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POINT OF VIEW

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YES TO LINKS, NO TO RAPPROCHEMENT

Anna Kwiatkowska-Drożdż

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INTRODUCTION

Since the 1970s all the political forces in Germany have treated Russia as a key economic and political partner for both itself and also the whole of Western Europe. There was a breakthrough with German reunification in 1990s which was interpreted both in Berlin and in Moscow as laying the foundations for a "strategic partnership". The expectation was that a reinforcement of the mutual economic and political links between the two countries would lead to synergies. German business would gain access to the Russian market, and the country would have special political relations making it a go-between for Russia and the European Community enabling it to help ensure stability and security in Europe, and especially in the post-Soviet area. Russia's voice was to be taken into account in debates on the future of Europe, and Germany's voice would be heard in discussions concerning Russia's political and economic reforms.

Recently, however, the German media have been correctly describing the atmosphere between the Chancellor's Office and the Kremlin as the chilliest in years. Various factors have laid bare the fact that the strategic partnership between Germany and Russia is at best currently undergoing a 'technical pause': the underwhelming outcomes of the German-Russian intergovernmental consultations in the autumn of 2012 and of Chancellor Merkel's meeting with President Putin during the Hanover fair in the spring of 2013, as well as the way in which the EU dealt with the Cyprus debt issue and, finally, the support that Germany has extended to the anti-presidential protests in Ukraine. Presumably, however, it would be more correct to ask if, perhaps, Germany is about to undertake a deeper revision of the political and ideological foundations on which German-Russian relations have so far been based. In all spheres of mutual relations, Germany is no longer willing to keep accepting the "take-or-pay" principle and is starting to demand much more from Russia.

Germany's current critical debate on Russia and its government is unprecedented for numerous reasons, including the fact that this time the German media, which has always been more sceptical about Russia, has been joined by many experts and politicians, including from the highest levels of government. The critical and realistic assessments of the directions of Russia's political and economic development under Vladimir Putin's rule have coincided in Germany with complaints about the shortages of research and education on Russia and the resulting erosion of expert knowledge on Russia available in Germany.[1] Meanwhile, the priorities of Germany's foreign and economic policy have changed considerably, not only as a result of the eurozone crisis, but also, even more importantly, because the attention of German business and politics has been shifting to the so-called *neue Gestaltungsmächte*, or new regional powers. German politicians increasingly believe that Russia should not be offered new methods or mechanisms of co-operation. Firstly, because the existing ones have not been fully utilised, and secondly, because Germany at this stage seems to have no idea of what the long-term strategy of co-operation with Putin's Russia should be. Consequently, the most frequent answer to questions about a new concept of Germany's policy towards Russia is *"abwarten"*, or "wait and see". However, waiting for a change of leadership, and also a change in Russia's internal policy that could lead to democratisation and the development of the middle class as a vector of social change and economic transformation will require a lot of patience. Moreover, Germany's hope that such a transformation, once it happens, will also produce a change in Russia's foreign policy, may never materialise given the consensus prevailing in Russia, including among Putin's critics, that the objective of Russia's foreign policy should be to restore the country to its position as a global power.

[1] For more information, see: M. Sapper, Niedergang und Neuanfang. Die Krise der deutschen Russlandexpertise, *Osteuropa*, 6-8/2012.

Another factor that has been undermining the idea of strategic German-Russian relations concerns the conviction which has been held by the Russian elite since the eurozone crisis, that the European Union, seen as a principally German project, is unattractive and weak. This perception has bolstered the Russian elite's belief that Europe needs Russia more than Russia needs Europe. In the meantime, Vladimir Putin has been promoting the creation of the Eurasian Union while making no secret of the fact that the organisation is meant to serve as a counterbalance to the European Union and a way for Russia to retain its "sphere of influence", especially in the post-Soviet area.

The present paper presents the causes and the structure of the change in Germany's approach to Russia. It is not a detailed or exhaustive analysis of the German-Russian relations over the last twenty years, but rather an overview and assessment of the main trends in the development of the two countries' co-operation. It also offers some predictions about the future dynamics of relations from the German point of view.

SUMMARY

1. German perceptions of the policies pursued by the Russian leadership have changed considerably in recent years. The critical and realistic attitude towards Russia, which until recently had been limited to the German media and some experts, is now increasingly shared by ever wider swathes of the public[2] and the intellectual elite. In this situation, the political elite, too, has discovered that it can afford more openness and a change of tone in relations with representatives of the Russian leadership. Germany's Christian Democrats in particular have been critical of Russia, but – while opinions on Russia are still divided – the divisions run not so much along party lines as within all of the major political forces in Germany.

2. The perceptions of Russia have changed not only because of developments there (including Vladimir Putin's return to power and his increasingly aggressive policy aimed at rebuilding Russia's position as a global power, restoring its sphere of influence, and suppressing any civil society activity) but also because Germany's politics changed course as the country's attention shifted to the new regional powers and Berlin became interested in establishing close political and economic co-operation with those countries (in particular China), developing special strategies for them or starting resource partnerships.

3. In this new context, Russia's relative importance has been diminishing; the country remains important for German business and politics, but it is no longer Germany's only important area of interest or the only major co-operation partner aside from the EU and the US. Russia's power has been increasingly

[2] See: http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-539C3372-693DB141/bst/xcms_bst_dms_38167_38168_2.pdf; http://www.pewglobal.org/2013/09/03/global-opinion-of-russia-mixed/

defined in terms of its potential for destruction, rather than its attitude towards partnership. On matters such as the reduction of nuclear weapons stockpiles, the veto rights of the UN Security Council, or the resolution of international conflicts in the Middle East, Eastern Europe or the Caucasus, Russia has increasingly often turned out to be an unconstructive partner or a partner of diminishing importance (e.g. as a result of the withdrawal of NATO troops from Afghanistan). Still, none of the political parties in Germany sees Russia as a military threat to Europe. Unable to treat Putin as a reliable partner for wider co-operation in the areas of foreign and security policy, and confronted with the fact that Germany currently lacks the concept of a broader strategy towards Russia, Berlin has lately tended to adopt a wait-and-see attitude. This does not mean that it has been unwilling to seek compromises, but it will not seek them at any cost.

4. Russia remains an important economic partner for Germany but in future, following the fiasco of the Partnership for Modernisation, mainly large German corporations will continue to benefit from this. Meanwhile the *Energiewende*, i.e. Germany's energy transformation aimed at achieving energy self-sufficiency, may reduce Germany's dependence on supplies of energy resources, including oil and gas from Russia. The energy revolution in the United States, brought on by shale gas production and the resulting oversupply of gas, will also help Germany gain energy independence. Finally, the free trade agreement currently being negotiated between the EU and the United States (the Transatlantic Trade and Investment Partnership, or TTIP) may have similar, positive consequences for Germany.

5. Russia will undoubtedly remain a very important partner for Germany but over time Germany's bargaining position in shaping its co-operation with Russia will gain strength. This process is in line with Germany's diplomacy's strategy towards Russia.

I. FROM STRATEGIC PARTNERSHIP TO NO IDEA HOW TO DEAL WITH RUSSIA

The Russian-German relations have been commonly regarded as special at least since the times of Willy Brandt's *Ostpolitik*.[3] **The process of Germany's reunification, which Mikhail Gorbachev approved of, further reinforced this perception. However, it was during Chancellor Gerhard Schröder's term in office (1998–2005) that the two countries developed particularly close relations. The exceptional nature of those relations went further than long-standing and ever closer economic co-operation, which was best exemplified by the decision to build the Nord Stream pipeline, made during this period and based on economic as well as political considerations. There was also the spectacular „exceptional man to man friendship" between Putin and Schröder, manifested by the two leaders at every opportunity. Frank-Walter Steinmeier, one of Schröder's closest associates and the minister of foreign affairs in Angela Merkel's first government (2005–2009), sought to continue the policy of strategic partnership with Russia. Despite his efforts, however, relations with Russia became increasingly complicated and it was becoming ever more difficult to believe that they were strategic in nature. The re-appointment of Steinmeier as the chief of Germany's diplomacy in the new Grand Coalition government in 2013 will probably bring about no major breakthroughs.**

The 2008 war in Georgia, the fiasco of the Partnership for Modernisation, and especially Putin's return to the post of president of the Russian Federation in 2012 hastened the change of perceptions of Russia in Germany, not only among the wider public, but also among experts and politicians. Chancellor Angela Merkel's reserved attitude towards Vladimir Putin, in both his roles as prime minister and

[3] If only the most recent history is taken into account.

president, was also conducive to this change. As a result, the existence of a set of contentious issues that had remained unresolved for years, such as the visa regime, the restitution of cultural assets, or human rights violations in Russia, started to be raised with greater frequency and openness. There was growing frustration with Russia's unwillingness to cooperate, its aggressive treatment of the opposition and the unpredictability of its leadership, and Germany stopped putting forward any new initiatives, either in its bilateral relations with Russia or in the European Union's policy towards the country. While the proposals concerning Germany's foreign policy, put forward in the CDU/CSU-SPD coalition agreement in November 2013, do point to an urgent need to develop a strategy on Russia, German politicians have not as yet come up with any concrete suggestions.

