant for the purposes of our study. The Czech Republic has only a limited capacity to affect this agenda; moreover, due to the decent energy diversification of sources and transit routes, this dimension is not of such great importance as the rest of the mentioned agenda.

The study is focused on the position and behavior of two key EU players: Germany and France. As we will see below, of these two countries, Germany is the one that is notably more dynamic, whose behavior will have a major impact on the EU and the Czech energy sector, which is why this country will be to a certain degree prioritized on the next pages at the expense of France.

5.1. GERMAN AND FRENCH PRIORITIES

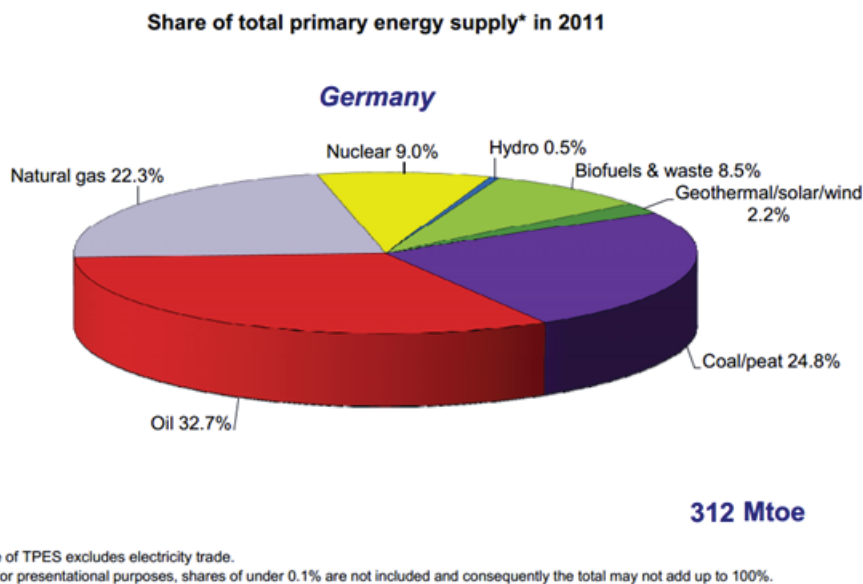
To comprehend the scenarios of possible future development, we should in the first place clarify the framework of priorities of both studied countries in relation to the problem we explore and also the internal or external conditions on these priorities are grounded. Given that the analysis has been prepared in the mid-term context – roughly a ten-year period – we do not

³¹ Nuclear Power Plant

establish our references on specific priorities of the given active government, but we rather focused on general tendencies of German and French courses based on their basic foundations (in our case, these include the energy mix, available energy resources, and the like) as well as on how the public and their political elites have evaluated energy matters. We, in that manner, get a basic idea about the necessary directions of both countries pursued in the energy field.

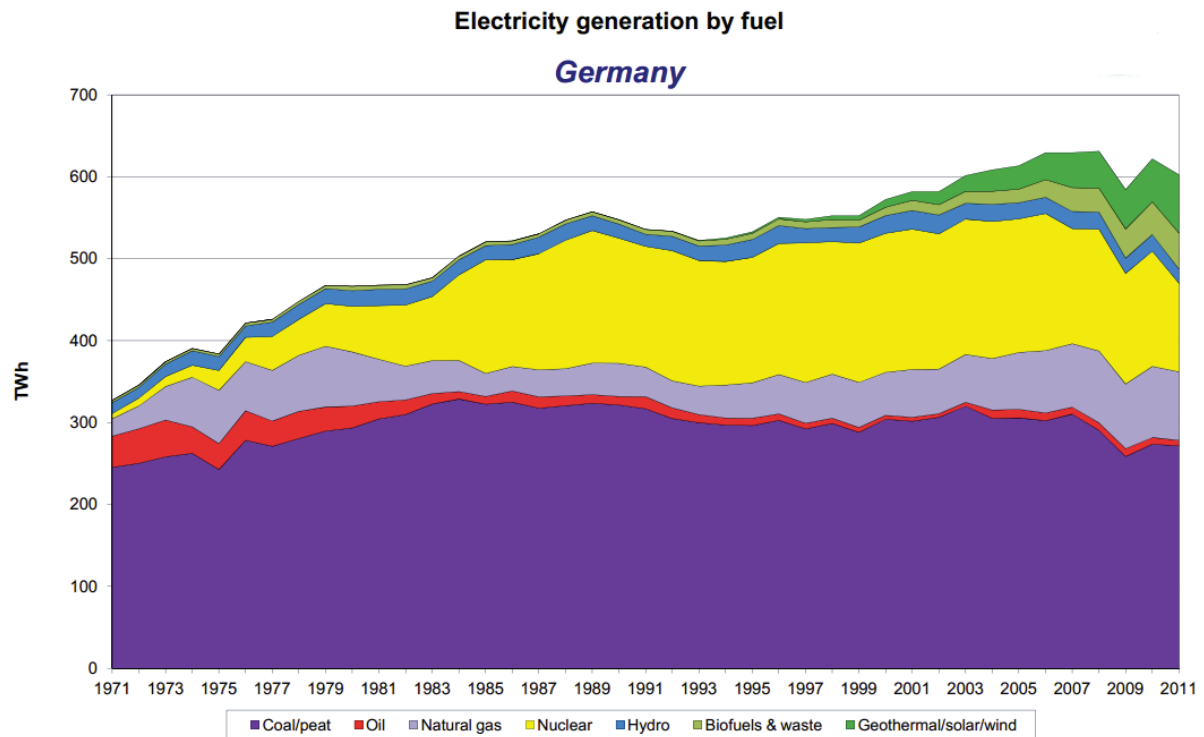
5.1.1. The Federal Republic of Germany

The International Energy Agency's graph provides a good outline of the German energy mix.



Source: EIA, 2014a

The graph displays a notable share of fossil fuels as well as an outstandingly strong position of renewables. We should also mention the fact that Germany has been a longtime (since 2003) electricity exporter; in 2011, the country reached a level of 6 TWh of energy for export (AG Energiebilanzen, 2012). The sources of energy generation are displayed again in the graph below.



Source: EIA, 2014a

However, these figures have been significantly changing in the recent months. As a response to the incident in the Japanese Fukushima I NPP, Germany announced a three-month moratorium, during which it shut down its seven oldest power plants, followed by a decision to entirely depart from nuclear energy by 2022 and replace it by electricity from renewables. This measure signified the hastening of plans which had been discussed in the German community for more than a decade, and had taken very specific form already at the turn of the millennium.³²

This dramatic reassessment of the energy sector³³ in any case affects not only the energy sector and economy of Germany itself, but it leaves its trace also on the country's foreign policy. Disputes between Germany on one side, and Poland and the Czech Republic on the other, is a typical example where the subject is electricity produced by wind power plants in northern Germany. En route to user centers in Bavaria, this wind electricity utilizes the networks of both these neighboring countries. This in turn pushes their transmission grids

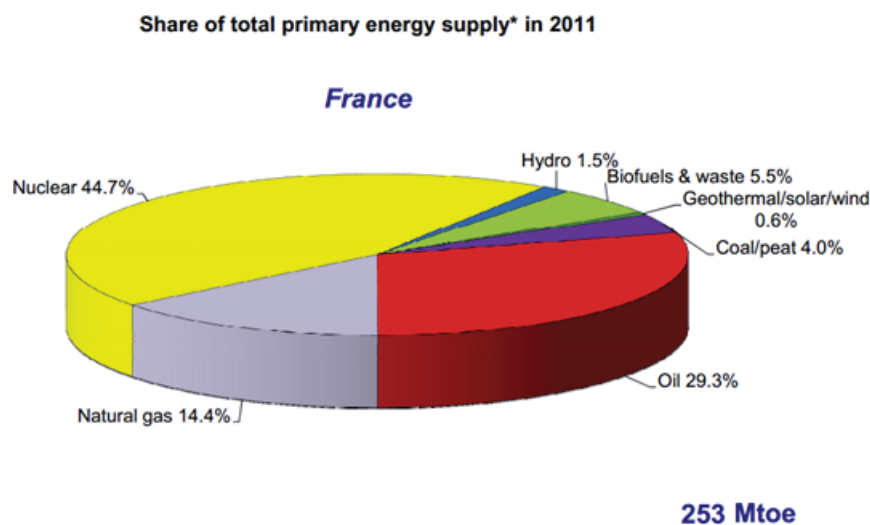
³²It is interesting that, in the 1970s, both Germany and France had a positive opinion regarding nuclear power. Since the emergence and growth of the environmental movement in the former grew, however, the paths that Berlin and Paris have taken have notably diverged.

