

## Joint statement

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# Main Takeaways from the Five Memos to the French and German Leaders

Xavier Jaravel, Jean Pisani-Ferry, Monika Schnitzer, and Jakob von Weizsäcker

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**T**o inform the Franco-German Council of Ministers on 29 August 2025, five short action-oriented policy memos have been prepared at the request of the French and German governments, by independent economists of both countries.

Europe finds itself at a critical juncture. The war in Ukraine, the advent of a new US administration, the risk of being left out in a new geoeconomic context, and lacklustre productivity growth call for strong Franco-German leadership. But the window for action is narrow: by Summer 2026, France will be too focused on the 2027 presidential election for significant plans to be considered. The time for action is now.

To this end, the five memos presented here provide analytical and strategic input to key questions and challenges. They also provide a medium-term roadmap to guide future Franco-German discussions.

Each memo has been prepared by German and French academics chosen for the depth of their expertise and for their diversity of views. While most memos have been discussed with colleagues and senior officials from both countries, they represent the views of their authors only.

## Highlights of the five memos

### Defence:

The Defence memo starts from the observation that Europe is facing a fundamentally changed security landscape driven by Russia's aggressive war and a decline in confidence in transatlantic security guarantees. The war in Ukraine has shown that Europe needs to invest both in low-tech equipment (to increase its capacity to wage an attrition war) and in R&D-intensive innovation (to overcome its technological backwardness).

At present, Europe's defence procurement is fragmented along national lines. This represents a major drag on public finances and on Europe's ability to innovate. Hence, this dual strategy can only be implemented successfully if the current fragmentation is overcome and public procurement becomes more flexible and open for innovation. For a start, moonshot projects in the fields of AI, autonomous systems, space, hypersonic weapon systems, and strategic enablers ought to be launched jointly to overcome blatant weaknesses and dependencies. They will generate significant spillovers onto the wider economic system. These moonshot projects will also be instrumental in establishing a single market for most military equipments (which up to now does not exist and would complement current national defence procurement strategies) and to pioneer the common ownership of key defence assets, possibly financed by the issuance of joint debt.

Finally, France and Germany should establish a joint Research Centre for Defence Economics that will produce policy-relevant research and provide research-based policy advice. Participation in this Centre should be open to all European countries willing to fund it, including the UK.

### Energy

While there is broad agreement between France and Germany on the overall aims that should be pursued, the policies actually in place suffer from a blatant lack of coordination, and involve the risk of putting the two countries on a collision course. To avoid such developments, the memo advocates:

- Experimenting with joint procurement auctions for renewables and firm capacity.
- Creating a bilateral energy council that would comprise the two governments and the five systems operators, whose task would be to agree on practical steps for greater cohesion.
- Developing a joint energy research programme that would trigger innovation and favour a quicker

scaling of key technologies, thereby reducing costs and hedging technology risks.

The memo also proposes that the two countries develop joint strategies for both external and internal climate policies, the ramp-up of hydrogen, and the coordination of energy and defence strategies.

### Productivity and Growth

Against the backdrop of the challenging geopolitical environment and of the Draghi report (which documented how Europe's productivity lags behind both the US and China, in particular in the tech sector), this memo proposes an eight-point Franco-German action plan, complementing a swift implementation of the EU competitiveness agenda. Among others, it calls for launching four specific joint initiatives:

- Strengthening European innovation instruments by creating Franco-German equivalents of (D)ARPA, to reach critical mass for kick-starting break-through innovation, with multi-year funding cycles, fast-track application processes, and mission-specific calls for proposals.
- A Franco-German AI Compute Campus established by 2027 that would help close the AI investment gap with the US and China, with more than 100k GPUs or equivalent technologies, powered by renewable energy.
- A Franco-German AI Security Institute to address one of Europe's most glaring vulnerabilities from state and private actors in this digital age.
- A Franco-German "democratizing innovation" fund for broad-based innovation that taps the enormous yet underused potential for future inventors, entrepreneurs and scientists currently held back by parental income, gender or geography.

In addition, the memo advocates supporting enabling conditions for innovation-driven growth, including by creating a capital market union that works for rapidly growing tech companies and by establishing a "28th regime" that would allow such companies to rely on a uniform legal regulatory and environment across all 27 member states.

### Labour markets

The labour markets memo starts from the observation that many Europeans would work more if institutional and financial incentives were improved, which would lead to a significant increase in well-being, GDP, and tax revenues. While recommendations are tailored to country-specific situations, there are four key target groups for which

policy action is desirable in both countries: the young, the seniors, women, and the low-skilled.

In France, youth integration requires a further, but better targeted expansion of apprenticeship programs, while Germany could especially gain from improved career guidance, modular training and better labor integration of recent migrants, including the recognition of foreign qualifications. Second, better labour market participation in ageing societies requires facilitating job transitions, linking statutory retirement ages to life expectancy while limiting early retirement schemes, and calculating pensions for longer or shorter working lives in an actuarially fair manner. Third, female labour market participation should be facilitated through general childcare reforms and better tax treatment for secondary earners, especially in Germany. To improve participation of low-skilled workers, investment in early education and training targeted at this group should be strengthened. In addition, social benefits need to be fully integrated and transparent across all aspects of the welfare state, especially in Germany, thus avoiding transfer incentive traps.

### Trade with China

The memo on trade with China cautions that Europe should maintain openness to trade and investment but should handle it more strategically in view of mounting geopolitical tensions. The authors provide a taxonomy of policy responses:

- There needs to be a systematic safeguarding of security-sensitive sectors such as defence, space, and robotics, including the underlying industrial supply

chains (batteries, electronics, etc.) by building independent capacities.

- By contrast, mature, non-strategic industries should not be protected, so that consumers and value chains benefit from low-cost Chinese imports.
- In technologically crucial sectors where Europe has fallen behind, such as batteries, foreign direct investment of Chinese companies in Europe, coupled with technology transfer, ought to be encouraged.

Europe's competitive industrial sectors would significantly benefit from improvements in general business conditions, capital market integration, and joint programmes for faster innovation. Finally, Europe is to reduce dependencies on Chinese controlled raw materials via diversification, substitutions (including via technical innovation), and strategic stockpiling.

The key macroeconomic challenge is the rebalancing of the Chinese economy, a reduction in savings and an increase in consumption. While Europe has limited leverage over China, it should press to accelerate its macro rebalancing.