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When France Makes Germany Despair

The Franco-German Couple is so often referred to that one can be forgiven for taking it for granted. However, in the corporate world at least, significant change is underway between the two countries who like to see themselves as “Europe’s engine”. The German business community has long reckoned that relying on this engine would generally increase the chances of success for projects undertaken with French partners. But they now wonder whether political forces could also play against cross-border co-operation.

Three cases have specifically given rise to this negative perception. The first is Sanofi’s takeover of Aventis in 2004, the memory of which is still vivid in Germany. This combination was described by then French Prime Minister Jean-Pierre Raffarin as serving the “national interest”. But five years before, when Paris-headquartered Rhône-Poulenc had merged with Frankfurt-headquartered Hoechst to form Aventis, there had been explicit commitments to maintain the Franco-German parity in the new entity, with its seat symbolically located in Strasbourg. Against this backdrop, the activism deployed by Paris to back Sanofi’s 2004 bid was described as disloyal by more than one German observer, as it diluted the Hoechst legacy into a group that would now be dominated by the French camp. The second case is when Siemens proposed to combine Alstom’s train-building business with its own in 2004, at a time of severe financial difficulty at Alstom. France’s Finance Minister Nicolas Sarkozy, now a presidential hopeful, refused the offer flatly, publicly referring to the concern that strategic operations should not fall into foreign hands. The fact that France then chose the part-nationalisation of Alstom and to engage in a tug-of-war with the European Commission, rather than accepting an alliance with the German Cousin, was seen in Germany as an abrupt and unexpected signal of distrust. Last but not least, frustration grew still bigger when the French government forced the appointment of Noël Forgeard as co-CEO of EADS in June 2005, even though he was seen by many Germans as unfairly favouring the “French camp” within the aerospace and defense group.

From France, it is easy to underestimate the impact of these three episodes. The problem is not the simultaneous existence of Franco-German co-operation and competition, which is by no means a novelty. The Airbus consortium was ridden with squabbles from its birth. The sometimes ferocious rivalry between Alstom’s TGV and Siemens’ ICE high-speed train solutions is longstanding as well. Nor is the French’s recurring penchant for dirigisme a new development. It is indeed often matched in Germany, such as when Gerhard Schröder tried to save Philipp Holzmann, a construction group, or when he unsuccessfully attempted to create a German financial champion by merging Postbank into Deutsche Bank. What rattles the Germans is different. It is the feeling that the French, who often claim their dedication to the “European project”, are ready to break earlier commitments and common

rules to defend a rather narrow vision of their national interest. By contrast, rightly or wrongly the Germans tend to see themselves as playing by the rules of multilateralism and collective action in Europe. In any case, it is indisputable that there are no recent mirror cases of German 'disloyalty', at least since France Telecom and Deutsche Telekom broke their alliance in 1999.

In comparison, public gestures of good will sound a bit shallow. A Franco-German initiative on industrial innovation was announced with much pomp in April 2005, following a joint report by Jean-Louis Beffa of Saint-Gobain and Gerhard Cromme of ThyssenKrupp. But this has not given rise to any identifiable dynamic development so far. The Agency for Industrial Innovation, which was supposed to be the linchpin of the whole endeavour, was created as a French state-run entity and its scope of action is essentially national. More recently, the French President's endorsement of a merger between Deutsche Börse and Euronext have not had a decisive impact on the complex tangle of stock exchange consolidation. The better-functioning Franco-German alliances are those with less political visibility, such as the joint venture between Areva and Siemens for building nuclear reactors.

All this has consequences. The German business community is increasingly focused on emerging markets and, with so much disappointment about France, is tempted to revise its ambitions for European integration downwards, at least for the time being. If the French want to correct the negative image they have created of themselves, they will need more than mere declarations of intention.