The concept of a strategic partnership between Russia and Germany was first proposed during the two countries' intergovernmental consultations in Berlin in 2000. It provided that the partnership would be based primarily on intensive economic cooperation and an extensive structure of institutionalised political co-operation. The original concept also envisaged a social dimension, i.e. the development of close people-to-people contacts. However, due to Russia's heavy bureaucracy and its system of "sovereign democracy"[4] the social dimension never fully materialised.[5]

[4] The term was created by Vladislav Surkov, see: http://labuszewska.blog.onet.pl/2013/05/08/koniec-suwerennej-demokracji/

[5] However, nearly 40 branches of the Goethe Institute are operating in Russia, all German political foundations are present there, and many Russian-German partnerships between cities, universities, etc. have been concluded. These activities can be seen as positivistic "work at the foundations", which will certainly bear fruit in the longer term.
In the political dimension, the so-called Petersburg Dialogue was also an element of institutional co-operation – while it formally met the criteria of dialogue between social organisations, only government-designated organisations were allowed to take part on the Russian side, meaning that the dialogue did not contribute in any way to the development of civil society in Russia. Its wasted potential, conservative character and the controver-

At the onset of the present century, the two countries perceived close mutual co-operation as an opportunity to boost their international standing, especially in opposition to the United States.[6] Russia sought to bolster its aspirations to be a global power, and wanted to have an advocate – and also a key partner – in the EU. Meanwhile Germany was going through the process of "gaining independence" from the United States, and was demonstrating unprecedented assertiveness in trans-Atlantic relations.[7] The rapprochement between Russia and Germany was facilitated both by the personal friendship between Putin and Schröder and by the attachment of the entire German political class to Chancellor Willy Brandt's concept of "change through rapprochement" and its later variation developed by Steinmeier, i.e. "rapprochement through mutual ties".

Economic co-operation, which the German government supported both politically and through loan guarantees, played the greatest role in building those mutual bonds. It was characterised by a deep asymmetry in favour of Germany and a heavy focus on the energy sector,[8] motivated by the deeply held conviction on both sides that Russia and Germany were mutually dependent in terms

sial selection of participants from both countries soon attracted criticism in Russia and especially in Germany.

6 The Russians are still using this rhetoric. See: the article by Vladimir Yakunin, the Russian politician and diplomat and close aide of Vladimir Putin, titled Von Lissabon bis Wladiwostok. Europa und Russland könnten gemeinsam zur Supermacht werden, stark wie USA und China. Vorurteile verhindern das, *Süddeutsche Zeitung*, 10.07.2013.

7 For more information on the attempts at building a Russia-Germany-France axis see: Adam Szymański, Ernest Wyciszkiewicz, Spotkania Putin–Schröder–Chirac – znaczenie i perspektywy (The Putin–Schröder–Chirac meetings: importance and prospects), http://www.pism.pl/index/?id=2a9d121cd9c3a1832bb6d2cc6bd7a8a7

8 Cf.: Iwona Wiśniewska, Współpraca gospodarcza Rosja–Niemcy (Russian-German economic co-operation), in: OSW and CSM report: Stosunki Rosja–Niemcy w latach 1998–2005 (Russian-German relations between 1998 and 2005), Warsaw 2006.

of energy since more than 40% of German gas imports and more than 30% of its oil imports came from Russia.

The special treatment of Russia by German politicians mainly involved: (1) developing economic and political links with the Russian Federation[9] with a view to engendering a change of standards in Russian politics and business; (2) exceptional tolerance and understanding for "Russia's difficult situation on its road to modernisation and democratisation"; and (3) the recognition that Russia had to be part of European and global security policy arrangements.

The practical expressions of Germany's policy towards the Russian Federation included the so-called *neue Ostpolitik* **concept developed by the German Ministry of Foreign Affairs in 2006** (launched during the German presidency of the EU Council in the first half of 2007), **the 2008 Partnership for Modernisation initiative,** and numerous cases of **military co-operation** between the two states, as well as **Germany's opposition to the deployment of a missile shield** in Central Europe.[10]

[9] The governments of the two countries also sought to develop institutional co-operation based primarily on annual intergovernmental consultations and the operation of numerous working groups tasked with solving specific problems in their respective fields such as for instance justice and home affairs. A great role in lobbying for close German-Russian co-operation has been played and continues to be played by the Committee on Eastern European Economic Relations (Ost-Ausschuss), which is an influential association of German companies investing in Eastern Europe. In its analyses, meetings and press conference, the committee presents Russia as an exceptionally attractive investment and export market with immense development potential. On 11 July 2013 the committee's president Eckhard Cordes during a press conference appealed to the German government for a "new policy towards Russia" and called for the results of a study commissioned by Ost-Ausschuss to be presented. The study discussed the concerns entrepreneurs have about the deteriorating climate of German-Russian relations.

[10] See: Germany in NATO's missile defence system, http://www.osw.waw.pl/en/publikacje/analyses/2012-02-08/germany-natos-missile-defence-system

Steinmeier's concept of *neue Ostpolitik* (new Eastern policy) was addressed to the European Union's neighbours to the east and, more broadly, Europe, and was founded on three equally important pillars that formed a comprehensive whole: strengthening relations with Russia, a policy towards the countries of Eastern Europe and the South Caucasus (the European Neighbourhood Policy Plus), and a strategy towards Central Asia. The German Ministry of Foreign Affairs expected the three pillars to be complementary and to produce synergies, based on the **crucial assumption that without Russia, it would not be possible to solve any of the EU's important international policy problems, especially in Eastern Europe and the Caucasus, i.e. in the EU's "near neighbourhood".** In reality, then, the entire initiative was focused on maintaining good relations with Russia, which automatically nudged greater involvement in the post-Soviet area down the agenda. The *neue Ostpolitik* concept could not be implemented fully during the German presidency.[11] In the period in question relations between the European Union and Russia deteriorated as a result of a number of issues, including problems in energy co-operation (such as the impasse in the Energy Charter negotiations),[12] the conflict

[11] On the other hand, the European Neighbourhood Policy Plus was partly implemented. It envisaged closer co-operation between the EU on the one hand, and the countries of Eastern Europe and the South Caucasus on the other, and a strengthening of the eastern dimension of the European Neighbourhood Policy (ENP). The objective was to ensure security and stabilise the situation of the EU's eastern neighbours by supporting democratisation and economic reform in the countries covered by so called ENP Plus (Ukraine, Moldova, Georgia, Armenia and Azerbaijan, as well as Belarus subject to its compliance with certain conditions). The countries were expected to strive for EU standards by adopting the *acquis communautaire*, concluding bilateral and regional sectoral agreements in areas of particular interest for the EU and its neighbours (including energy, communication and transport, environmental protection, migration). The policy also envisaged additional funding and "institutional participation", i.e. the participation of partners, as observers, in the EU decision making processes, and institutional political dialogue in specific areas). With regard to promoting regional co-operation, the German Foreign Ministry's document identified co-operation in the Black Sea region as a priority.

[12] See the interview with Andris Piebalgs, the EU commissioner for energy

over the Russian embargo on Polish meat, and the treatment of the Russian minority in the Baltic states and the cyber-attack on Estonia.[13] Other reasons included the unresolved controversies among EU member states over the imbalance between economic co-operation (including on energy) under the new Eastern policy and the promotion of democracy and policies based on shared values. Even within the federal government, Angela Merkel's Chancellor's Office remained sceptical about the idea proposed by the Ministry of Foreign Affairs led by her Social Democratic coalition partner.

From today's perspective, the *neue Ostpolitik* has failed to live up to expectations, but its basic tenets are still worthy of attention because they demonstrate the long-term nature and timelessness of Germany's approach to the eastern neighbourhood, including Russia.[14]

Firstly, most of the proposals of *neue Ostpolitik* that aimed at strengthening co-operation envisaged long-term measures.