³³This process of the German energy industry changing is generally referred to as "die Energiewende." This is a wider concept with its roots in the 1980s, which has focused on the decentralization and the environmental sustainability of the energy sector. The mentioned accident in the Japanese power plant and the related measures of the German government had significantly stressed this intent.

to the edge of collapse. Berlin's political priorities have been also changing. In its bilateral and EU politics, its resistance against nuclear power plants and their usage in Europe is growing stronger – for example, Germany was a lead supporter of the so-called “stress tests,” which took place in nuclear power plants within the EU. A greater emphasis was also laid on the role of renewables and energy savings in the EU.

5.1.2. France

The current posture of the French energy sector was influenced by two fundamental factors. The first one was the experience from the 1970s, when the Oil Crisis had led to a major reassessment of its energy policy, and a resulting push towards greater self-sufficiency. With regard to the minimal amount of its own fossil fuel resources, major stress was put on nuclear energy, which transformed France into a European nuclear power – the country with the greatest share of nuclear energy in its energy mix, as well as the greatest electricity exporter in the EU. This is reflected in the IEA graph below.

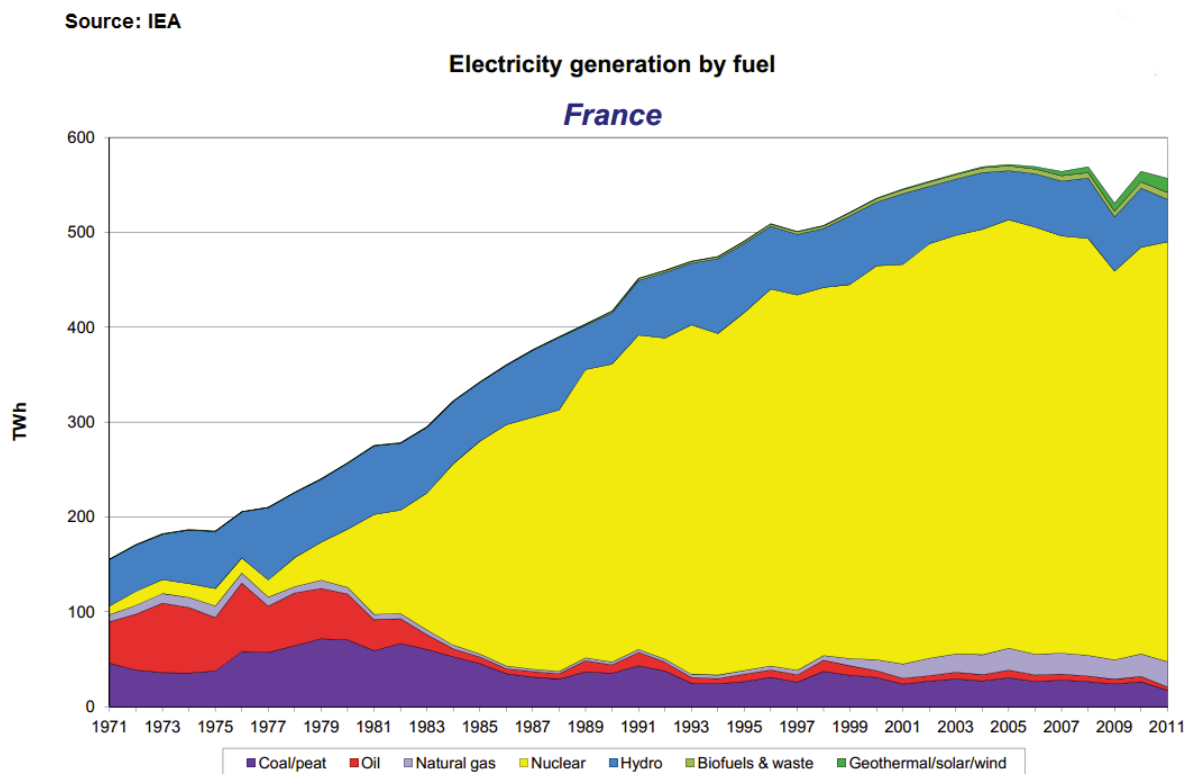


* Share of TPES excludes electricity trade.

Note: For presentational purposes, shares of under 0.1% are not included and consequently the total may not add up to 100%.

Source: EIA, 2014b

The nuclear energy sector, therefore, occupies a special place in French industry; not only is the Areva company a national exporter of nuclear technology, but also the nuclear industry enjoys the support of the political elite, as well as the public. The country has its own processing facilities, while the government assists domestic firms in their foreign expansion and export of nuclear technologies. The role of nuclear energy in the electric energy sector is evident from the following graph.



Source: EIA, 2014b

In terms of the energy mix, it is, for that reason, necessary to understand the very strong support to the nuclear sector coming from Paris as a given and permanently constant, both at the domestic as well as at EU level. However, the events at the Fukushima nuclear power plant have caused a moderate drop in public support for nuclear energy,³⁴ and the anticipated decrease of this sector in favor of renewables has been indicated also by the French President himself.³⁵

The second decisive factor of the French energy sector is an apparent understanding of the energy sector as a “public service.” Electricity and heat are perceived as a citizens’ right, whereby the state is expected to play the role in maintaining its safe and financially acceptable supply. The result is that the state is strongly involved in the energy sector, including ownership shares and control over key companies. The Areva company has already been mentioned, but the state also controls the electricity giant EDF (a 84.8% share) and it has

³⁴According to the French Institute of Public Opinion, in March 2012, 37% of French citizens expressed being in favor of moving away from nuclear energy, while a mere 17% were against this strategy (Europost, 2012).

³⁵As French President François Hollande announced last year, “Nuclear energy’s performance in the generation of electric energy in France should be by 2025 lowered from the existing 75% to 50%.” (Ibid. Unofficial translation by O. Radovanović).

the major word in the gas utility GDF Suez (35.6%). In that manner, the free market is to a measure “sacrificed” in favor of stability, control and safety; French society and the government fights back liberalization efforts and any related potential negative outcomes. In 2007, a notably protectionist comprehension of the market (where liberalization had only very gradually been taking place) led to a confrontation with the European Commission, as regulated prices (in the form of pricing plans) were the particular subject of disagreement for selected groups of users. France admitted misconduct and, as part of the “Electricity Act of 2010,” France started to introduce measures leading to greater market liberalization.

France is one of the more ambitious countries in Europe with respect to environmental protection measures. Given that the production of the greatest part of electricity comes from nuclear energy, in terms of CO₂ emissions, France ranks among the most efficient industrially developed countries. Even as early as 2005, as part of the adoption of the Electricity Act of 2005, a goal of reducing CO₂ emissions to 25% of the 1990 level by 2050 was adopted, while a gradual annual reduction of 2% economy’s energy intensity was supposed to take place as well by 2015 and by 2.5% until 2030 (Daim et.al., 2010). Environmental trends set by Paris were then confirmed by the Grenelle I package in 2009, and Grenelle II a year later. In 2010, France was also the world’s eighth largest investor in renewable sources.

In the long term, Paris has been striving to improve the position of nuclear energy in the EU, mainly by calling for its official acknowledgement as a low-emission fuel. This stance, shared by the Czech Republic, was confirmed anew in March 2013 by a proclamation by Bulgaria, Finland, Lithuania, the Netherlands, Poland, Romania, Slovakia, Spain, Great Britain, France, and the Czech Republic, in which these states turn to the EU with a request of “neutrality on the employed technologies” on the matter of decarbonization of the European economy.

