BFLO(G) – GERMANY TREND/ANALYSIS 2007-10	
POLITICAL REFORM PROGRAMME IN 2006	
German and international commentators examined Chancellor Merkel's first 12 months in office with mixed results. The early days of adulation, "*Merkel Liebe*", faded quickly but her adroit performances during state visits launched her as a "foreign policy chancellor". She quickly re-established Germany's more traditional position of being closer to America than Russia. At home, regard for the Chancellor and her unwieldy government declined. Infighting, not only within the Grand Coalition but also her own CDU/CSU party, made a challenging task even more difficult. Her election platform of reform was subject to so much compromise within the coalition that the measures taken (health and constitutional reforms) were criticised from all sides of the political spectrum. Despite her personal convictions, a radical change of mood and method within the Grand Coalition appears as unlikely as a programme of truly effective, hard hitting structural reforms.	
Future Developments	
Political	The question posed by Germany's many political analysts is whether the Grand Coalition government will serve its full term (until late 2009). The German constitution more or less rules out snap elections so the coalition would have to break down. Should that prove the case and with a wary, dissatisfied electorate, the political risk for the party deemed culpable would be considerable. A likely scenario is therefore "more of the same"; consensus, compromised reforms, not up to the challenges of the next several years. Over 2007, Chancellor Merkel will preside over both the EU and the G8. Germany's and her personal international profile will therefore gain prominence; particularly against the backdrop of a new British Prime Minister and French Presidential elections. However, whilst Britain might seek "to punch above its weight" in foreign affairs, most commentators agree that Germany does not. Excessive caution in deploying Bundeswehr troops has scuppered any ambition of securing a permanent seat on the UN's Security Council. Events and Germany's reaction to them may resuscitate the aspiration.
Social	German society has proved averse to reform of almost any sort, hankering after past, more comfortable times and, as an electorate, punishing political parties with manifestos for radical reform. The result has been a fall in support to 35% for each of the major parties (SPD and CDU/CSU), a rise in the fortunes of smaller parties and parliamentary stalemate. Polls indicate widespread disillusion, which in turn gives succour to extremist parties. Unless the electorate is galvanised by leadership or events into a more constructive mood, the present situation is likely to continue over the Grand Coalition's term in office.
Forecast for 2010	Either: Chancellor Merkel seizes an opportunity before 2009 to hold an election, forms a conservative coalition with the FDP and then embarks on a programme of more effective reform. Or: The Grand Coalition does survive its full term in office and the ensuing election result is very similar to that of 2005, resulting in a very similar administration.
Impact on BFG	BFG is seldom impacted directly by German politics although changes in laws have to be well publicised and observed. The long acceptance of British Forces being stationed in Germany should not have changed. Reduced numbers post FAS and BORONA might reduce profile.

THE ECONOMY

Towards the end of 2006 the German economy achieved a much healthier condition. The unemployment rate dropped to 9.6% with some 4 million people out of work (as at 30th November) plus the Chamber of Commerce (*Industrie und Handelskammer*) reporting 800,000 unfilled vacancies. GDP growth rate was up; 2.8% in December 2006 compared to 2.3% at the end of 2005. The German stock market index (DAX) recovered to almost record levels; up 17.8% over the course of the year. Tax revenues proved greater than predicted so, for the first time in 5 years, the German budget deficit met the EU Euro zone's criteria on new borrowing being no more than 3% of GDP. However structural weaknesses remain. Changes in the labour market have been wrought by individual companies driving hard bargains with local unions rather than Government reform. Export figures remain at record levels but home-based German companies face the threat of manufacturing (even hi-tech products) moving to eastern Europe and Asia. With few exceptions, the German banking system remains inefficient, unprofitable and therefore extremely risk-averse. Finally, the disparity in wealth between South West Germany and the North East has increased, with no inclination on the part of the wealthier *Länder* to come to the rescue of Berlin and the East.