Secondly, it made the assumption that deeper economic and energy co-operation should play a special role and that bilateral projects should take precedence over multilateral undertakings so that the German taxpayer's money was spent on ventures that benefited Germany.

policy, http://www.archiwum.wyborcza.pl/Archiwum/1,0,4874742,20070518RPDGW,CHCIALBYM_WIERZYC_ROSJANOM,.html;
http://biznes.interia.pl/wiadomosci/news/trudny-szczyt-ue-rosja-w-samarze,911642,4199

13 For more information on the subject, see: M. Słowikowski, Stosunki unijno-rosyjskie w okresie niemieckiej prezydencji (EU-Russia relations during the German presidency), Analizy natolińskie (Natolin Analyses) Issue 6 (19), 2007; http://www.natolin.edu.pl/pdf/analizy/Natolin_Analiza_6_2007.pdf

14 For more information see: Germany and the Eastern Partnership, http://www.osw.waw.pl/en/publikacje/osw-commentary/2010-06-18/germany-and-eastern-partnership

Thirdly, it was felt that deeper co-operation with the countries of Eastern Europe and the South Caucasus should not be conflated with a pre-accession process aimed at membership in the EU, but should rather be understood as something offered "instead of future membership in the EU", and should involve mainly deeper economic relations and a harmonisation of legislation.

The Partnership for Modernisation project, put forward in May 2008, was addressed directly to Russia. It reflected the great hopes that the German political class had vested in Dmitry Medvedev and his pledge to liberalise the economy and modernise the state.[15] From Germany's point of view, the Partnership formalised a long-term project aimed at safeguarding access to the Russian market, and especially the segments of services, climate protection (energy efficiency) and healthcare (medical technology) for Germany's small and medium-sized businesses. Economic co-operation in the energy sector (extraction, processing and transmission) was expected to generate benefits for both sides (access to the Russian oil and gas deposits), and the training offered to Russian lawyers and officials was intended to improve the operation of Russia's public administration and promote Western standards (also by combatting corruption). However, the Russian side was only interested in transfers of German technologies and – somewhat surprisingly for the German strategists – in entering the German market, i.e. in actually investing in German companies.[16] The Russians unsuccessfully attempted to take over Opel (they hit firm opposition from the United States), and their efforts to take over Infineon (a producer of software, including data encryption software) also failed.

[15] See: http://www.osw.waw.pl/pl/publikacje/best/2010-03-31/bundestag-i-rzad-rfn-zaciesnienie-wspolpracy-z-rosja

[16] See: http://www.osw.waw.pl/pl/publikacje/tydzien-na-wschodzie/2009-06-03/opel-w-rosyjskich-rekach; http://www.osw.waw.pl/pl/publikacje/tydzien-na-wschodzie/2010-03-03/rosjanie-wspieraja-wschodnioniemieckie-stocznie

In 2010 the Partnership for Modernisation became an EU-Russia project, but that did not improve its dynamics or infuse it with new content. The proposal has attracted little enthusiasm from Russian business and political circles, and media interest in it has been and remains very limited.[17] That is because the Kremlin does not want to see Western democratic standards implemented in the Russian Federation and is not interested in strengthening democratic state institutions. At the same time, however, Russian politicians are always interested in transfers of EU funds for economic or research projects in selected fields, and will continue to give the green light to partnership understood in this way.

The fiasco of the Partnership for Modernisation has also been noted by German politicians and experts, and even by representatives of German business.[18] Nonetheless, the coalition agreement of the new government, the third one to be led by Chancellor Angela Merkel, once again includes a provision on supporting and expanding the Partnership for Modernisation concept, which is certainly a gesture to the SPD and the new foreign minister, Frank-Walter Steinmeier, as the author of this idea. In the absence of any other strategy, Steinmeier will presumably pay a lot of attention to filling this co-operation formula with new content, but it remains to be seen what that content will be.

The efforts to develop closer German (EU) – Russian co-operation in the area of security have also failed. Presenting itself as Russia's advocate in the EU, in June 2008, just several days after

[17] For more information on the Russian vision see: M. Menkiszak, Greater Europe. Putin's Vision of the European (Dis)integration, OSW Studies Issue 46, Warsaw 2014; http://www.osw.waw.pl/en/publikacje/osw-studies/2013-10-14/greater-europe-putins-vision-european-dis-integration

[18] See: http://www.swp-berlin.org/de/publikationen/kurz-gesagt/die-deutsch-russische-modernisierungspartnerschaft-skepsis-angebracht.html
See: http://www.cducsu.de/Titel__sorge_um_modernisierungspartnerschaft_mit_russland/TabID__6/SubTabID__7/InhaltTypID__1/InhaltID__25183/inhalte.aspx
See: http://www.gruene-bundestag.de/?id=4385032

the EU-Russia summit, Germany came up with a new German-Russian project, the so-called Meseberg initiative, aimed at establishing a ministerial-level EU-Russia committee for political and security affairs and chaired by the Russian minister for foreign affairs and the EU High Representative for Foreign and Security Policy. The committee was supposed to work on developing rules for the management of civilian or military crises and put forward, in appropriate multilateral forums, joint EU-Russian proposals to resolve civilian and military conflicts and crises.[19] The committee's first assignment was to resolve the Transnistria conflict within the existing 5+2 format of negotiations.[20] Germany's partners in the EU, however, showed little understanding for the proposal and in some cases were outraged by Germany's unilateral conduct in this case and the lack of consultation. The ultimate failure of the initiative, however, was primarily due to the fact that Russia was not interested in solving the Transnistrian conflict in a way that could lead to the entire Moldova becoming independent of Russia.

Meanwhile, German arms companies became involved in the modernisation of the Russian army, seeing this as an opportunity to boost the sales of their products[21]. According to the Joint

[19] See: http://www.robert-schuman.eu/en/doc/actualites/genshagener-papiere-2011-7-eng.pdf

[20] See: Germany and Russia discuss security issues, http://www.osw.waw.pl/en/publikacje/analyses/2010-06-09/germany-and-russia-discuss-security-issues; Russia's superficial concession on Transnistria, http://www.osw.waw.pl/en/publikacje/analyses/2011-04-06/russias-superficial-concession-transnistria

[21] Germany is actively involved in the modernisation of the Russian army, preparing and carrying out a project to establish a state-of-the-art training facility for the Russian Land Forces – the Combat Training Centre near Mulino, Russia. The Bundeswehr also receives support from Russia, e.g. it is receiving assistance from the Russian Aerospace Defence Forces in the development of its orbital satellite constellation. Russia has also allowed the transit of German troops headed for Afghanistan via its territory. Cf.: Andrzej Wilk, Współpraca wojskowa Rosji i Niemiec (The Russian-German military co-operation), in: OSW and CSM report: Stosunki Rosja–Niemcy w latach 1998-2005 (Russian-German relations between 1998 and 2005), Warsaw 2006.

Conference Church and Development (GKKE), which prepares annual reports on German arms and military equipment exports, in 2010 the volume of German arms sales to Russia was not very high at € 144 million, out of the € 5.4 billion of total arms exports.[22] The establishment of a new-generation combat training centre in Mulino near Moscow is another illustration of the ambitions of German companies. Created by Russia in co-operation with Germany (Rheinmetall Defence is the company in charge of its implementation), the centre will offer comprehensive training, both on 3D simulators and in firing-range conditions, for a developed tactical unit (brigade), including a training battle between two brigades. As the first facility of this kind in Russia (only a handful of Western armies have access to similar training facilities), the centre will considerably change the nature and manner in which the Russian army trains its land units and the air force and airborne units co-operating with the land forces.[23]

After the 2008 war in Georgia, a widening gap emerged between Germany's political narrative on Russia and the perceptions prevalent in German business circles regarding Russia. While economic relations continued to develop well, the change in the view of Russia was significant and affected ever-wider swathes of public opinion and the political scene. While the aim remained, in principle, to maintain dialogue with Russia and build up all sorts of ties with the country, the German political elite clearly lost faith in the Russian leadership as a reliable and predictable partner, especially in the security sphere. Over time the idea that Russia's power should be measured in terms of its potential for destruction, rather than Moscow's willingness to co-operate constructively became the dominant opinion. The

[22] See: The Ministry of Defence is supporting German arms manufacturers abroad, http://www.osw.waw.pl/en/publikacje/analyses/2011-09-21/ministry-defence-supporting-german-arms-manufacturers-abroad

[23] Cf.: France and Germany are establishing a closer military co-operation with Russia, http://www.osw.waw.pl/en/publikacje/analyses/2011-06-29/france-and-germany-are-establishing-a-closer-military-co-operation

"destructiveness" of Russia's power became ever more evident and there was growing disillusionment with the policies of President Dmitry Medvedev who the Germans had hoped would bring about more liberalisation and democratisation, and would open Russia up to the West. Those negative perceptions were borne out by successive steps taken by Russia's political leadership, including the stance taken by Russia on matters ranging from the conflict over Iran's nuclear programme to the Syrian civil war, and, in the internal dimension, Putin's third term as president and his increasingly repressive domestic policy, including the Pussy Riot conviction or the Magnitsky case.