France is also the EU’s greatest electricity exporter. In 2012, it exported 44 TWh to Great Britain, the Netherlands, Germany, and Italy (RTE - France, 2013).

We can, therefore, observe that France basically follows a stable political line without notable divergences. When discussing the implementation of the common energy market, France is among the more skeptical countries, generally resisting the liberalization propositions of the European Commission; however, it is not an outside-the-system player, who would challenge the essential substance of it. One can notice a great emphasis on the protection of domestic interests (industry, economy) that France skillfully provides with political arguments at the EU level. In the environmental field,

the country has rather ambitious goals, but again within the framework of the basic system set in the EU; the advancement here is again rather evolutionary than revolutionary.

5.2. DIMENSIONS OF THE COMMON ENERGY MARKET

As previously mentioned in the introduction, this analysis will address two key fields, one of which is the common (single) energy market. This includes the space of free movement of energy market inputs (energy raw materials, electricity, heat, as well as technologies and energy infrastructure) not burdened by tariffs or non-tariff barriers, following the rules (notably limiting state aid, and limitations or the direct ban of monopolies that exercise control over national markets) and, in sum, emphasizing the rules of free market.

The extent of the text, of course, does not allow us to go through all interesting or important topics which suggest themselves here. For that reason, we opted for the following criteria in order to choose the research questions. The topic must be topical and active, and the Czech Republic must have an opportunity to participate in it and affect it in some manner. This is a purely practical criterion connected to the fact that this report is to serve also in political practice. Furthermore, there has to be the assumption that the researched topic will be in some manner affected by the EU transformations related to the changing relations between Germany and France. Last, but not least, the given issue must (at least potentially) affect the Czech Republic in a significant manner.

Based on the abovementioned criteria, we have, therefore, chosen several specific topics in order to provide a profounder analysis of the subject.

5.2.1. The Nuclear Energy Sector and Its Adaptation at the EU Level

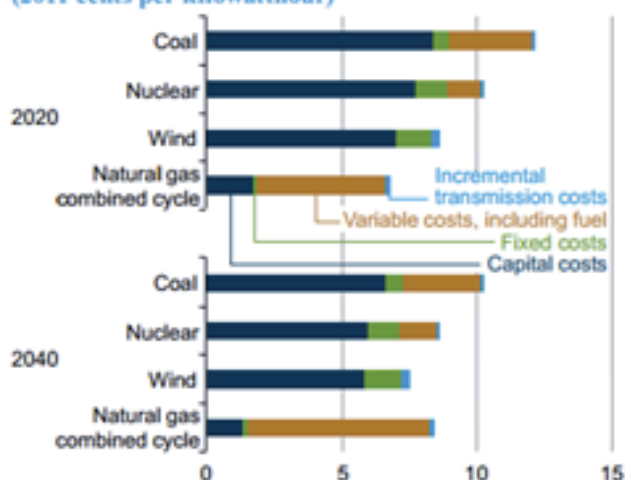
The accident at the Fukushima I NPP (May 2011) caused a strong negative reaction to the nuclear industry in the EU. As a result, the long-lasting anti-nuclear skepticism of some EU member states grew stronger, which had manifested, for example, in the form of a hastened decision of Germany to resign from operating nuclear power plants and Spanish, Swiss and Italian embargoes on future nuclear construction on their soil.

In addition to the reassessment of internal strategies within some European states, this event had, however, systematic effects on the composition of the EU energy mix. On March 25, 2011, so called stress-tests of nuclear power plants were launched in the EU, evaluating the ability of power plants to resist natural disasters (earthquakes, floods, etc.) as well as potential damage inflicted by various human threats (plane crash, terrorist attack). All 143 functioning nuclear power plants in the EU were included and an additional

six which had been under construction at the time, as well as 15 power plants that were planned. Ukraine and Switzerland also took part in the tests (Euractiv, 2011). Although an evaluation of the tests, released on October 4, 2012, noted the decent state of EU nuclear plants, it nonetheless recommended applying many additional measures with estimated costs of €10-25 billion.³⁶

Costs and regulatory uncertainties vary across options for new capacity

Levelized electricity costs for new power plants, excluding subsidies, 2020 and 2040 (2011 cents per kilowatthour)



EIA, 2014c

Stress-tests are, however, only a symbol of a broader trend of challenging the further functioning of the nuclear industry within the EU geographical space. Together with the implementation of its outputs, there has been a revision of Directive on Nuclear Safety 2009/71/Euratom that is in progress, which may bring potential adoptions of safety requirements, the roles of regulators and national authorities role, transparency, etc.

The growing security claims have been reflected in the economy of the nuclear energy sector in Europe as well. However, the IEA's assessment should be taken with great hesitation, because when discussing nuclear plants, it is rather difficult to calculate average costs. This is due to the long permitting procedures (four or more years) and construction (15 or more years), as well as their small number of plants, which are de facto always specific buildings with specific expenses.

³⁶With respect to stress-tests, there have been assessments (on the EU side) and implementation (on the member states' side) of national action plans that are in progress, which set a direction and schedule of the increased safety of individual power plants. The EU bodies will release the evaluation of the whole process at the beginning of 2014.

It is precisely the rather poor prospects of the nuclear energy sector in Europe that stands behind an effort of two member states, Great Britain and the Czech Republic, to obtain state support for this sector. As part of the contract with the French EDF and Chinese China Power Corporation and China General Nuclear Power Corporation, Great Britain has closed a so-called “contract for difference” amounting to £92.5 pounds per MWh for a 35-year period (The Telegraph UK, 2013a). The British government guarantees this price to the operators, being roughly twice the current market price, and, according to the European Commission, this grant can in total come to an amount of £17.6 billion (The Telegraph UK, 2014). The Czech Republic has been considering the similar model as well, again with a stabilized purchase price exceeding the level of the current market price.

However, viewed from the point of view of the EU *acquis communautaire*, these state guarantees are perceived as a form of unauthorized state support.³⁷ That is also the reason why in December 2013 the European Commission launched a formal investigation of the British contract, which may result even in its contesting (The Telegraph UK, 2013b).

It is, therefore, clear that the situation with the EU nuclear energy sector is not without problems. We can also presume that Germany will be strongly affected by its abovementioned anti-nuclear stand.

5.2.1.1. The Significance for the Czech Republic

In 2009, ČEZ, a major Czech energy company launched a call for tenders for completion of the third and fourth blocks of the Temelin NPP, together with possible construction of further nuclear power plants. The estimated price for completion exceeds 300 billion Kč. ČEZ has been gradually amplifying its calls for the need for state support in this project, whether in the form of a “contract for difference,” or alternatively with a so-called “capacity fee,” in which the operator of the given producing capacity receives a direct subsidy needed for a reliable running of the transmission system (Energostat, 2013). In this context, the opinion of European countries and of the EU as a whole regarding the nuclear sector is key for the Czech Republic, which controls 69.78% of the company. The tightened safety criteria raise the price of any (new or already existing) power plant, and the European Commission’s reservations regarding potential state aid to the UK’s Hinkley Point project

³⁷See Article 107 TFEU, which notes that “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.” Source: Eur lex. 2013a.

may then be even more significant. A negative decision can, in that manner, postpone the opportunity of TPP extension for an undefined period of time.

5.2.1.2. The German Position

From Berlin's point of view, from now on, the nuclear industry is no longer an option. One goal of the *Energiewende* is the termination of the use of nuclear power plants in Germany, predominately for safety reasons. Although the new CDU/CSU and SPD government has given some signs to possibly slow down the whole process of rebuilding the energy industry in the case of excessive financial costs or technical problems, the overall course will remain the same.

