



## Guten Morgen!

- 1 Wake up and get a feeling for what was in the minds of public-affairs-insiders in Berlin when they woke up while you were still asleep.
- 2 Get a bit of solid intel with a bold spin that no newsletter-journalist would dare to give and ...
- 3 No matter whether that spin was dull or genius: Be inspired for your business overseas after reading this.

PA experts in the US inspired us, for there are major changes in the EU during the crisis that require to be assessed by some PA specialists on the EU/Berlin-site. So, until June that's what we're gonna do. We'll plan to publish every Saturday morning. But we are just human and might have one drink too many on Friday evening. In any case, ping us if you need to know more before others do.

Anna

Christian

## FIRST, SOME SOLID INTEL:

### EU Corona Spending (I): Another €500 Billion, summing up to €3 Trillion

The €3 trillion the EU wants to spend to combat the Corona crisis is making some people feel dizzy. €500 billion of this amount stems from plans for a recovery fund announced by France and Germany this week. Not only is the sum historic: But for the first time, Chancellor Merkel is willing to allow an extension of the EU budget based on debt. The money shall be borrowed by the EU Commission and given to the Member States as grants, not as credit.

### A short E(U)xplaining again:



The EU treaties enjoin the EU to get into debt. This means, the debts incurring now must be repaid in the long-term via contributions to the EU budget, supposedly from all Member States. But the states envisioned to receive the grants are for the most part already net receivers of EU money (they receive more than they contribute, e.g. Italy). So, it is to be expected that net payers (e.g. Germany) will carry a bigger chunk in repaying the debt.

It goes without saying that net receivers LOVE the idea, while net payers are HIGHLY skeptical. And since ALL Member States' national parliaments have to approve of the plan, the realization of Mercron's\*<sup>1</sup> plan is not a given. If you are interested in the spending priorities France and Germany defined in a related document, just ping us.

<sup>1</sup> Mercron is a couple's nickname for Germany's Merkel and France's Macron, just like Bennifer or Brangelina in the old days...



## EU Corona Spending (II): Reactions to the Merkel-Macron Plan

Reactions: Expectedly divided between net payers and net receivers. In the latter group: Netherlands, Sweden, Denmark and Austria, with Austria's Chancellor Sebastian Kurz not only denying his support for common debt but announcing his own plan together with Sweden and the Netherlands (First not yet public draft: [DOWNLOAD HERE](#)). Big debates to be expected!

While Kurz is certainly right about not giving up easily on principles because of a crisis, the alternative – Member States going broke as a result – is not exactly a preferable outcome. Even if those Member States have been relying on the EU's support in the past, just like a chronically broke friend you need to help by paying his rent again and again.

And Commission President Ursula von der Leyen? She just commented, the plan was basically what she was working on all along. Duh.

## Broadband Expansion and IT Security Law

Broadband expansion has been a sore spot in Germany for ages. Now a long-awaited draft for an update of Germany's IT security law again gives cause for concern. A short reminder: Security issues about Huawei's hardware used for the 5G rollout sparked intense discussions in the months before the pandemic. To address those issues, the German Government came up with safety requirements to make sure our data stays secure.

Many say, the formulation of the safety requirements is not at all concrete and will cause further delay in the expansion. And the released draft offers some more controversial topics, like the substantial extension of powers for the Federal Office for Information Security.

Companies in the digital sector should pay close attention, since this law can directly impact their business model. Further developments are expected in the next months. Ping us for updates.

## New Priorities for the Upcoming German EU Presidency

This week, we got a peek at a document by the German Government, in which it redefines its topics, especially in digital policy, for its upcoming Presidency of the EU Council starting in July. One priority will be the continuing work on cyber-security issues by defining minimum safety requirements for devices connected with the internet. Another focus will be AI with the topic of product safety being assessed in more details.

However, the German Presidency mainly wants to focus on the big-overall-super-mega priorities of digital sovereignty of the EU and the

connection of digitalization and sustainability. While they won't find ALL the solutions within the 6-months of the Presidency, they should be able to come up with a framework for dealing with the priorities in the next few years.

With respect to the current crisis opportunities for fundamental re-thinking and innovation which have opened, most areas can be expected to be influenced by the new priorities. Not only in Corona times, but long-term.