Future Developments

Political	Improving economic figures could prove a mixed blessing for Germany's long term prosperity. A more benign climate will make radical reform an even more distant prospect. It will prop up Chancellor Merkel's Grand Coalition, prolonging the period of political stalemate without addressing the weaknesses within the German economy, which almost all national and international economists (not least the *Bundespräsident*) agree on. EU regulations on governance, competition, banking, service provision and tobacco advertising are likely to have a greater effect on the German economy over the next 3 years than Federal Legislation, with the notable exception of the increase in VAT to 19%. On the latter point, German exports will not be affected but German consumers will be and all forecasters indicate leaner times ahead.
Social	The term *Unterschicht* came into common parlance over the course of 2006. Some 8% of the population (6.5 million people) were reported as forming this "underclass", characterised by; poor or no qualifications, poor health, little or no mobility, low ambition and financial insecurity. Furthermore the misery was not evenly spread with a mere 4% of the population of western Germany living in poverty compared with 20% of those living in the eastern Länder. Ineffective and or slow reform of structural weaknesses over the next 3 years will not prove sufficient to address these glaring disparities in the face of fast change in eastern Europe and Asia.
Technical	In the quest to re-secure sustained competitive advantage, the German economy must meet the challenge of reforming itself quicker than global trends. More manufacturing is bound to move outside Germany. In order to create new sources of wealth (service sector, alternate energy sources, nuclear and bio-genetic technology), bureaucracy, labour law and practices have to change quickly. However, over the course of the 3 year period, there seems little likelihood that actually happening.
Forecast for 2010	There will have been neither grave economic crisis nor impressive restructuring; instead a mixed package of compromise which allows Germany to "muddle through". Leading German companies will remain world class but many more will have lost ground against foreign competition.
Impact on BFG	The BFG contribution to the local economy will remain valued. Reduction in troop numbers and DEL positions will have had some effect BFG's current, strong negotiating position when considering future contracts.

DEMOGRAPHICS AND SOCIAL INFRASTRUCTURE

As a nation, Germany is ageing with little prospect of change, other than over the long term and then most likely due to immigration rather than higher "German" birth rates. Pension ages have already changed upward for some age groups and private health insurance schemes for young (healthy) people are both inexpensive and popular, leaving the public *Krankekasse* with the less well off, old and infirm. The prospect of ever fewer young workers supporting ever more pensioners is bleak and remains unchanged. Initiatives to encourage private pension plans (especially in the under 30 bracket) have been moderately successful (take-up 18%). Earlier school starting ages and some shorter university courses have been introduced but will need many years to take effect. International comparative reports have been critical of the German education system.

Future Developments

Political	Economic necessity and EU expansion will force progress. German citizenship legislation, last changed in 1998, is bound to come under further pressure. The colour of local politics may change significantly, as an increasing number of EU citizens vote in communal elections (in the longer term, Turkey's eventual membership of the EU would provide a significant impact). Extreme right wing parties could further enhance their positions in local councils and state parliaments, should discontent prevail.
Economic	Germany will remain one of Europe's richest countries but comparative prosperity will not be as obvious as it was between 1975 and 1990. The enormous investment in infrastructure across all the eastern Länder seems likely to reap benefit only in specific hi-tech hotspots. *Auswanderung* (emigration)and *Entvölkerung* (depopulation) will remain major concerns. Unemployment rates and differences in standards of living will continue to exacerbate the East / West divide.
Social	Germany has to become a more multi-cultural and open society if the nation is to prosper. Conservative attitudes still advocate woman's place is *Kinder, Küche und Kirche* (children, kitchen and church). The State is right to demand *Ausländer* assimilation but will have to ensure resources are available to provide the necessary language and cultural training. Recognition of "home grown" fundamentalist Islamic terrorism and realisation that Germany is not immune from attack has hardened social attitudes.
Technical	The German labour market will change, although more slowly than the market would demand. EU competition regulations will remove protective practices, and in doing so, make "Brussels" less popular. Changes to pensions will prolong working lives but work has to be available if standards of living are to be preserved. Germany's over-long education system will continue to disadvantage bright young Germans competing against US, British and Asian peers in global firms.
Forecast for 2010	Ongoing discussion concerning every possible aspect of social change but without discernible effect. Little change to (self-damaging) German pessimism, not helped by the negative national attitude to most change processes.
Impact on BFG	The BFG population is, and will remain, young. In most BFG Stations male soldiers already account for some 18% of local youth between 18 and 23-years-old. Concentration of the BFG footprint into fewer Garrisons could cause that ratio to increase, leading to greater media interest in behaviour and military discipline within an ageing and conservative environment.