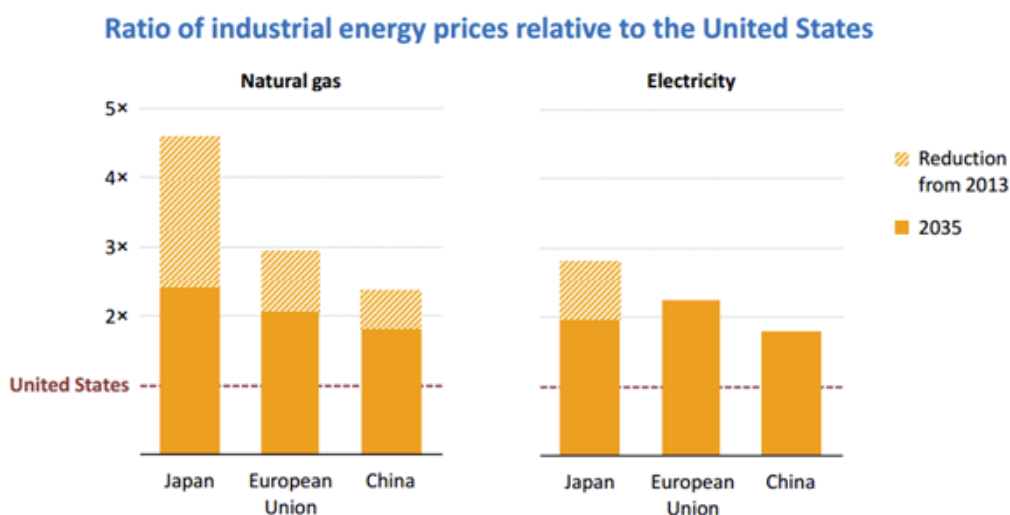
In terms of Berlin's influence directed to the EU, Germany would, normally, prefer if its non-nuclear decision were followed by the EU as a whole, though it (at least as the state establishment) does not declare this wish particularly loudly, and does not make any major steps toward the implementation of this goal. The first reason is, naturally, the expected resistance coming from the nuclear countries, and we should bear in mind that it is exactly the conflicts of member states over the nuclear industry that has been causing an absence of any clearer nuclear strategy and EC/EU policy since the 1950s. And even when France, for example, declares its intention to cut its nuclear sector to a certain degree, it would react very negatively on the German insistence to intervene in this matter.

5.2.1.3. The French Position

In terms of electricity production, the French energy sector belongs among the strongest in the world. President Hollande has already before announced the intention to lower this share to 50%, when the first power plant to be put out of operation was supposed to be the oldest French installation, Fessenheim, near the Swiss border. The president indicated that he would prefer that this power plant would have already been closed in 2006 instead of, as planned, in 2017. The French stance, however, is far from the German one, as Paris prefers to emphasize a need for diversification, while being proud of its nuclear sector that is also a part of its export commodities. Moreover, inexpensive electricity from already-running power plants provides French firms with a significant competitive advantage. For that reason, Paris will also in the future continue to belong to the group of countries that are strong proponents of nuclear power's role in the energy mix of the EU and member states.

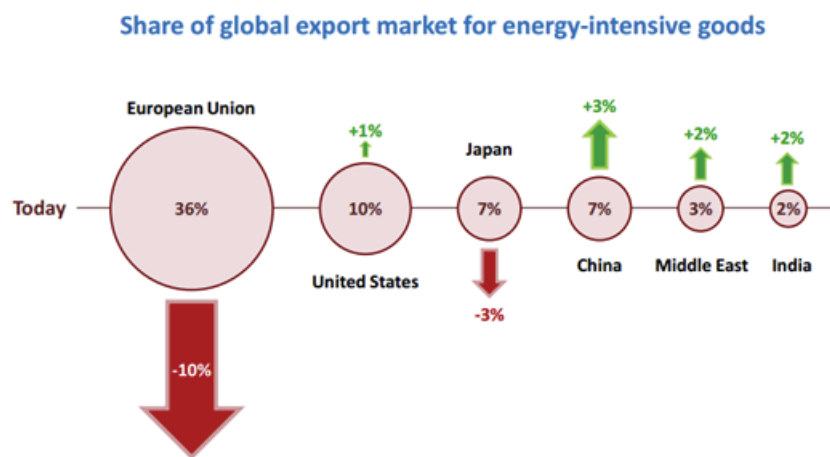
5.2.2. Shale Gas and Its Regulation at the EU Level

Extraction of so-called shale gas³⁸ signified a major change of the situation in the American energy industry. Instead of previously importing vast amounts of gas, the USA is today a country that is self-sufficient in natural gas and with a remarkable export potential. For illustration, today we can compare the production of natural gas in the USA with the one in the Russian Federation. The result is a gradual drop of this commodity's price, provided that gas is traded in the USA for approximately 90 USD/tcm compared to 420 USD/tcm in Europe. The impact on the price of energy and then the expected competitiveness of the European economy is well illustrated by the following two IEA graphs. Especially the latter provides an explanation to the unstoppable debate across the whole Europe whether and how to introduce this technology in Europe.



EIA, 2014c

³⁸Shale gas is a standard natural gas; however, it is extracted by less traditional methods (hydraulic fracturing – or “fracking” – and horizontal drilling) from previously unavailable areas.



The US, together with key emerging economies, increases its export market share for energy-intensive goods, while the EU and Japan see a sharp decline

EIA, 2014c

However, the spread of this technology to the European Union is complicated for several reasons. Fracking, i.e. the technology employed for extraction of this gas, is being contested in terms of its environmental impacts, especially within the European continent, which has a greater population density. Concerns are aroused by possible contamination of ground water, transport related to extraction, tremors caused by rock fracturing, the content of a fluid injected to wells, methane released during the extraction process, noise and dustiness of drilling, and much else.³⁹ For these reasons, a number of initial investments have been blocked in the last two years due to protests organized by the local community. France, Germany, Great Britain, Bulgaria, the Czech Republic, the Netherlands, Luxemburg and, to a certain measure, Romania have in this or that manner limited or directly banned exploration works on their territory. However, the situation has been changing over the last few months. Great Britain and Germany have been progressively loosening the terms for the launch of exploration drilling on their territory, as well as Romania. A long-time supporter of this technology has been Poland, given the expected mining capacities in the country; however, in the second half of the year 2013, the mining companies of Exxon, Marathon Oil, Talisman and ENI left the country due to unsatisfactory geological results and disagreements with the Polish government (Euractiv, 2014a). Finally, at the beginning of 2013, the Ukrainian government closed an agreement with Shell to carry out 15 exploration borings and then potentially proceed with mining works.

At this point, a uniform legal regulation of fracking does not exist within the EU framework; however, its introduction is being intensively discussed and its release is to be expected in 2014. "We will be proposing a legal framework for

³⁹More details can be found at Černoč, F.- Kister, L.- Ocelík, P, Osička, J. -Smyręala, D.- Zapletalová, V., 2012.

shale gas in Europe to minimize its risks," the server Euractiv.com cited a firsthand EU source in October 2013, on the condition that this source remained anonymous. "It has to be a legal framework applicable across the EU and not just a vague set of guidelines," the official said (Euractiv, 2013a). The final form of this legislative will, naturally, also have its effect on mining conditions and, consequently, on the price of natural gas extracted in Europe.

5.2.2.1. The German Position

The fracking issue profoundly splits Germany. On the one hand, due to the phasing out of power plants and increasing energy prices, there is the growing pressure to mine the domestic reserves of shale gas, the amount of which the Federal Institute for Geosciences and Natural Resources (Bundesanstalt für Geowissenschaften und Rohstoffe) estimates at 0.7-2.3 billion m³ (Euractiv, 2013b). Such mining is also strongly supported by industrial companies and firms, including BASF, which has recently made it vocally. Significant objections are, however, arriving from a number of non-governmental organizations, while an absolute ban is requested by the German Green Party, followed by skepticism among the Social Democrats.

The new government, however, is not inclined to fracking, as indicated by Ute Vogt, SPD leader on environmental issues, during the talks on the post-election coalition. In her opinion, fracking will not be possible in Germany until it is proven as a safe technology. "We've agreed to a moratorium," she told reporters (Reuters UK, 2013).