Emboldened by the increasingly harsh reactions of German public opinion, including the media and experts,[24] to developments in Russia, German politicians started to express their objections to the direction taken by Russia ever more vocally.

The breakthrough came with the Bundestag resolution on co-operation with Russia, proposed by Andreas Schockenhoff, a CDU deputy and the German government's plenipotentiary for German-Russian social contacts, and adopted ahead of the most recent German-Russian consultations in 2012. The resolution revealed how the German political scene was divided on Russia. Interestingly, the split did not run along party lines, but rather within the political forces.[25] Schockenhoff was criticised for his draft (which

[24] See: http://www.swp-berlin.org/fileadmin/contents/products/aktuell/2012A50_stw.pdf
http://www.faz.net/aktuell/feuilleton/quadriga-preis-fuer-putin-prinzipienlos-14971.html
http://www.welt.de/politik/deutschland/article13490529/Quadriga-Kuratorium-setzt-Preisverleihung-aus.html

[25] Schockenhoff's project was criticised by Philipp Missfelder, the Christian Democrats' spokesperson for foreign policy, Karl-Georg Wellmann (CDU), and Peter Gauweiler (CSU) among others. It was backed by Ruprecht Polenz, chair of the Bundestag Committee on Foreign Affairs, and the former minister for Environment Norbert Röttgen. See: http://www.spiegel.de/politik/deutschland/merkel-streitet-mit-putin-um-russlandsbeauftragten-schockenhoff-a-862850.html

contained a damning assessment of the Kremlin's actions) by some of the SPD's and the Green's deputies, and by his own coalition partners from the CDU/CSU and the FDP, who accused him of provoking unnecessary conflicts. The German Ministry of Foreign Affairs edited the text to mitigate its provisions, but Chancellor Merkel backed Schockenhoff, arguing that well-founded criticism was not slander.

Speaking of the differences of views among the political players in Germany regarding co-operation with Russia it is worth noting the foreign policy concept proposed by the newly established Eurosceptic party, the Alternative für Deutschland (AfD), ahead of the parliamentary elections in September 2013. The party was created by German intellectuals, economists and professors.[26] While it fell short of the Bundestag electoral threshold by a very narrow margin in the parliamentary elections, it has a good chance of succeeding in the elections to the European Parliament in 2014. This provides an interesting example of a certain mode of thinking about the role of Germany in Europe and its relation to Russia which still prevails in conservative circles. Referring to the post-Soviet area, the AfD has recommended far-reaching accommodation of Russian interests, quoting factors such as the traditional ties between Ukraine, Belarus, Georgia and Moldova on the one hand and Moscow on the other ("Separating [those countries from Russia] would be comparable only to separating Aachen or Köln from Germany"[27]). According to the AfD, Germany and Europe

During the debate on the resolution in the Bundestag, Schockenhoff along with the head of the SPD caucus Gernot Erler and the Green Party deputy Marieluise Beck accused the Russian government of pursuing a confrontational line against the opposition. In the end, none of the opposition forces in parliament backed the resolution: the Greens believed it could be formulated in even stronger terms, while the SPD and Die Linke considered its wording to be too harsh.

26 See: German Euro-sceptics to establish a political party, http://www.osw.waw.pl/en/publikacje/analyses/2013-04-10/german-euro-sceptics-to-establish-a-political-party

27 https://www.alternativefuer.de/2013/09/11/thesenpapier-aussenpolitik/

have no interest in weakening Russia and the entire post-Soviet area. The party also highlights "Russia's role as the constructive godfather in German history, who saved Prussia from failure. This concerns the year 1763, the 1806–1807 period, 1813, Bismarck's unification in 1866–1870 and German reunification in 1990–1991." The AfD also refers directly to Bismarck's legacy in Russian policy, which, according to the party, would be a desirable course to take; while at the same time emphasising that in the context of Poland having joined NATO and the EU, such a course could not be interpreted as anti-Polish.

As the relations between Berlin and Moscow have noticeably worsened, the permanent sticking points in mutual co-operation have begun to surface ever more frequently and visibly. That is because, despite the exceptional nature of relations, Germany had not changed its position on issues such as the **abolition of the visa regime** – which is a priority for the Russian side in the negotiations with the EU. Despite the fact that the Russian proposals have been backed by German business[28] and that the Ministry of Foreign Affairs has to some extent supported the liberalisation of the visa regime and the introduction of visa facilitations, the German Interior Ministry has remained sceptical and focused on ensuring internal security as its main priority.[29] On 30 July 2013 the *Süddeutsche Zeitung* reported that the Chancellor's Office, the Ministry of Foreign Affairs and the Interior Ministry had agreed a joint position, subsequently presented to the European Com-

[28] Die Visa-Pflicht bremst Geschäftsmöglichkeiten aus und verursacht zudem in Europa jährlich Bürokratiekosten in Höhe von einer Milliarde Euro, http://www.euractiv.de/globales-europa/artikel/deutsche-wirtschaft-fordert-neue-russland-politik-007757

[29] In the summer of 2012, in connection with a courtcase in Britain involving two oligarchs, Oleg Deripaska and Mikhail Chernoy, Deripaska's attorneys presented written testimony by August Henning, the former chief of BND, the German counter-intelligence service, who discussed the immense problems faced by the German security apparatus in fighting Russian organised crime in Germany and the problems with the witness protection system in such cases. Cf.: Markus Dettmer, Matthias Schepp, Zeuge des Oligarchen, *Der Spiegel* 24/2013, http://www.spiegel.de/spiegel/print/d-97110525.html

mission, which stated that abolishing the visa regime would be premature, especially for the holders of service passports, i.e. the category of travellers in the case of whom visa liberalisation was particularly important for the Kremlin.[30] The provision on visas in the new coalition agreement concluded in 2013 may lead to a change in this position; in the agreement, the ruling parties have for the first time declared that their objective would be to liberalise the visa regime for entrepreneurs, researchers, civil society representatives and students.

Another unresolved issue concerns the restitution of German cultural assets that have been kept in Russia since World War II. After Germany was defeated in 1945, a special Soviet commission confiscated the works of art stolen by the Reich in many European countries, especially those that were in East Germany at that time. In the 1950s, many of them were returned to East Germany, but around 200,000 cultural artefacts are still in Russia. Those works of art have been the object of a dispute between Germany and Russia for over twenty years. In 1998 the Russians concluded that the confiscation had been legal as compensation for damages sustained during the war. They have also at times raised the argument that the Germans have been withholding information on the whereabouts in Germany of some of the works of art stolen from Soviet territory. The Germans, on the other hand, have been invoking the provisions of the 1907 Hague Convention on respecting the laws and customs of war and the 1990 German-Russian co-operation agreement, claiming that cultural assets should be returned on that basis. No compromise seems likely to found in the immediate future.[31]

[30] Daniel Broessler, Berlin bremst bei Erleichterungen für Russlands Beamte, *Süddeutsche Zeitung*, 30.06.2013, http://www.sueddeutsche.de/politik/visa-debatte-berlin-bremst-bei-erleichterungen-fuer-russlands-beamte-1.1733991

[31] For more information see the interview with the German historian Wolfgang Eichwede for n-tv.de, 21.06.2013, http://www.n-tv.de/politik/Deutschland-wird-Abschied-nehmen-muessen-article10867126.html