## EU Corona Spending (III): Handy Investment Tips

Another recovery fund, this time from the EU Commission, is expected to be presented next week. Not many details are yet known, but one thing is clear: To receive money from the fund, Member States will have to stick to the investment recommendations of the Commission. Period. No discussion whatsoever.

In the past, the EU Commission has been continuously analyzing relevant data, and has given recommendations of where and how to invest. Recommendations that have been happily ignored by everyone, highly frustrating Brussels' experts. Seems like this will change now, which for Germany would mean an increase in spending for R&D and climate-friendly traffic infrastructure. Both areas in which Germany's spending is embarrassingly under EU average.

## (Almost) Finally, a Solution for Lufthansa

After weeks of negotiation, controversies and discussions (we reported), a deal between the Federal Government and Lufthansa which was announced:

Germany will support Lufthansa with a total of €9 bn, €3 bn will be paid directly as a credit. For the other €6 bn, the state acquires 20% of shares and a convertible bond of 5% plus one share in order to secure a blocking minority. This is mainly to create legal certainty in case of a hostile take-over attempt. This solution reflects that the junior partner in the governing coalition, the SPD, in charge of the finance ministry, was able to get their way against the CDU party of Chancellor Merkel.

So, done deal? Not so fast, the approval of the current shareholders of Lufthansa and from the EU Commission is required. While the first could be obtained within a few weeks, (existing shares are of course diluted, which is why the approval should not be taken for granted), the latter will most likely take a few months, as the Commission must check all the details of the agreement. Furthermore, the Federal Government must provide a specific exit strategy plan, as the EU rules generally only allow them to be a shareholder for a maximum of six years.



**By Anna,**  
Senior Consultant

## FIRST, SOME SOLID INTEL:

### German Elections Ahead – Why a Reform of the Electoral Law is Needed (but probably won't happen...)



In some countries it's easy: Whoever gets the most votes in an electoral district becomes Member of Parliament. Sometimes it takes two rounds, depending on the requirement for an absolute or relative majority. But then, take all the winners, and you have the Parliament, Congress, National Assembly.

### It's not that easy in Germany:



Out of the 598 to-be-elected Members, only half are supposed to be elected in a direct vote in the constituencies (first vote). To give smaller parties a voice as well, the other half of the seats come from lists, drafted in the 16 states (second vote). SOUNDS easy, but here's the catch: The final composition of the German Parliament has to represent the proportions from the list votes. And what happens if a party in one state gets all 10 direct mandates, but no votes in the second vote? More seats are created and all the direct candidates get to go, which is why the German Parliament usually has some more seats than the envisioned 598.

This system worked well since its introduction, but in the few last years, things have changed. The big parties (think of the German version of Republicans and Democrats), which usually win most districts directly, are now getting fewer votes in the second vote. Instead, more and more votes are going to smaller parties, which have little chance of winning an electoral district directly. Due to this development, the German Parliament has been growing with each election, from 601 MPs in 2005 (to 611, then 620, then 630) to 709 MPs in the current Parliament. For the next elections we are expecting around 800 Members of Parliament.

And here the problems start: Not only isn't there enough office space in Berlin's Parliament buildings, there isn't enough space for the additional chairs in the plenary hall.

Which is why everyone agrees that Germany needs an overhaul of its electoral law. Here, the consensus stops. While the smaller parties want to reduce the number of districts (because they don't win any), the bigger parties want to reduce the number of candidates from the list (because voters have a special bond with the directly elected MP).

While the discussions continue, time's running out, as the law needs to be changed one year before the next elections (read September 2020). Given the differing positions, the Parliament should probably be looking at expanding its physical size to accommodate everyone. Or, as so often in the case of Corona-times, maybe Zoom and home office will be the solution.

## ABOUT KRAUTSHELL:

We just assumed that you receive way too many and way too many newsletters, while still not getting the intel you need. With "In a Krautshell" we want to give pros in corporate and public politics an executive-style glimpse into what is going on in Germany and Europe. Feel free to give us some feedback, correct bad English we Germans think to be appropriate and let us know whether or not you find it insightful what we are doing here.

We are **ERSTE LESUNG** (transl. first reading), a full-service public affairs consultancy with offices in Berlin and Brussels and your on-site support for consulting and government response in Germany and the EU.



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