GERMANY’S ROLE IN EUROPE

Frau Merkel made her name in 2006 as the “Foreign Policy” Chancellor. In 2007 she will preside over both the EU and G8. Many German commentators foresee the opportunity of Germany assuming the leadership role in Europe, particularly if a more robust stance were to be adopted over Bundeswehr deployments. Against a background of a weakened US administration, a new British Prime Minister, Presidential elections in France and fragile governments in both Spain and Italy, Chancellor Merkel would appear to have the stage to herself. However, the challenges remain daunting; the future of Turkey’s EU membership bid, resurrection of the European Constitution, reform of EU subsidies and inclusion of Bulgaria and Rumania as new EU members. If Germany is to take up the leadership role in Europe effectively some hard facts about the EU have to be faced; whether the organisation is future orientated, whether it facilitates or hinders the development of new sources of wealth, whether spending 40% of the EU budget on agricultural subsidies can be tolerated further, particularly as Germany remains the largest net contributor to an archaic system.

Future Developments

Political	Chancellor Merkel will have little chance over a mere 6 months of EU Presidency to achieve her aim of successfully resurrecting the EU constitution but every chance of asserting leadership over the period to 2010. Her main competitors in meeting such an objective could prove to be home grown rather than international; fellow CDU/CSU *Ministerpräsidenten* each pursue regional goals for their *Länder* with representatives in Brussels. German opposition to Turkish EU membership was subsumed by an EU majority for the motion. As negotiations become more difficult, the Chancellor’s support or otherwise could prove crucial. Chancellor Merkel is very well placed to take the lead in EU relations with Russia. Her background, analytical style and knowledge of the language should confirm her position of trusted negotiator on behalf of both “old” and “new” EU members with the possible exception of the ever fractious Polish government.
Economic	EU legislation will become ever more intrusive, and probably unpopular, over the period to 2010 (e.g. governance, competition, banking, service provision, tobacco advertising and the “VW” law.) Germany’s postponement of free access for Polish, Czech and Hungarian workers to the home market will come to an end in 2007, possibly leading to a large influx of low cost service providers. Disgruntled *Länder* lobbyists in Brussels expressing dissatisfaction over the impact EU regulations on regional economies might hinder the Chancellor’s strategic aims
Technical	Germany will remain to the fore over EU voting rights, resurrecting the EU constitution, future membership, and the fight against international terrorism (also crime). New member states have changed Germany’s geographical position within the EU and its sphere of influence. They have also changed the way the European Commission has to do business. Franco-German dominance in the EU is no longer effective; Germany will no doubt strive for more assertive leadership and seek alliances to influence EU policy.
Forecast for 2010	Germany will have achieved a higher profile within a larger but possibly more fractious EU. A female Chancellor and a female President will have had an interesting effect on Franco-German relations whilst a cautious, more insular British Prime Minister could cool the Anglo-German partnership. Relations between the EU and USA will have improved with the new President and administration but the EU’s (and Germany’s in particular) contribution to international peace-keeping and reconstruction will still be subject to criticism.
Impact on BFG	No direct impact on BFG.