In conclusion, it can be said that **the dominant sentiment in Germany has been that of fatigue and frustration caused by the absence of any tangible results of the country's policy towards Russia so far**. In dealing with Putin's Russia, Berlin lacks an idea and a broader concept that would go beyond economic relations (although it is notable that the 2013 coalition agreement no longer includes the provision on developing an "energy partnership" with Russia, which was present in the two previous agreements). Moreover, since Germany's foreign policy is *de facto* run by the Chancellor's Office, the actions and initiatives of the Ministry of Foreign Affairs such as the Kaliningrad Triangle[32] should be seen as merely tactical moves aimed at building confidence and providing positive examples of concrete co-operation. Their reach, though, should be limited and regional (to the Kaliningrad Oblast in this case). However, as Frank-Walter Steinmeier takes the post of foreign minister again, Chancellor Merkel and her advisors will presumably be more inclined to take into account the Foreign Ministry's opinions on eastern policy issues. Nonetheless, the change of rhetoric that will most likely be implemented by the Social Democratic leadership of the Ministry of Foreign Affairs will not considerably alter the substance of Germany's approach to the Russian political elite. This is due to the fact that it has been an increasingly common attitude among the current German leadership to do little and wait for a change of leadership in the Kremlin. This is even more the case since Vladimir Putin interprets any decisions taken by Angela Merkel that affect Russian interests as being targeted against his political backing and himself personally. This was the case with the measures taken to save Cyprus from financial collapse by tapping deposits held by Cypriot banks (a large proportion of which belonged to Russian

[32] For more information on this initiative, see the article by Stanisław Bieleń: Trialog niemiecko-polsko-rosyjski, czyli o idei „Trójkąta Kaliningradzkiego" (German-Polish-Russian trialogue, or the Kaliningrad Triangle concept), in: Polski Przegląd Dyplomatyczny (Polish Diplomatic Review), Issue 2/2012, http://www.pism.pl/publikacje/czasopisma/Polski_Przeglad_Dyplomatyczny/2012/2#

nationals and companies),[33] or the support expressed by German politicians to the Ukrainian protesters in Kyiv after President Yanukovych chose not to sign the association agreement between the EU and Ukraine. The decision of the German president Joachim Gauck to boycott the Winter Olympics in Sochi was also widely commented on.[34]

Main provisions of the coalition agreement signed on 27.11.2013 concerning relations with Russia, entitled "Open dialogue and broad co-operation with Russia"

- The agreement recognises that close historical ties exist between Germany and Russia and that Russia is the European Union's largest and most important neighbour; it also states that a modern, economically strong and democratic Russia is in the interests of Germany and Europe.

- It announces an extension of the Partnership for Modernisation and envisages a debate on different forms of the partnership.

- It states Germany's recognition of the various efforts aimed at deepening and widening contacts at the level of state institutions and of citizens. It provides that those contacts will continue to be supported, including through

[33] See: Germany's 'Cyprus victory'?, http://www.osw.waw.pl/en/publikacje/analyses/2013-03-27/germanys-cyprus-victory

[34] Gauck's critical attitude towards Putin's policy has been evident since 2012, i.e. since the beginning of his term as president of Germany. Gauck has paid no official visit to Russia thus far, and the Russian side cancelled the official opening ceremony of the German Year in Moscow in the summer of 2012, in which both presidents were expected to take part. Gauck dealt out particularly harsh criticism of the Russian government when meeting Russian intellectuals in Berlin in June 2013 – on that occasion he spoke about the shortcomings in the rule of law in Russia and the difficulties faced by sections of the media critical of the Kremlin, as well as some imperialistic aspects of Russia's policy. He raised similar arguments to criticise Russia during his visit to the Baltic states in July 2013.

the Petersburg Dialogue formula. It announces that new forms of people-to-people dialogue with Russia will be established, including contacts with representatives of the new middle class and civil society.

- The agreement also calls for the standards of the rule of law and democracy to be upheld in contacts with civil society, the political opposition and minorities, and for the commitments adopted within the WTO framework to be respected.

- It announces that Germany will seek a liberalisation of the visa regime for entrepreneurs, researchers, civil society representatives, and students, and that it will strive to boost its own analytic capacity with regard to Russia and Eastern Europe.

- It provides that Germany will act to ensure greater coherence of the EU's policy on Russia (this refers, *inter alia*, to a new partnership agreement with Russia, development of co-operation in the Baltic Sea region and deeper co-operation on foreign and security policy). In this context, Germany recognises the important role the dialogue between Germany, Poland and Russia plays, and speaks of taking Poland's interests into account in bilateral relations with Russia.

- Finally, the agreement recognises that security in Europe can only be ensured with Russia, and not against Russia, and that for this reason Germany will seek to co-operate more closely with Russia in regulating conflicts in the shared neighbourhood, and expects progress in this respect, especially with regard to Transnistria.

II. DIFFERENT PRIORITIES – GERMANY'S MULTI-VECTOR POLICY

Germany's present attitude towards the Russian Federation has also been affected by factors which go beyond the two countries' bilateral relations. One of them concerns Germany's growing political and economic importance, as was fulsomely revealed as the European Union's financial crisis unfolded. Another is the fact that the German political and economic elite view globalisation as an opportunity to boost Germany's economic development, rather than a source of threats, and formulates its strategic approaches and policy planning accordingly.[35] By prioritising the countries referred to as new regional powers (*neue Gestaltungsmächte*) and treating them as important partners in their own right Germany hopes not only to gain access to new markets, but also to create a co-operation network with those countries to jointly influence the new global economic and political order. At the same time, due to Germany's strong position within the EU, its partners also see it as kind of new European *Gestaltungsmacht*.

Finally, the launch of negotiations for a free trade agreement between the EU and the US (TTIP) will offer Germany the chance to also strengthen the trans-Atlantic direction of its exports and investments.[36]

[35] For more information, see: K. Popławski, Chasing globalisation. Germany's economic relations with the BRIC countries, OSW Report, Warsaw 2013, http://www.osw.waw.pl/en/publikacje/osw-report/2013-11-25/chasing-globalisation-germanys-economic-relations-bric-countries

[36] Studies by German research centres show that in the long term, Germany will gain an extra 4.7% of GDP growth as a result of an increase in the volume of foreign trade. The agreement is expected to generate 180,000 new jobs in Germany. See: Germany-USA: a pragmatic partnership http://www.osw.waw.pl/en/publikacje/analyses/2013-06-19/germany-usa-a-pragmatic-partnership

In view of those changes, Russia, while remaining a very important non-EU market for German goods, has been losing its relative significance as Germany opens up to the global markets.

Germany's European policy, which is widely seen as part of the country's internal policy, has been focused in recent years on saving and consolidating the eurozone. Preserving the stability of the EU's economic and financial system remains a strategic objective for Berlin because this system allows Germany to maintain its current rate of economic development and makes it the most powerful state in the EU.[37] The German economic model still relies heavily on exports, which help generate a large trade surplus. This is especially the case now during a crisis which has affected the other EU economies much more severely[38] but which has a positive impact on Germany's GDP, keeps the budget deficit low and boosts the demand for Germany's treasury bonds. Germany is

[37] Germany's new pragmatism in European policy is about making the system's stability a top priority. This is visible in Berlin's efforts to push through such projects as the Fiscal Pact or the Banking Union. Germany's objective is to streamline the decision-making process in the EU, or at least in the eurozone. However, many representatives of the intellectual elite of Germany (and not only Germany) have been accusing the German leadership of having lost patience with the democratic system and of casting doubt on the efficiency of democracy in coping with economic competition from countries such as China or Russia. Simultaneously, enormously important debates have been taking place on the relation between values such as order and stability on the one hand, and freedom on the other.
A debate that followed the text by Joerg Lau of *Die Zeit* has been ongoing for several months see: http://blog.zeit.de/joerglau/2013/02/21/schurken-die-wir-brauchen_5889; http://www.natolin.edu.pl/pdf/nowa_europa/NE12_spis_tresci.pdf

[38] In 2012, Germany exported € 1.1 trillion worth of commodities, while its imports were worth € 909 billion. Exports accounted for 41.5% of the country's GDP, which was one of the highest percentages among large countries. Its trade surplus accounted for more than 7% of GDP and increased threefold in the years 2000–2012, from € 60 billion to € 190 billion. Out of it, the surplus in trade with the other EU countries accounted for € 116 billion. Germany's treasury bonds have reported record-low yields for the last several years – as a result the country's debt servicing costs have been low, and in 2012, Germany reported a budget surplus of 0.2% of GDP.

currently the strongest economy in the EU and the fourth strongest in the world. The rise of Germany's economic and political power in the European Union has strengthened its position on the international arena and consolidated its image as the leader of the EU.[39] This offered Berlin an opportunity to intensify relations, both bilaterally and at the European level, with those partners whom the German political leadership and German business identified as offering the best prospects and being most important for the German economy. These include the countries referred to as the new regional powers, or *neue Gestaltungsmächte*.