5.2.2.2. The French Position

France imposed a moratorium on fracking on its territory on July 11, 2011, which is a stance that has maintained, and is among the strictest ones in the EU. President Hollande had also pretty strictly refused a revision of this decision, even though France most likely possesses one of the largest EU reserves of gas mined by fracking methods. This decision was reaffirmed during negotiations between the French government and Hess Oil at the end of November 2013, when the company wished to use seven permits for shale gas exploitation obtained earlier from Toreador Resources (Euractiv, 2013b).

With respect to both states' positions on shale gas extraction, they are noteworthy for their similarity (and differ only slightly from other European countries). Fracking has been raising strong emotions primarily in the public. Either confirmed or unverified, the public observes environmental impacts of fracking as a very sensitive topic. In the "postmodern" France and Germany, the likely benefits are seen as incomparable to the estimated negatives. Mining companies which are interested in exploitation of these resources and

which are, understandingly, majorly represented by American ownership, do not enjoy an excessive wider public support, whereas a careful appeal from industry, which would also benefit from inexpensive energy, is largely ineffective.

5.2.2.3. The Significance for the Czech Republic

The Czech Republic consumes approximately 8.7 bcm of natural gas per year, which represents around 16% TPES. Domestic production is around 2%, while the rest is supplied by imports from Russia and Norway. Shale gas was the subject of discussions as one of opportunities to change this proportion, while the company Basgas asked for exploration licenses for mining in the Trutnovsko and Berounka areas, while Cuadrilla did the same for the Meziříčí area (Osička, 2013). Although the Ministry of the Environment evaluated these applications positively, the resistance of the local public had led former Minister Tomáš Chalupa to revoke the initial decisions and the exploration of this fuel source came under a moratorium in May 2012.

This measure by itself has only a limited impact, because estimations (with respect to the absence of exploration, there is no precise information) spoke only of a limited amount of shale gas in the Czech Republic. The situation in the surrounding countries is thus more relevant for the Czech Republic, especially in Poland. Despite the growing skepticism of mining companies, the Polish government is, due to shale gas, expecting to reduce its import dependence and also to commence exporting significant amounts of natural gas.⁴⁰ Given the intensive interconnection of gas infrastructure in central and eastern parts of Europe, this gas could also affect the economic and security situation of the Czech Republic.

5.2.3. Energy Infrastructure Investments

Building a joint energy market presumes sufficiently robust and multifaceted interconnection between member states of both transit pipelines and power grids, either for enabling competition (based on the application of a third-party access principle) or for safety reasons. Another burden for transmission systems comes from the construction of decentralized renewable electricity plants, where the traditional model of construction in places of concentrated consumption is replaced by construction in places with the most favorable natural conditions (for example, wind power plants on the seashore). The age of the networks also emphasizes these factors. For these reasons, construction of energy infrastructure has been perceived as one of the primary tasks of energy industry in individual member states' as well as by the EU itself.

⁴⁰According to a report from the Polish Geological Institute in March 2012, the country has reserves of between 346 billion and 768 billion cubic meters of recoverable shale gas.

According to the European Commission's estimations, electricity transmission systems require an investment of approximately €140 billion, while pipeline improvements are estimated to cost €70 billion (Eur lex, 2011).

The insufficiency of financial means complicates the completion of these building projects, as some of them have a security-oriented rather than a strictly commercial character, while the long duration of construction adds to the complexity even further. Completion of cross-border energy projects usually takes a decade or more, with a substantial part of that period consisting of approval processes preceding the physical construction itself. This period is marked by complex administrative procedures as well as by potential obstacles thrown up by an interested part of the public.⁴¹ In line with Regulation No. 347/2013 on Guidelines for Trans-European Energy Infrastructure adopted on April 17, 2013, the whole situation should become significantly more flexible. The regulation defines twelve priority fields of cross-border infrastructure, covering the categories of electricity transmission, natural gas, oil and CO₂, within which each involved country is supposed to prepare a list of projects with a European and priority importance (Projects of Common Interest). These projects should be granted EU financial support, while the approval procedures are intended to be simplified and facilitated, in order to limit the approval process to three and a half years. By replacing Trans-European Networks – Energy (TEN-E), the main funds should be provided by the “European Connection Facility,” provided with a budget of €5.1 billion. Of course, the above-mentioned Regulation is not the only measure on the matter of cross-border energy infrastructure; it is, however, among the most prominent and fundamental ones, directly impacting Czech interests.

5.2.3.1. The German Position

In addition to transformation of the local energy sector, transmission networks are the key problem for Germany, more important than electricity production itself. Rapid growth of the renewables' relevance in Germany has not led to inadequate production as such, but to its uneven distribution (the typical example are the wind parks at the north of Germany and industrial users in Bavaria). The German Federal Network Agency (Bundesnetzagentur) has calculated that, since 2009, when it was decided to build around 3,800 km of power lines, only 214 km were completed on time, while the remaining lines are on hold due to public opposition, bureaucratic delays, and

⁴¹ This can be illustrated by the Austrian electrical facility Steiermarkleitung, whose completion has been on hold for 25 years. Another example is the construction of a connection between France and Spain that was decided on in the 1970s, while completion is not expected before 2014 (Euractiv, 2012).

insufficient funds. Costs for completion of this project have been estimated to be €19-22 billion by 2022. In the case of gas, 700-1,840 km of pipelines were estimated to cost between €2.2 billion and €4.8 billion (Kwiatkowska-Drożdż, 2013:61). For that reason, any facilitation of this network's construction, mainly on domestic territory, but also in terms of interconnection with the surrounding countries, has very strong German political support. Germany's large firms in particular would (unsurprisingly) enjoy direct subsidies to offset some costs of investment in such infrastructure development. However simplification of approval processes and reducing the ability of the general public to give input on these processes may be more difficult, due to the German public's traditional involvement.

5.2.3.2. The French Position

France, like Germany, subsidizes the development and construction of infrastructure projects in the energy sector. Like Berlin, it is rather focused on domestic problems, as well as on the infrastructure that connects France with its neighbors. Here, we should also point out the fact that for a long time France has benefited from its position as Europe's most important electricity exporter; the emphasis this puts on the country's diversification of gas transmission routes is evidenced by the fact that the country uses an equal amount of the commodity from four suppliers: Russia, Norway, Algeria, and the Netherlands.

5.2.3.3. Significance for the Czech Republic

Due to its location, the Czech Republic is a substantial transit corridor of Russian gas on its way to Europe. It also is active in the increasing integration of the Central European gas market, usually by participating in projects of the North-South Gas Corridor. The Czech territory also serves as a transit area for German electricity from wind parks in northern Germany en route to Bavaria. Legislative simplification and EU financial support may help the Czech Republic keep (and potentially develop) security and economic benefits resulting from its strategic territorial position.

5.3. ENERGY – THE ENVIRONMENTAL DIMENSION

In addition to the issue of the internal energy market, this analysis also focuses on environmental dimension of energy in Europe.

Addressing environmental issues at the EU level started to become a relevant topic in the 1980s. At first, this included such aspects as the preservation of clean water, management of household and industrial waste, the preservation of biodiversity, sustainable development, etc. In the 1990s, this agenda had been supplemented by climate change matters and global-warming

countermeasures. The importance the EU attaches to this portfolio of policy is underscored by a legal obligation to involve EU environmental principles in other policies; in other words, the EU (and, consequently, the member states as well) take environmental policy into account while deciding upon the regulation of the single market, industry, transportation, and other issues. Decision-making is adopted by a qualified majority (more precisely, by a regular legislative act in accordance with Article 289 SFEU) with the exceptions of legislation with potential fiscal policy impacts, policies dealing with urban planning, certain issues of water sources and landscape usage, and the issue affecting the energy mix.⁴²

Given the costs (economic, political, social, etc.) that it creates, it is clear why it makes sense to include environmental policy in the type of analysis we have undertaken. Limited space does not allow us to address all related sub-questions, such as industrial waste management or the water management. As has been the case with the single energy market, we also have decided to select a question that illustrates the relationship of energy policy to environmental policy. Specifically, we touch on the future direction and form of the EU Emission Trading System (EU ETS).