THE BUNDESWEHR	
The Bundeswehr is nearing the end of its "transformation" towards becoming an effective expeditionary force. By 2010 the Bundeswehr will have reduced in overall strength to c.250,000 organised into; 35,000 intervention troops with a war-fighting capability, 70,000 troops for stabilisation tasks and some 145,000 troops in supporting roles. Conscription is to be continued, albeit with a lower numbers and changed selection criteria. However, the Bundeswehr's military capability has to be complimented by political will. Refusal to deploy troops on hazardous operations has affected Germany's international profile. Over the course of the next 3 years that position is likely to change although probably not as much as NATO partners would wish.	
Future Developments	
Political	The Federal Government will slowly adopt a more robust stance over Bundeswehr operational deployments. Starting with the allocation of a greater number of assets to ISAF command in Afghanistan, Bundeswehr units will make a more valuable contribution to coalition operations. Initially that contribution will be limited to the provision of rare, niche assets such as SIGINT and LUNA drones in combat zones but is likely to increase over time and under continued international pressure.
Economic	German defence spending is likely to remain constrained to around 1% of GDP, considerably less than many NATO partners would prefer. Extensive operational deployments could put that budget under considerable strain, with consequent impact on procurement programmes.
Social	Conscription will have remained in place over the period to 2010, despite a decreasing draft and many exceptions. Continued high unemployment rates will have eased recruiting over the period although more hazardous engagements abroad will cause considerable concern.
Technical	Much Bundeswehr equipment will be replaced over the period, producing lighter, more mobile forces. The Bundeswehr's sphere of influence in Europe will also increase. Common equipment and shared NATO Corps Commands already make for tight, even subordinate relationships between German, Dutch, Danish, Polish and Greek forces. Increasing operational experience, generational change and access to "state of the art" USAREUR training facilities at Grafenwöhr and Hohenfels, complimenting facilities on the Altmark Training Area, should enhance the Bundeswehr's effectiveness and influence.
Forecast for 2010	Most new equipment programmes will well into their procurement cycles but the Defence budget will remain very tight. Conscription will be retained despite the low numbers involved. Forces will have been re-structured and the Bundeswehr's overall effectiveness greatly improved.
Impact on BFG	1(UK) Armd Div's partnership with 1.Pz. Div will have provided the opportunity of further developing relations at unit level. Improved Bundeswehr training areas in the eastern *Länder* are likely to give BFG units new training opportunities, albeit with a price tag attached. With the emergence of a more expeditionary force attitude within the Bundeswehr, training opportunities on an Army to Army basis could increase.

BFG TRAINING OPPORTUNITIES IN GERMANY	
Training infrastructure in or from Germany for armoured forces is of the highest quality. Armoured manoeuvre is confined to training areas but access to them, whether British, NATO, US or Bundeswehr, is easier than from the United Kingdom. LWCTG(G) expertise and investment has ensured best use is made of training opportunities, in line with operational demands. The ability to train outside permanent training areas has been retained. Road and rail deployment to Polish, Czech and other eastern European facilities has become routine.	
Future Developments	
Political	Host Nation support to all BFG training and operational deployments should remain co-operative. German sensitivities over Iraq will have all but disappeared and Bundeswehr engagement alongside an enhanced British presence in Afghanistan should serve to deepen mutual understanding and contacts. EU FFH regulations will have to be interpreted and implemented with care(within proposed Land Management Plans or LMPs), in order that training is not disadvantaged.
Economic	A large proportion of the BFG training budget is spent in Germany and involves a substantial number of LEC posts. Despite some improvements, employment opportunities in Germany will remain very competitive. BFG spending and associated jobs will therefore remain welcome and valued.
Social	German reticence over most military matters is unlikely to change. BFG training away from normal garrison areas will continu to require careful preparation, inevitably some compromise and thorough post exercise action. The “Editors Abroad Scheme” will remain enormously valuable in presenting readers with the case for effective BFG training. BFG’s record of estate management and care for the environment will continue to earn respect.
Technical	Medium forces will enjoy greater flexibility in training opportunities than armoured units. Reduced range training ammunition will allow for enhanced use of available ranges. Improving simulator technology will further reduce the impact of BFG training on German communities.
Forecast for 2010	Internal financial restrictions are likely to be a greater cause for concern over BFG training than any Host Nation initiative or change in regulations. Reduction in the BFG’s “footprint”, where movement of armour is concerned, will be welcomed by some local communities.
Impact on BFG	Well prepared and sensitively managed BFG training, both on and off PTAs will retain official and local support. Including Bundeswehr units or individuals on BFG exercises can allay FMOD concerns and brings additional benefits. The detail and timeliness of BFG staff work, in relation to requests for Host Nation Support should have improved.