For Germany, with its scarcity of natural resources, the contraction of global raw materials reserves poses one the most important political problems, as the country has to buy oil and other raw materials necessary for its economy from other countries. In 2012 Germany imported € 118.9 billion worth of natural resources, and out of this number, mineral resources accounted for € 104.1 billion. The German state has been paying a lot of attention to actions aimed at averting a shortage of raw materials. The German minister for economy in the autumn of 2010, called for a Resources Agency to be established to support business in seeking access to natural resources, and in October 2010, the government developed and adopted a national raw materials strategy. Promoting the German economy's access to natural resources is also one of the main elements of the newest policy concept adopted by the German Ministry of Foreign Affairs in 2012, i.e. the strategy on

[39] Germany was the only EU country to be visited by China's head of government Li Keqiang during his first foreign visit on 26 May 2013, and one year earlier, during a visit to China (1–3 February 2012), the German chancellor, speaking as a *de facto* EU envoy, made attempts at persuading the government of China to become involved in the effort to support the faltering Eurozone. Moreover, it is actually not possible to make any decisions within the EU without Germany's consent: the EU's failure to impose stricter CO2 emissions limits for cars as a result of Germany's objections is a case in point. See: Merkel gegen alle: Neue CO2-Grenzwerte für Autos "schurkenhaft" blockiert, http://www.euractiv.de/energie-und-klimaschutz/artikel/merkel-gegen-alle-neue-co2-abgas-grenzwerte-fuer-autos-schurkenhaft-blockiert-007803?newsletter

the new regional powers including Turkey, South Korea, Indonesia, Brazil or Mexico (Russia is viewed in this context as an old power, or *alte Gestaltungsmacht,* with which extensive co-operation already exists). Those two strategies have been adopted and are already being implemented by the German government and illustrate the direction of the shift in Germany's foreign policy.

The German government's 2010 strategy concerns the supply of mineral resources, including rare earth metals. The document identifies the scarcity of natural resources needed by the German economy as a problem[40] and proposes solutions (including government guarantees for investments aimed at providing resources, support of German diplomacy and politics for international projects focused on resources, and the development of partnerships with countries that possess large reserves of natural resources). Under this strategy, the Germans have already managed to conclude resource partnerships with Mongolia and Kazakhstan.[41]

The strategy on the major new regional powers provides for the development of deeper co-operation with those countries and for a co-ordination of the activities of the various German ministries that concern them, the aim being to generate synergies and to ensure greater coherence. Germany's objective is not only to expand into new markets and gain access to natural resources, but also, to create a network of co-dependencies with the new regional powers in order to influence the new global economic and political order in conjunction with them.[42]

[40] For more information, see: http://www.osw.waw.pl/pl/publikacje/komentarze-osw/2011-02-08/deficyt-surowcow-naturalnych-implikacje-dla-niemieckiej-polityk

[41] See: Germany is consistently implementing its strategy of raw material partnerships, http://www.osw.waw.pl/en/publikacje/analyses/2013-02-06/germany-consistently-implementing-its-strategy-raw-material

[42] See: The German concept for increasing the economic benefits of globalisation, http://www.osw.waw.pl/en/publikacje/analyses/2012-02-29/german-concept-increasing-economic-benefits-globalisation

This focus on the *neue Gestaltungsmächte* has proved beneficial for Germany already in the current EU crisis. Germany has been able to make up for the decline in exports to EU member states due to the strategic actions taken by the German government with a view to diversifying exports markets by expanding to, *inter alia* the BRIC countries (i.e. including, but not limited to, Russia), where Germany is currently the third biggest exporter of commodities. In the years 2000–2011 the proportion of trade with the BRIC countries in Germany's total foreign trade increased from 5.5% to 13.3%, while the proportion of exports to the EU decreased slightly over the same period (from 59.4% to 56.3% in 2011). The growth dynamics of Germany's economic relations with China in particular has been remarkable. In the period in question, it managed to increase its share of EU exports in the Chinese market from 35.6% to 47.5% (and its share in the Indian market increased from 17.9% to 26.9%).[43]

The above tendencies show how the shape of Germany's foreign and security policy has been changing to take advantage of the opportunities offered by globalisation. The rise of pragmatism and the focus on German interests are visible both in the change of the main actors in charge of formulating those policies (as a result of the rising importance of sectoral policies), and in the direction of changes (Germany's has been increasingly willing to develop closer political relations with China, Brazil and India due to the growing potential of those countries, and is reacting in a similar way to other countries it regards as being *neue Gestaltungsmächte)*. The immense influence that German exporters have on Germany's foreign and security policy has always been a factor, but the role of the German Ministry of Foreign Affairs has diminished recently. Individual ministries have started to play a key role in shaping Germany's foreign and security policy, and this situation has bolstered the already strong position of the Chancellor's Office and Angela Merkel personally – not only as the actor formulating

[43] Cf.: K. Popławski, Chasing globalisation, *op. cit*.

those policies, but also as a mediator and the highest instance in disputes between different ministries. Wolfgang Schäuble and his Finance Ministry, which have been *de facto* deciding Germany's European policy, has also been playing an immense role in this context as has the Ministry of Defence, which is in charge of Germany's security strategies. Finally, the Ministry of Economics and the Ministry of Economic Co-operation and Development have also been shaping Germany's foreign policy. These two ministries will be implementing the crucially important strategies of Germany's foreign economic policy that have been discussed above, especially in the area of the raw materials policy. In both strategies Russia is merely one of several potential areas of interest for Germany's politics and business.

III. BUSINESS IS DOING FINE

Despite the many difficulties experienced by German companies in the Russian market, trade between the two countries has been thriving, and trade turnover has reached record levels of around € 80 billion a year. However, investments in the Russian market are much riskier than in the other BRIC countries, and the resulting outflow of capital from Russia has been a source of great concern for the Kremlin.[44] In view of the dynamic changes in the direction of Germany's exports, and especially its focus on China, Russia may lose its status as a country with special relations, especially since even the political backing that co-operation with Russia has enjoyed in Germany has not considerably improved the position of German exporters in relation to other EU states over the last decade: Germany's share in EU exports to Russia has increased only slightly from 30.2% to 31.8%.[45] Trade with the new regional powers has the potential to increase much faster than trade with Russia, and Russian raw materials imports to Germany, especially imports of energy resources, may be losing importance for Germany as a result of its ongoing energy transformation.

Still in 2010, German experts argued that – precisely because of the raw materials issue – Germany's priority should continue to be close co-operation with Russia to bind it with Europe, even at the price of having to adjust some elements of the European security architecture.[46] The same experts also recommended

[44] The net outflow of capital from Russia increased more than twofold in 2011, from € 27 billion to € 60 billion; cf.: http://www.ost-ausschuss.de/print/122, According to Russian data, capital outflow in 2012 amounted to US$ 58.6 billion, and in the first half of 2013 – € 38.4 billion.
See also: http://www.obserwatorfinansowy.pl/forma/analizy/co-do-rosji-z-ropy-wplynie-kapitalem-wycieka

[45] Cf.: K. Popławski, Chasing globalisation, *op. cit*.

[46] Bundeswehr Transformation Centre, *Peak Oil: Security policy implications of scarce resources*, p. 92: "Moscow should be given the option of pursuing a differentiating external energy policy towards EU countries, if the alterna-

creating multiple co-dependencies between raw materials suppliers and importers (e.g. within the framework of the German-Russian, and subsequently EU-Russian, Partnership for Modernisation programme) and strengthening ties, especially at the level of corporations (as in the case of the Nord Stream gas pipeline or Rosneft[47]). Thinking about Russia in this way is justified if one takes into account the fact that Germany is the single largest buyer of Russian gas.[48] In 2012, oil and gas accounted for 74% of Germany's imports, while metals constituted 8% of imports, and heating oil and coke another 8%, and coal a further 2%. Russia accounts for 38% of Germany's oil imports. In 2012, 31% of German gas imports originated from the Russian Federation, and Russia's share in Germany's gas market had risen by 1 percentage point over ten years. Russia is also an important supplier of coal – it accounts for 24% of German coal imports (making Russia the second largest coal provider after the USA). However, while there is a widespread perception that Russia is Germany's most important supplier of energy resources, it should also be noted that German politicians have for a long time sought as wide as possible a diversification of the sources of energy supplies and transport routes.[49] Similarly, German companies, backed politically and financially by the German government have been and are still making intensive efforts to ensure a diversified structure of gas supplies. Those efforts gained particular momentum

tive for Germany were a potential deterioration of bilateral relations". See:. http://www.energybulletin.net/sites/default/files/Peak%20Oil_Study%20EN.pdf;
http://www.swp-berlin.org/fileadmin/contents/products/aktuell/2012A30_dickel_wep.pdf

47 See: Rosneft entering the German oil market, http://www.osw.waw.pl/en/publikacje/analyses/2010-10-20/rosneft-entering-german-oil-market

48 Gas is supplied under agreements with E.ON Ruhrgas AG, WIEH GmbH & Co KG and WINGAS GmbH (subsidiaries of Gazprom and the German BASF corporation).

