The Konrad-Adenauer-Stiftung presents:

KAS Germany Update
Current Issues in Germany

No. 27– January 2006

I. The 2007-2013 EU Budget: a success for both the new Grand Coalition government and the EU

In its first test in European politics, at 2 AM on 17 December, success came for both the new **Grand Coalition** government and the **European Union (EU).**

Going into the December EU summit, anxiety was in the air in Germany and Europe alike. After weeks of negotiations and suspense, a Grand Coalition government (CDU-CSU-SPD) finally emerged victorious from the September 2005 German elections; however, it remained to be seen to what extent the new government would effectively function. Similarly, feelings about the future of the EU were especially uncertain: with the two 'No' votes on the EU Constitution in the spring, the failure to reach agreement on the EU budget in June and the verbal mudslinging between European leaders over the

British rebate and the common agriculture policy (CAP), the likelihood of reaching an agreement on the EU budget was less than definite.

While many states were holding firm to their positions, German representatives worked to create a proposal which would be agreeable to all sides. Collaborating most closely with French President**, Jacques Chirac**, the new Chancellor, **Angela Merkel** (CDU), and foreign minister, **Frank-Walter Steinmeier** (SPD), put together a deal which **Mr. Chirac** later referred to as a "Franco-German proposal". In it CAP spending would remain unchanged until 2013, as settled upon in 2002, but it and the entire budget would be open to review in 2008. Also in the area of regional aid, German teamwork succeeded in halting cuts to spending at €16 billion.

In a desire for compromise, the new government did not forget about its neighbors to the east; instead, **Mrs. Merkel** and **Mr. Steinmeier** also negotiated with the Poles, who, originally pushing for a much larger budget, were convinced to vote in favor of the much smaller budget. The Polish acquiescence, however, came at the cost of €100 million earmarked for the rebuilding of the former East Germany. Such a conciliatory gesture on the part of Berlin was important not only in passing the budget, but also in building a stronger German-Polish relationship.

In its final version, the new budget for 2007-2013 sets total EU spending at €862 billion ($1,036 billion) with 43.1% going towards CAP and rural support, 35.7% to cohesion funds, 8.4% to competitiveness, 5.8% to administration, another 5.8% to external policies and 1.2% to justice and home affairs. This budget is €10 billion more than the British had originally suggested in its presidency proposition, but still €10 billion less than the amount put forward by Luxembourg during its EU presidency in June. In the end, after long talks, with much bridge-building between the east and west, both the new Grand Coalition government and the EU succeeded in their respective tasks, soothing a few nerves along the way.

II. The first Grand Coalition retreat: teamwork in action

On 9 and 10 January 2006 the new Grand Coalition government undertook its first cabinet retreat, meeting in Schloss Genshagen outside of Berlin. **Angela Merkel's** cabinet, along with heads of the SPD and CSU parties, **Matthias Platzeck** and **Dr. Edmund Stoiber** respectively, as well as other leading party officials came together in an attempt to reach a consensus on a variety of policy initiatives. Discussed above all were economic, family support, nuclear energy production and health reforms.

A great deal of progress was made on economic issues, reaching an agreement on employment and growth for €25 billion. While some politicians hoped that the new package would be at least double the amount decided upon, the package does include investment on traffic routes, research and development, renovation of dilapidated buildings, tax relief for private accounts of craftsmen, and a greater allowance for working parents, among other things.

After an intense debate, most notably between **Family Minister Ursula von der Leyen** (CDU) and **Finance Minister Peer Steinbrueck** (CDU), a temporary solution was reached in the area of family and childcare support. According to the plan, more support was to be given to families with small children, with tax deductions for the costs of childcare up to €4,000 being granted. In total, €460 billion were allocated to the tax deduction program for the year. This proposed program, however, has received much criticism in the days past and thus further discussions on the topic have begun within the government. The main question is the preconditions families will have to meet if they wish to offset external childcare services against their respective tax liabilities. Although no formal decisions have been made, Chancellor Merkel is "optimistic" that an agreeable approach on the matter will be found soon.

Along with family and childcare concerns, the issue of future nuclear energy production was also somewhat contentious. Mrs. Merkel faced the greatest challenge from her own party members. While the debate is not new, the rising cost of oil and a new government, signalled an opportunity for certain CDU minister presidents to reopen the presumably closed case. Some such as **Peter Mueller** (CDU) of the Saarland and **Christian Wulff** (CDU) of Lower Saxony called for a re-evaluation of the time frame under which nuclear plants in Germany are to cease production. According to **Wulff**, it would be "insane" to shut down highly modern atomic plants. **Roland Koch** (CDU), minister president of Hesse, took the issue one step further, proposing that the government should actually consider building more nuclear power plants. In the end, the Grand Coalition cabinet decided that the issue should be discussed and decided upon at an energy summit slated to take place at the beginning of April. It is there, according to government representatives, that the terms of agreement for the future course of energy production in Germany will be set.