5.3.1. The Future of the EU ETS

ETS is a main weapon in the EU fight against the emission of greenhouse gases and anthropogenic climate change (global warming). However, this system has been criticized for its inefficiency, predominately related to the low price of allowances (European Union Allowances, EUAs), which results from the overabundance of these allowances in the market (roughly 2 billion EUAs). For that reason, firms are not very economically motivated to invest in emission reduction, which makes the system ineffective and only creates a redundant administrative burden.

The EU platform, for that reason, hosts a very intensive discussion on how to adjust the whole system. As a short-term stabilization solution, the European Commission has changed the distribution of allowances by postponing the issuing of 900 million EUA from 2014-16 to the end of the period (European Commission, 2014a). On January 22, 2014, a draft on the permanent mechanism was presented, replacing the previous pace of reduction of allowances in circulation (1.74%) by a more rigorous pace (2.2%) by 2021. A draft also includes a so-called “market stability reserve” that balances EUA supply and demand deviations (European Commission, 2014b). However, according to the warnings of various NGOs and experts, these modifications are insufficient. There is still a real threat that the EU ETS would collapse and

⁴² According to Article 192 SFEU.

that an enormous amount of money and energy would be lost (Euractiv, 2014b).

5.3.1.1. The German Position

Germany is one of the most active states in Europe in combating climate change. German society is very sensitive to the issue, and has been willing to invest significant resources and effort against global warming. Two indicators can provide us with an illustration. In the first place, domestic climate objectives significantly exceed the general EU objective to reduce CO₂ emissions by 20% by 2020, or by 30% in the case of a global agreement. German domestic objectives call for reductions of 40% by 2020, 55% by 2030, 70% by 2040 and 80-95% by 2050, (all with 1990 as a reference year). As a second indicator, (especially noteworthy due to pressure on the German economy from other European obligations, such as bailouts), funds devoted to the global fight against climate change continue to flow. As part of the Green Climate Fund, established for purposes of the Post-Kyoto-protocol period, Berlin has allocated €1.29 billion out of €7.2 billion promised by the EU as a whole. Moreover, Germany actually allocated these funds, (between 2010 and 2012), rather than merely promising to do so (Bundesministerium, 2013).

In terms of the EU ETS functioning itself, it is clear that the collapse of this system will be prevented only by a dramatic change in the number of allowances in the market – the current changes will probably not suffice. In this sense, the German position will be the chief deciding factor; however, the German government has avoided making a clear statement on its position. The previous black-yellow government was marked by disagreement between Minister of the Environment Peter Altmaier, who had supported a reduction of allowances, and Minister of Economics Philipp Rösler, who was against any reduction due to the possible effects on domestic industry. For now, the new government has been taking a rather careful stand on the matter, without any definitive announcements (German Energy Transition, 2013). In the long run, it is in any case clear that Germany will advocate at least a higher price for EUAs, especially maintain the whole EU climate policy, whose foundations rest on the EU ETS. However, domestic industry interests, as well as the shutdown of nuclear power plants in Germany leading to an increased consumption of fossil fuels (gas and coal), together block any drastic change in policy.

5.3.1.2. The French Position

France also pursues an ambitious climate policy, reflected both in terms of high domestic objectives (such as a reduction in CO₂ emissions to the level of 25% by 2050) as well as of the means for their achievement (Grenelle I, Grenelle II). Statisticians accordingly observe that the French objectives are not

only declaratory, but in spite of the strong French nuclear sector, Paris has also attempted to implement policies of emission reduction in other individual sectors of the economy anyway.

In terms of the functioning of the EU ETS, France supports limiting the number of allowances circulating in the market. However, it is at the same time flirting with an idea of a carbon tax, which the government had unsuccessfully tried to implement in 2009 and which it would, most likely, try to implement in the EU as well, if the EU ETS situation were to remain unsolved.

5.3.2. Significance for the Czech Republic

During the first phase of the system, from 2005-07, when approximately 97.6 billion allowances were allocated for the Czech Republic, and the second phase, when 86.7 billion allowances were allocated for the Czech Republic, the ETS did not pose any significant challenge to the Czech economy, even though the country is the eighth-largest emitter of greenhouse gases in the EU overall.

85% of companies in the Czech Republic that were involved in the system did not need to purchase allowances in the second phase due to a surplus of EUA credits, and a number of large firms even turned a profit on their remaining allowances (ČEZ a.s. a surplus of 7.1 million EUA in the estimated value of €2.58 billion, Acelor Mittal 6.95 million EUA, €2.6 billion; EPH 5.81 million EUA valued at €2.27 billion, etc.) (Sandbag, 2012).

In the third phase, 2013-20, however, dramatic changes affecting the entire system have been taking place, especially in terms of the auctioning of allowances. Since 2013, energy companies have had to buy all the needed EUA from the emissions trading market. In other sectors of the economy, companies will still obtain the majority of allowances for free; however, over the next seven years, companies will have to pay for an increasing percentage of these credits, such that by 2020, these other sectors will have to buy all these credits on the market as well. Given the unexpectedly high costs of the whole system, an exception was arranged (a so-called “derogation” under Article 10c of Directive 2009/29/EC) that allows energy companies in selected countries (generally in Central and Eastern Europe) to obtain some allowances free of charge. In light of this, on behalf of these firms the Ministry of the Environment of the Czech Republic has requested approximately 108 million EUA for 51 companies (the allowance price has permanently oscillated between €3 and €5 per EUA). As illustrated by the financial sums above, the system creates a ripple effect throughout the Czech energy sector, irrespective of whatever reform – or even no reform at all – is made.

5.4. SCENARIOS OF FURTHER DEVELOPMENT

This chapter attempts to present possible scenarios of further development of energy policy in Europe on the horizon in the mid-term, i.e. in the course of the next ten years approximately. In terms of the text's setting, we can consider three possible routes of development – a continuing status quo, a divergence, and a convergence of German and French interests. However, in light of the German *Energiewende*, it becomes clear that the status quo is unthinkable. Berlin has changed its strategy so drastically in recent years that it proves unnecessary to consider the exploration of future manifestations of its previous policy. As a result, we can disregard the “status quo” scenario.

There are thus two opposing scenarios left to analyze. The first assumes the successful execution of reforms within the German energy sector, and the subsequent Europeanization of these reforms. In this case, the German position will become a specific EU standard; essentially, Berlin will increase pressure on fellow EU member states to accept a “German” attitude towards energy-sector reforms. The second option is the failure of the *Energiewende* program and a return to “a more traditional” understanding of the energy sector and environmental policy. Both of these scenarios arise from the assumption that Germany is a locomotive for change, while France is interested in maintaining the course it has already set upon. We should accordingly mention that both scenarios present an extreme and, to a certain measure, unlikely future development – the actual development will, most likely, take a form close to one of these paths, but an absolute fulfillment (for example, in the form of an unproblematic, timely, and smooth transition of Germany away from the nuclear energy industry) is unlikely.

5.4.1. Scenario No. 1 – Successful Implementation of the *Energiewende* and Parallel and Growing Pressure on its Europeanization

The principal objective of the German energy sector's reconstruction is the previously mentioned exit from nuclear energy by 2022 and its replacement with a greater share of renewables for purposes of energy generation.

The swift execution of this plan presumes several steps, outlined by the former Minister for the Environment, Peter Altmaier. The first thing that should take place is a slowdown of the construction of renewable power plants and their adjustment to market conditions. Therefore, although renewables are to be the future of the German energy sector, their turbulent development in recent years has created major burdens on the budgets of German companies and households and threatened the stability of the domestic economy. A less discussed fact is that, at least in the transition period before the maximum use of renewable energy sources, other supplies

of electricity will have to be partially provided. Some of this electricity will come from abroad, but most will come from domestic production by power plants powered by fossil fuels (such as coal and gas).