49 For more information see: http://www.osw.waw.pl/pl/publikacje/komentarze-osw/2009-08-28/polityka-gazowa-niemiec-nie-tylko-rosja

after the war in Georgia and in the aftermath of Russia's gas conflicts with Belarus and Ukraine.[50]

Finally, the energy transformation (*Energiewende*) which Germany has been implementing since 2011 is expected to reduce the country's dependence on energy imports. The cornerstones of this strategy include the development of renewable energy and a complete phasing out of nuclear energy, which has already affected German-Russian co-operation as Siemens has withdrawn from co-operation with Rosatom in the nuclear sector[51] and Germany showed no interest in buying electricity from the nuclear power station that Rosatom was planning to build in Kaliningrad, which was one of the reasons this investment was put on hold.[52]

The share of renewable energy in Germany's energy production is set to increase systematically – from more than 20% at present to around 38% in 2020. In 2030 it is expected to reach around 50%, in 2040 65%, and in 2050 as much as 80%. However, the implementation of the Energiewende has been stumbling on a major obstacle, i.e. the reluctance of German energy companies to invest in new conventional power plants, especially gas fired power plants, which are necessary

[50] For example, in late 2008 a letter of intent concerning a planned energy partnership was signed by representatives of the governments of Germany and Nigeria. Under this document, in 2014 Nigeria will start to supply liquefied gas to Germany. The German federal minister for economy at that time put forward a proposal to create strategic state reserves of natural gas, and the German government adopted a draft amendment to the law on the activities of foreign companies in strategic sectors of the economy, which would allow the government to annul takeovers of German businesses by foreign companies in cases where public order or the country's security were put at risk.

[51] See: Siemens and Rosatom will co-operate at any cost, http://www.osw.waw.pl/en/publikacje/analyses/2010-06-09/siemens-and-rosatom-will-co-operate-any-cost
Gerrit Wiesmann, Siemens drops Rosatom nuclear plant ambitions, *Financial Times*, 18.09.2011, http://www.ft.com/intl/cms/s/0/2e711fde-e1e9-11e0-9915-00144feabdc0.html#axzz2aWT5YSvY

[52] For more information, see: Russia freezes the construction of the nuclear power plant in Kaliningrad, http://www.osw.waw.pl/en/publikacje/analyses/2013-06-12/russia-freezes-construction-nuclear-power-plant-kaliningrad

to back up the operation of renewable energy producers[53] (according to the government's scenarios for the implementation of the *Energiewende*, the capacity of gas-fired power plants would need to increase by 20% to 2023 if renewable capacity expands fast).[54] Gazprom (followed by other Russian companies such as e.g. Novatek) has been trying to take advantage of this situation from the very beginning – Gazprom has direct access to the raw material, for instance from Nord Stream gas pipeline, and aims to build a presence in Germany's electricity production sector. Both Gazprom and the Russian government have been seeking to expand Nord Stream by adding a third, or even a fourth branch, but the German government's attitude towards the proposal has been reserved[55] – Berlin expressed scepticism about it e.g. during the intergovernmental consultations in 2011. Another factor that has made it difficult for Germany to accept Russia's proposal concerns the relatively high price of gas in comparison to the low prices of coal in the European market as a result of the shale gas revolution in the United States. The prices of Russian gas are unattractive also because of the provisions of the long-term contracts concluded by German companies with Gazprom. Germany's E.ON sees co-operation with Gazprom as strategically important (the two companies are bound by a long-term contract that runs to 2036, and E.ON has as 25% stake in the Yuzhno-Russkoye gas field in Siberia and a 15.5% stake in the Nord Stream gas pipeline) and in 2012, following a long battle waged over several years *inter alia* in front of an arbitration court in Stockholm it, negotiated a gas price reduction of 7–10%, effective as of

[53] See: Germany's energy transformation: difficult beginnings, http://www.osw.waw.pl/en/publikacje/osw-report/2012-12-06/germanys-energy-transformation-difficult-beginnings

[54] Cf.: K. Popławski, Economic background and the situation in the energy sector, in: Germany's energy transformation: difficult beginnings, A. Kwiatkowska-Drożdż (ed.), Centre for Eastern Studies, Warsaw 2012, p. 59, http://www.osw.waw.pl/sites/default/files/Niemiecka_transformacja_energetyczna_trudne_poczatki.pdf

[55] Chancellor Merkel's most favourable opinion on the project was spelt out in a statement in which she said that she saw no obstacles, "as long as the project was economically viable".

the 4th quarter of 2010.[56] E.ON's long-term strategy also provides for investments in green technologies and bigger purchases of gas at lower prices in spot markets. According to the company's management, buying gas from Russia is also part of this strategy, but it should be done on better terms than to date. The German media have reported that E.ON even considered terminating its contract with Gazprom for gas supplies in the periods of 10 and 20 years. The company's representatives denied this, but it is clear that the company's current policy is part of an effort to put pressure on Gazprom to lower its prices. In June 2013 E.ON, acting through its subsidiary, E.ON Global Commodities, signed an agreement for the supply of 6.5 billion m^3 of LNG a year for 20 years starting in 2020 with the Canadian company Pieridae Energy.[57] On 9 October 2013 E.ON signed a contract with the Qatari company Qatargas for the supply of LNG. Under this contract gas will be delivered to the GATE LNG terminal co-owned by E.ON in the port of Rotterdam. The agreement, which provides for the supply of a maximum of 10 billion m^3 of LNG, was concluded for a period of five years, and the supplies are set to begin in 2014.[58]

RWE, Germany's second largest energy company, is also bound by a long-term contract with Gazprom for the supply of gas to 2035. RWE, too, has been involved in a dispute with the Russian monopoly, which, since the parties had failed to reach an agreement, was settled in June 2013 by a court of arbitration. The court accepted RWE's appeal against the provisions on price setting in the long-term contract, ordered Gazprom to repay the amounts charged unduly since May 2010, and ordered the company to correct the price-setting formula by including adjustment to market prices so as to reflect the market conditions as of May 2010.[59]

[56] The settlement was concluded outside arbitration.

[57] See: http://www.osw.waw.pl/pl/publikacje/best/2013-06-12/historyczny-kontrakt-eonu-na-dostawy-gazu-z-kanady

[58] See: E.ON unterzeichnet Mittelfrist-LNG-Liefervertrag mit Qatargas, http://www.eon.com/de/presse/news/pressemitteilungen/2013/10/9/eon-unterzeichnet-mittelfrist-lng-liefervertrag-mit-qatargas.html

[59] Even earlier, in October 2012, the arbitration court in Vienna ruled in a dis-

The fiasco of the Partnership for Modernisation, as it was conceived by Germany, does not mean that trade or German investment in Russia are stagnating.[60] However, it is the large companies that are reaping most of the benefits, and not the small and medium-sized entities whose efforts are stymied by rampant corruption and bureaucracy in Russia. The Committee on Eastern European Economic Relations (Ost-Ausschuss) has been continually calling for the development of economic relations which go beyond the energy sector. While establishing a lasting energy and raw materials partnership is certainly a priority, Germany see Russia's need to modernise its state and economy as an opportunity to create investment and technological ties between the two countries' economies. Ost-Ausschuss has been actively promoting the involvement of German partners in such innovative projects as the Skolkovo Innovation Centre or the automotive plants in the Samara region[61] and has been seeking contracts related to the organisation of sports events in Russia (e.g. the Olympic Games in Sochi in 2014 or the Football World Cup in 2018).[62]

Around 6,500 German companies are in operation in Russia. According to various estimates, around 300,000 jobs in Germany

pute concerning the re-negotiation of an agreement for the import of gas to the Czech market that RWE Transgas had the right to re-export the gas it was buying it under a contract with Gazprom to the Czech Republic.