Similarly in the area of health reform, further thought and discussion on policy is being carried out. The Chancellor conceded that it was likely that only partial reform could be achieved during this legislative period.

Beyond policy issues, a trusting and friendly atmosphere was also reported by representatives at the meeting. Indeed, emerging from the Brandenburg castle after two days, a "good sense of solidarity" among coalition members was apparent, boding well for future teamwork.

III. Uncertain future in the Axel Springer Verlag attempted takeover of ProSiebenSat.1

Wishing to ensure openness in the creation of public opinion and the advertising market, the ruling by the **Bundeskartellamt**, the **Federal Cartel Office**, against the **Axel Springer Verlag's** proposed takeover of the television group **ProSiebenSat.1** Media could mean either the entry of a foreign media company into the German television market or the end of a deal.

As reported in the September 2005 issue of Germany Update, the Axel Springer Verlag wishes to buy ProSiebenSat.1 from **Haim Saban**, the U.S. investor who purchased the television group in 2002 after the **Kirch** media empire went bankrupt. Yet while the two sides were quite pleased when they finally reached a deal last summer, the takeover still needed to be approved by the Federal Cartel Office.

While representatives for both the Axel Springer Verlag and Saban seemed confident that the takeover would be permitted, on 11 January 2006, both the **Commission on the Development of Concentration Control (KEK)**, a media watchdog committee made up of representatives from each of Germany's states, and the Federal Cartel Office both opposed the €4.2 billion proposed purchase. The KEK saw a merger of the 'Bild Zeitung', the nation's leading tabloid, and four television channels as granting the Axel Springer Verlag too much sway over public opinion in Germany. Concerned that the takeover would mean a domination of TV and print advertising for the Axel Springer Verlag, **Ulf Boege**, head of the Federal Cartel Office, also rejected the bid.

According to the ruling, the acquisition could proceed if the television channel ProSieben is sold to an independent buyer before the Axel Springer Verlag purchases the rest of the media group. While initially reluctant, the Axel Springer Verlag reconsidered its position last week and prepared to see the sale occur so long as the takeover of the remaining group can continue.

Throughout the week, both the Axel Springer Verlag and Haim Saban began courting potential buyers of ProSieben, mostly foreign investors. Various companies and investment groups have shown interest in purchasing ProSieben, including the French television group, **TF1**, investment companies such as **Cinvin** and **Providence**, and American media groups like **Viacom**, **Disney** and **NBC Universal**, among others. The estimated cost of ProSieben is just over €1 billion, but could sell for much higher as it is the only asset currently available to foreign investors which would allow them to access the German market, the largest market in Europe. The only potential German bidder is the media group **Bertelsmann AG**; however, success on its part seems unlikely, as it would have to face a European Union veto in order to add yet another asset to its media empire.

Yet despite the talks, much still hung in the balance both legally and financially. In order for ProSieben to be sold independently, Axel Springer had to re-open negotiations with Saban. If the deal was not completed by 23 January, Springer faced paying interest rates of €25 million per month, and could pay steep corporate taxes if it were to acquire then sell ProSieben before the end of 2006. In addition, even if Mr. Saban was willing to break up the media group, his shareholders may not have been; instead, there was talk among them of pursuing legal means to prevent it.

All these difficulties could not be ignored and on 16 January, the Springer Verlag withdrew its offer to the Federal Cartel Office to sell ProSieben. In a statement released to the press, it maintained, “Following an analysis of this proposal, Axel Springer came to the conclusion that a sale of the TV station ProSieben prior to the consummation of the takeover is legally not an option.” But all hope is not lost for the deal; the Federal Cartel Office has granted an Axel Springer Verlag request to extend the review period on the acquisition until 27 January. If the Federal Cartel Office does in the end rule against the takeover, the Axel Springer Verlag could pursue the matter through the courts in the hope of having the ruling overturned. In addition, the decision could be reversed by the economics minister. In the meantime, talks continue within the Axel Springer Verlag and between it, Saban and other ProSiebenSat.1 representatives. However, the prospect of the original deal coming to fruition is increasingly fading.

Text & Research:
Elizabeth Benning

For comments, please contact:
Karl-Heinz Kamp
Security Policy Coordinator
karl-heinz.kamp@kas.de