The second aspect of completing a Europe-wide *Energiewende* would be greater public inclusion in the whole process, in order to secure the public's acceptance of costs which would gradually arrive. This includes financial costs, of course, but also other sacrifices – in our view, this primarily means acceptance of the construction of new and additional energy infrastructure. Germany would expect very intensive construction of transmission networks that would carry electricity from renewables within Germany, as well as the construction of gas and electricity interconnections with the neighboring countries. The public's attitude would also decide on the usage of domestic raw material resources (see the issue of shale gas).

The third step would be the aforementioned internationalization of the *Energiewende* in terms of its crossing of German borders and reaching the EU level. This would happen, for example, in the form policies such as unified support for renewables, abandoning the nuclear industry, or unified and ambitious emission objectives.

How would then Scenario No. 1 reflect on the subject of our exploration?

<p>The EU ETS third phase, a regime of the combat against climate change</p>	<p>German ambitions in the fight against climate change are growing stronger. Berlin will seek to lead the EU in this matter and it will be less tolerant towards member states that are against this policy (usually Poland). The German and French position will remain similar – it will insist on adopting additional distinctive measures and on a new dynamic, where the EU presents itself as the leader in the global debate surrounding measures to counter climate change.</p> <p>Germany will toughen the EU ETS system. With France and other countries, it will press the opponents of the whole system (primarily Poland, but also the Czech Republic, Cyprus, Greece, and other countries) more vigorously in an effort to weaken their skepticism. Exceptions such as derogation under Article 10c of Directive 29/2009 will appear to a rather limited scope.</p>
<p>The nuclear industry and its regulation at the EU level</p>	<p>German interest will lie in the EU's reduced support for the nuclear sector. This is to take place whether in terms of more strict safety standards, the cutting of financial support possibilities to the related scientific project, research or investments, or preventing national states from subsidizing the nuclear industry in their markets. None of these measures would lead to a direct ban on or obstacle to the nuclear industry; however, these measures would make it more expensive. Certainly, the nuclear sector can be indirectly affected by preferences for other energy sources, to which nuclear energy might lose market share.</p> <p>France will belong to the coalition of states that will resist this trend. However, within this scenario, it will have a rather limited negotiating position in comparison to a successful Germany.</p>
<p>Regulation and the development of shale gas mining</p>	<p>A gradual shutdown of nuclear power plants and the rising energy price will lead to the growing pressure to enable at least exploratory mining of shale gas in Germany. The German government can try handling the local opposition by setting the EU-wide rules; however, here it might find itself at odds with France, which has been intensively blocking fracking methods. The European platform will play the major role here, while the German situation can be, perhaps contrary to expectations, affected by the EU, depending on whatever legislation the EU prepares to address the fracking issue.</p>
<p>Regulation and support to the construction of energy infrastructure</p>	<p>Germany in particular will strongly support projects related to leading to the distribution of energy domestically as well as the projects which will connect Germany with its neighbors. However, together with France, support for any given project will gradually decline the further that project is from the EU's core – in other words, projects taking place in the countries of Central and Eastern Europe, and the Baltic countries. The reason lies in continually more limited resources that Germany (and France) can and is willing to allocate to the joint budget.</p>

5.4.2. Scenario No. 2 – Germany's Inability to Bring the Energiewende to Realization

Although Berlin (at least publically and officially) declares that it has no "Plan B" and that it is absolutely committed to the realization of Energiewende, it could happen that technical and financial costs, to say nothing of public opposition to carry these costs, may prevail over this goal. The key problem

would be a combination of costs related to both the Energiewende as well as costs Germany would have with keeping the EU together. Even though each of these challenges is perhaps resolvable and the German population is apparently willing to solve it, the combination of both could have an excessive effect on German electorate and society. The growing financial but also morale costs related to the rescue of problematic EU countries can gradually erode the residents' as well as the political elites' willingness to stay on course.

In this case, Germany would have to accept compromises, which in our extreme scenario presumes a prolongation of the functioning of nuclear power plants, a notable weakening of renewables, including a share in the energy mix that would not go far beyond the current one, and suppression of German ambitions to fight climate changes, at least by means which are too financially demanding.

How would then Scenario No. 2 reflect on the subject of our exploration?

The EU ETS third phase, a regime of the combat against climate change	<p>Germany will be forced to concentrate on the domestic situation and, by doing so, it will lose both the will and credibility to be an engine of climate change mitigation. The German perspective on resolving the issue of global warming will not change, but the foreign political opportunities might. Even if France kept on its course, it would lose a strong ally and it is not necessarily the case that Germany would be able to maintain a sufficient dynamic at the EU level. In Paris' terms, it will prove true that nuclear energy is an important tool of a low-emission economy.</p> <p>Germany will lose its will and credibility to manage the strict functioning of the EU ETS and this system will start heading toward collapse. The most critical scenario will be a disintegration of a unified EU climate policy and the use of particular national tools (which is already today obvious from the British case of a price floor for EUAs), with major negative impacts on the EU economy and its international credit. A less radical scenario is to replace EU ETS by a more consensual solution, which would presume the preference of a carbon tax.</p>
The nuclear industry and its regulation at the EU level	Germany does not alter its priorities and conduct. In case the Energiewende failed and some nuclear power plants were kept online, the latter would be perceived negatively; however, the role of countries that do employ nuclear energy would grow stronger. The greatest likelihood is that they will not be able to change the situation in the EU in their favor, resulting in the maintenance of status quo.
Regulation and the development of shale gas mining	What will play the crucial role also in this scenario is the result of negotiations led at the EU level regarding the form of the future EU-wide legislation addressing shale gas. The latter will probably leave its trace on the resolution of the issue of methane emissions that the fracking method is supposed to cause, as well as clarification of probable contamination of underground waters. The Energiewende's unsuccessful execution will only slightly affect industry's demand for mining. Whatever the case, the energy issues that Germany faces will stimulate strong emphasis on the commencement of at least exploratory mining, albeit under strict environmental conditions.
Regulation and support to the construction of energy infrastructure	In this scenario, Germany's and France's behavior has similar characteristics as in case of scenario No. 1. The main difference is German (and French) willingness to invest their resources to EU-wide infrastructure activities, which this scenario presumes to be significantly lower, given the problems and requirements the two nations have back home.

5.5. THE POSITION OF THE CZECH REPUBLIC

5.5.1. Regulation and Support to the Construction of Energy Infrastructure

In terms of safety, (transit and transport) infrastructure does not pose a major problem for the Czech Republic. Transport routes of both oil and natural gas are diversified. In light of that, it is electricity that might be problematic, but only secondarily. With respect to the growing transit of electricity produced in Germany over Czech territory, there is a real threat of serious technical

difficulties, not to mention costs and difficulties that this policy causes, which Germany leaves uncompensated. Just to get an approximate picture, the capacity of wind parks at the northern Germany, from where this electricity flows through the Czech Republic on its way to southern Germany, equals roughly 150% of the total installed capacity of all Czech power plants. In its development plan for 2013-2022, this is the observation of the transmission system operator ČEPS itself:

“Because of its geographic situation, the CR TS⁴³ is involved in power flow exchanges as a part of the electricity trading in mainland Europe. The load imposed on transmission technology – elements of the Czech transmission system – is primarily influenced by the enormous spill-over of output from wind power stations on windy days, flowing from the northern parts of the FRG⁴⁴ in the direction of South and Southeastern Europe. The delay of certain investment plans, in concurrence with the strengthening of existing transmission routes (and the building of new transmission routes) results in the overloading of some transmission components of the FRG. In connection with these circumstances, one must necessarily take into account timing and substantive aspects. The big issue of all construction projects is the protracted and complicated administrative and legislative process. While construction work proper may take up 1-2 years, the total implementation period from making the decision, through preparation, planning, negotiations, permission procedures, and final completion of the construction work, may last up to 15 years” (ČEPS, 2014).