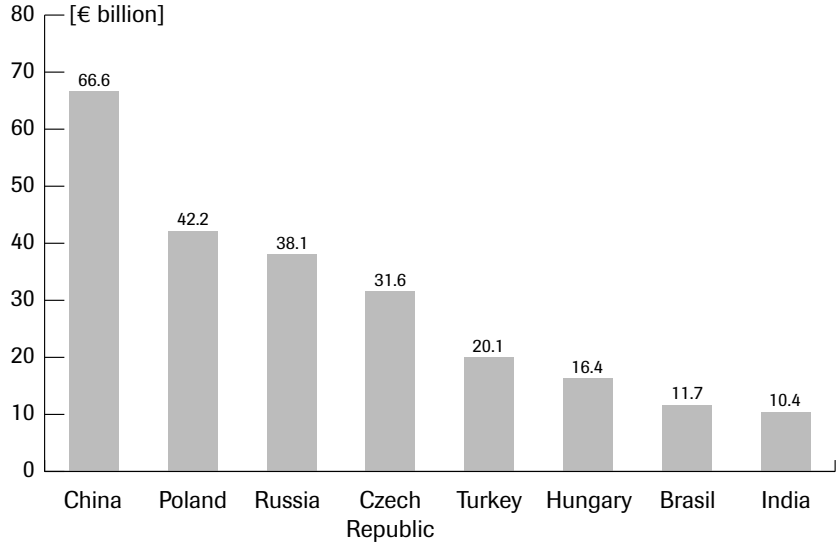
60 Germans hope that Russia's accession to the WTO in August 2012 will generate an additional boost. This is far from certain, however, because Russia's accession to the WTO does not automatically liberalise general access to the Russian market and the implementation of individual specific provisions of the accession agreement has already stumbled on difficulties. Cf.: Russia is a WTO member, http://www.osw.waw.pl/en/publikacje/analyses/2012-07-25/russia-a-wto-member

61 For more information see: https://www.deutschland.de/de/topic/wirtschaft/globalisierung-welthandel/neues-bosch-werk-in-samara;
http://www.kooperation-international.de/clusterportal/cluster-samara-togliatti.html;
http://www.kooperation-international.de/clusterportal/cluster-skolkovo-selenograd-moskau.html#c8409

62 Source: http://www.ost-ausschuss.de/print/122

are dependent on trade with Russia.[63] Aggregated German investments in Russia totalled € 22.2 billion in 2011, including € 8.8 billion of direct investments. Germany has thus become the fourth-largest investor in Russia after the Netherlands, Cyprus and Luxembourg. In 2010–2011, Germany's trade with Russia recovered dynamically after a 38% slump in trade turnover in 2009. In that period, German companies exported € 34.5 billion worth of goods to Russia (an increase of 31%), and Germany bought € 40.9 billion worth of goods from Russia (an increase of 28%). In 2012, German commodity exports to Russia were worth € 38 billion (an increase of 10% on 2011 figures), and Germany imported € 42.5 billion worth of goods from Russia (an increase of 4% on 2011 figures). However, Germany has lost its position as Russia's top trading partner, dropping to the second position after China.

Most important emerging markets for Germany, by value of exports in 2012 (€ billion)



Source: Proprietary calculations on the basis of data from the Federal Statistical Office of Germany.

[63] Source: http://www.ost-ausschuss.de/russland

At present, the attitude of German politicians and business people regarding the development of German-Russian economic relations is best described as frustration at lost opportunities and wasted potential. Russia's decision to forgo deeper structural reforms, its failure to prevent its economy from becoming increasingly dependent on the raw-materials sector, rampant corruption, bureaucracy, and the absence of a reliable legislation and judiciary all hinder the involvement of German companies in the Russian market or could even make it impossible altogether. It has been speculated that this harms not only the German businesses concerned, but also the development of the Russian economy. Of course Germany will not give up its efforts to build economic ties with Russia but its energy transformation and the emergence of new interesting markets for German companies will push Russia further down the road to the position of being just one of many potential partners for co-operation. As a result, Germany's position in negotiations with Russia, both on economic and on political issues, may become less and less accommodating (to the detriment of Russia). In fact, the Russian political elite views the actions of Germany (or the entire EU, which are anyway interpreted in Russia as being orchestrated by Germany) as deliberate attacks on Russia's economic interests. This was the case with Germany's tough position on the principles of EU-Russian energy co-operation[64] or its support for Ukraine's pro-European line, or, more recently, the capital controls from Cyprus which caused the holders of deposits larger than € 100,000 in the main Cypriot banks to lose up to 50% or up to 80% of their money (depending on the bank). The Cyprus deal was a blow to some of the Russian capital there. Russia had previously been able to count on Berlin's support also in business matters, as long as German interests were not affected: Germany's protest in April 2009 against a project of EU-Ukrainian gas co-operation that would exclude Russia is a case in

[64] Russia's attempts to force the EU to change its laws (concerning, *inter alia*, so-called "unbundling") adopted with a view to creating a single, liberalised market in natural gas and electricity.

point. Berlin threatened to object to funding from EU and international financial institutions being granted for the modernisation of Ukraine's gas pipeline networks unless the EU-Ukraine agreement took the interests of Russia as the supplier of gas into account, arguing that the modernisation of Ukrainian gas pipelines was possible only with the involvement of Russia.[65]

[65] In March 2009, a joint declaration on financial assistance for the modernisation of Ukraine's transit gas pipelines was signed in Brussels between the government of Ukraine, representatives of the European Commission (the commissioner for enlargement and energy), the World Bank, the EBRD and the European Investment Bank. In return, Ukraine was expected to reform its gas sector in line with EU rules. The reform was never launched. In May 2013 EU commissioner Günther Oettinger still believed the modernisation of Ukraine's networks to be "fundamental"; http://www.neurope.eu/article/oettinger-sees-win-win-win-plan-ukrainian-pipeline

CONCLUSIONS: GERMANY LACKS A CONCEPT FOR RUSSIA

Germany does not have an idea of how it should continue its co-operation with Russia, especially in the political and security spheres. Economic ties, including personal links, will remain too strong, and the potential of the Russian market too large, for German business circles to allow any confrontation between the two states. However, it seems that the German side is no longer as determined as it used to be to maintain special and strategic relations with the Russian Federation at any cost. In the aftermath of the crisis, Germany's position in the EU has strengthened to such an extent that the world, including Russia, now sees Berlin as the key decision maker in the European Union's policy and a state that is strong enough to freely choose its partners for co-operation. In Germany, this situation leads to the realisation that Russia is gradually losing its status as an "indispensable" partner for Germany. At the same time sections of the Russian elite are coming to the conclusion that German policy may change direction in a way that will threaten Russian interests, or at best not take them into account. If this is not inspired by Germany, then at least it will be done with its approval.[66]

On the one hand, this situation may be seen as generating a lot of friction. This is especially the case since sections of the German political elite are aware that supporting Russia at any cost only strengthens Russian authoritarianism and "economic rapprochement threatens to make German companies doing business in

[66] Hence, *inter alia*, the Russian repressions, the following examples of which will certainly not be the last example: the Russian offices of the main German political foundations were not exempted from the massive checks carried out in 2013 by the Russian security forces at selected non-governmental organisations, and deputy Andreas Schockenhoff has been declared *persona non grata* in Russia.

Russia adopt Russian business standards."[67] This is for instance the position that the German president Joachim Gauck has taken – he has announced that he will boycott the Winter Olympics in Sochi. The unofficial reason concerned human rights violations in Russia.

On the other hand, there are still optimists in Germany who see potential co-operation between the European Union and the Eurasian Union championed by Putin as a great opportunity.[68] They believe that – should it materialise – the European Union and Germany itself could work together with a stable partner offering peace (including an absence of social upheavals) and good conditions of trade. Another advantage of such an alliance would be that it would create a political and economic counterweight to the United States. This aspect is still more appealing to Russia than to Germany.

The most likely course of developments is something between the extreme pessimistic and optimistic scenarios. Russia will undoubtedly remain a very important partner for Germany, although the latter will be gaining more and more room for manoeuvre in its negotiations with Russia and in decisions on the shape of its actual co-operation with the Russian Federation. The times when Germany uncritically endorsed Russia's policy appear to be over. If Russia cannot find its way in this new situation, this will no longer be the problem of German politicians. They have time to wait for a new Russia.

ANNA KWIATKOWSKA-DROŻDŻ

The text was completed in December 2013

[67] J. Keuchel, Der Mann der zu viel wusste, *Handelsblatt*, 6.11.2013, http://www.handelsblatt-shop.com/downloads/der-mann-der-zu-viel-wusste-p5920.html

[68] Cf.: M. Menkiszak, Greater Europe, *op. cit*.