On the other hand, it is apparent that investments in the construction of energy transmission lines remain one of the most important topics of the current energy sector of any EU member state, including the Czech Republic. The Czech Republic is interested in enhancing its links with its neighbors, whether in terms of electricity or natural gas transmission. In this context, for the Czech Republic, the financial and legislative tools the EU prepares or executes prove to be of key importance. The opportunity to draw on resources for these sorts of projects was provided, for example, within the European Energy Programme for Recovery, when the Czech Republic (more precisely, the Czech RWE subsidiary) obtained a €35 million subsidy for building a gas storage unit in Tranovice, while the sum of €3.6 million was set aside for improving the technical status of the Czech transit (gas) infrastructure, €14 million was directed to the Czech-Polish gas interconnection, etc.

⁴³ Transmission System

⁴⁴ Federal Republic of Germany

With this in mind, it is critical for the Czech Republic to:

- Support activities, projects, and financial tools emerging at the EU level as well as their maximum financial support. Many infrastructure projects are justified for security reasons, but not for their financial viability. Their construction is furthermore complicated by the fact that they present cross-border projects. Especially here, EU-allocated resources prove to be of significant importance.
- Oppose the tendency to nationalize these resources – in other words, therefore, to support their equal distribution within EU27, of course, by recognizing the necessity and usefulness of these investments. That this is not always the case was demonstrated by the realization of the European Energy Programme for Recovery, where an absolute majority of supported projects were approved for the EU15 group of countries. Even in light of the fact that the program referred to the Russian-Ukrainian gas crisis, the countries of Central and Eastern Europe were given short shrift.
- Strengthen to the maximum extent possible Czech-German communication regarding the construction of networks connecting Germany with neighboring countries.
- It is also possible to reopen the issue of the EU tariff for cross-border electricity transmission. This is currently missing, whereby electricity transit is, based on previous agreements, free of charge in the common market. That is the reason why the electricity transfer from the northern Germany to Bavaria via the Czech Republic presents such a great problem, provided that the Czech Republic is no manner compensated and it carries the expenses on its own. In the case of transit fees, the money obtained might be utilized for the routes' improvement and related maintenance, thus making the problem somewhat less urgent. Other parts of Europe might copy this arrangement in a similar manner.

5.5.2. Regulation and Development of Shale Gas Mining

With respect to the absence of exploration, it is very difficult to estimate potential resources and the volume of shale gas deposits within the Czech Republic. In terms of mining, the Czech Republic is, nonetheless, one of the more skeptical countries. On the other hand, Poland is a neighbor with a particular potential in this field, whose potential production might at least partially (through recently built gas connections) either flow through the

Czech Republic (and in that manner bring a benefit in the form of transit fees) or, alternatively, end here.

With this in mind, it is for the Czech Republic critical to:

- Support the establishment of EU-wide legislation treating exploration and mining through fracking methods. Such legislation would assure the compliance with necessary environmental and social standards when requesting potential mining, while at the same time avoiding a blanket ban on exploration and mining. Single member states would not be able to independently decide on the mining that is to be carried out on their territory; however, EU rules would help in calming the situation in the countries discussing the matter of exploration. Therefore, it proves that a part of the problem rests in residents' lack of trust in the state control role, predominately in the central and eastern European regions. The publics in these countries have not been satisfied with assurances of national government bodies that exploration and potential mining would proceed in compliance with corresponding local rules. The European Union has a better reputation in this respect and the rules it guarantees are the ones residents are most likely to positively respond to.

5.5.3. The Nuclear Industry and Its Regulation at the EU Level

At the EU level, the Czech nuclear sector belongs among those that are stable, basically unproblematic, and permanently developing. The Dukovany NPP and the Temelin NPP form the backbone of the domestic electricity production, and the situation will not change by 2025 at the earliest (2025 being the minimum date of the lifespan of Dukovany). On the other hand, a call for tenders is in progress for completion of the third and fourth blocks of the Temelin NPP, with a potential option of construction of another three nuclear blocks.

Unlike the majority of the EU states, the Czech public does not particularly oppose the expansion of Temelin. The Czech public is moderately pro-nuclear, albeit anti-nuclear sentiment is growing stronger. Complications related to the construction lie elsewhere. ČEZ is currently recording the worst financial situation in the last decade of its existence, while the situation on the European and world markets increases the price of completion even further. The manner and sale of potentially produced electricity is uncertain given the unstable and volatile European market and the fact that a power plant is planned in the region where Slovakia, Hungary, and Poland all plan to place their own nuclear resources.

Consumption of electricity locally is an option that is disputable when considering the notable export balance of the Czech Republic. These circumstances are probably the reason why ČEZ has had difficulties with ensuring a strategic investor, while a discussion is led over the possibility of a

minimum price guaranteed by state for electricity produced in Temelin. This then proves problematic in terms of the financial demands imposed on the state as well, due to the fact that the EU rules of free competition directly ban this kind of support.

With this in mind, it is for the Czech Republic critical to:

- Add a certain risk margin to the cost and gain calculation related to the expansion of Temelin, which would be connected to events at the German and EU levels. German (and Italian and Swiss) decisions do not oblige nor automatically require the Czech Republic to change its energy strategy; however, it can be expected that future events will further complicate financial returns from nuclear plant constructions. In other words, rather than the other way around, the returns from nuclear energy will actually decrease at least in the course of the next few years.
- During the negotiations on the regulation of the energy sector at the EU level, the Czech Republic has been supposed to have taken a balanced and rational stand. In terms of safety, the Czech nuclear power plants are at a high level, which brings us to the conclusion that what is sought is that a potential new regulation would not needlessly increase the operation costs of nuclear blocks.
- Including and recognizing nuclear energy as a low-emission source is an effort that may potentially have exceptional results, which would open the way to its inclusion among EU programs that support these sources. At the same time, it might help in reaching some environmental-energy related objectives. With regard to this, the Czech Republic should take part in coalitions that support this perspective at the EU level.

5.5.4. The Third Phase of EU ETS, a Regime of Combating Climate Change

From the analytic point of view, this issue ranks among the toughest ones. So far, the Czech Republic has been taking a strong skeptical, even negative stand not only to the specific tools to combat climate change, but even to the very idea. Together with Poland, the Czech Republic did not hesitate to intervene as much as possible to lower the effects of trade with EUAs, which was evident also during the preparation of transit allowances for 2013-2017, which (in line with Article 10c of Directive 29/2009/EC) the Czech Republic can distribute free of charge. On the matter of emission allowances, from this perspective it seems that the Czech Republic assumes the position of domestic (energy) companies, headed by ČEZ, as its own. The weakness of such an approach can be spotted in the fact that it does not correspond to the idea

of the whole EU ETS and EU environmental policy, while conserving the current situation of a notable coal usage at the expense of renewables.

In EU ETS terms, support to the energy firms that do business in the Czech Republic is advantageous both in relation to national budget interests (with respect to the distribution of free transit allowances), as well as to a certain measure in relation to residents' interests (support of coal plants with all negative impacts they have), which can, with respect to the EU trends, have significant negative long run consequences.

With this in mind, it is for the Czech Republic critical to:

- As the Czech Republic has already obtained transit EUAs for free, there is no need to take a similarly sharp position as Poland did regarding the whole EU climate policy. The potential pressure to increase the price of allowances by withdrawing a part of them from the market would affect the balance sheet of the Czech budget; on the other hand, it would give an advantage to the companies that received the allowances free of charge based on the 10c derogation.
- A more intensive future participation in EU ETS depends on Czech priorities which are currently rather unclear. The Czech Republic presently has concentrated on supporting companies that are engaged in the energy business within the Czech territory. If this position is maintained, then the Czech Republic would benefit from a very weak EU ETS, as well as a halfhearted fight against climate change. However, in this rather one-sided understanding, the authors spot particular risks, whether environmental (support to coal power plants) or budgetary (free allowances imply a smaller state budget income), as well as moral (state support of private companies rather than the general interests the country committed to by being a part of the EU, i.e. reduction of greenhouse emissions).

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