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REFRAMING GERMANY'S RUSSIA POLICY – AN OPPORTUNITY FOR THE EU

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SUMMARY

Since Vladimir Putin's return to the presidency in 2012, rifts have grown between Germany and Russia. Berlin has always been an advocate for Russia in the European Union, as the wish to help modernise Russia has dovetailed neatly with German economic interests. But the Putin regime is not interested in modernisation or democracy. Putin's Russia seeks profit and power, including over its post-Soviet neighbours such as Ukraine. As a result, Berlin has had to admit that its co-operative Russia policy has hit a wall. For the first time in two decades, the German political elite is open to a more critical approach towards Russia and is searching for a new policy towards Eastern Europe, a policy that is co-operative without being deferential to the Kremlin.

Germany needs to adopt a Russia policy that reflects its interests without legitimising the Putin system. European partners should capitalise on Berlin's new distance from Moscow to push Germany to take a leadership role in co-ordinated common Russia and Eastern Partnership policies. At the same time, the EU should help develop a new European security order that includes Russia and the eastern neighbourhood states without conceding to Russia's bid to dominate the common neighbourhood.

Since the fall of the Soviet Union, Germany has pursued an integrative and co-operative Russia policy influenced by the Ostpolitik of Chancellor Willy Brandt and his advisor Egon Bahr. Known in Germany as *Neue Ostpolitik*, "the New Eastern Policy", this successful approach fostered dialogue with the Soviet Union in the 1970s through political recognition and economic co-operation.¹ Following the Western integration pursued by the first Chancellor of the Federal Republic of Germany, Konrad Adenauer, Ostpolitik was the second step towards developing a sovereign German foreign policy after the Second World War. The concept of "change through rapprochement" (*Wandel durch Annäherung*) played an important role in expanding the scope of Germany's foreign policy. By accepting political realities, Germany could create the conditions for the institution of platforms for communication and negotiations with the Eastern Bloc. One such initiative was the Basic Treaty (*Grundlagenvertrag*), under which the Federal Republic of Germany and the German Democratic Republic for the first time recognised each other's sovereignty.

The German political elite consider this co-operative and trust-building approach to have been instrumental in ending the Cold War and making German unification possible. Many Western states, including the United States, see the Cold War as having been won mainly through

¹ Gregor Schöllgen, *Die Außenpolitik der Bundesrepublik Deutschland* (Munich: C.H. Beck, 1999), pp. 87–137.

military and economic competition. But for many Germans, the peaceful demise of the Soviet Union as well as German unification were first and foremost made possible by the co-operative Ostpolitik and the Conference on Security and Co-operation in Europe (CSCE) process of East–West diplomatic conferences.²

Ostpolitik after reunification

Germany's Russia policy after 1991 reflected a reinterpretation of the "change through rapprochement" policy that was seen as having made unification possible, along with a sense of gratitude towards Russia for its acceptance of German unification. These political factors combined with economic interests to form Berlin's post-unification Russia policy of "change through interweavement" (*Wandel durch Verflechtung*), an approach that is based on Ostpolitik.

The German elite has always believed that peace and stability in Europe can only be achieved with Russia, not in opposition to it.³ This perception is linked to the pacification of the German political elite after the Second World War and to German feelings of guilt towards Russia because of the crimes of the Nazis. At the same time, Russia has become an important market for German exports. Germany is Russia's third-biggest trading partner, after China and the Netherlands. And Russian companies are Germany's most important energy suppliers, providing 38 percent of Germany's oil and nearly 36 percent of Germany's gas in 2013.⁴ German leaders have seen successful trade relations between the two countries as being politically beneficial, which has resulted in a symbiotic relationship between politics and business in German Russia policy. Perhaps the most prominent example of this is the Partnership for Modernisation, which was initiated in 2008 in the context of the Strategic Partnership between Germany and Russia.

However, Germany's Russia policy has never been driven by economics alone. Economic partnership was buttressed by the genuine if naïve hope that a co-operative approach could democratise and change Russia. The Partnership for Modernisation fits in with this way of

thinking. It encompasses knowledge transfer, common projects, workshops, and training programmes in areas such as health policy and demography, energy efficiency, infrastructure, education and research, and legal co-operation.⁵ German economic stakeholders argue that this co-operation helps Russia to modernise and diversify its economy and encourages the growth of small- and medium-sized companies in Russia. Along with increased foreign investment, the liberalisation and privatisation of the Russian economy are important preconditions for modernisation.⁶

Thus, German policymakers intend that German investment and knowledge transfer should help modernise the Russian economy, while the Russian government improves the conditions for investment by strengthening the rule of law, adopting European standards, liberalising the economy, investing in education and research, and fighting corruption. All these reforms are supposed to lead to a democratic, less corrupt, and more European Russia. It sounds good in theory, but in reality, this idea is at odds with the interests of Russia's political elite.

The ideological divide: the human rights faction v *Russlandversteher*

In addition to being unrealistic, Berlin's policy has also been inconsistent. Throughout Vladimir Putin's first two terms, beginning in 2000, the German political elite splintered into two separate groups, which each sent conflicting messages to Moscow.

One camp is built around the Green Party and civil society organisations. This group is made up of vocal critics of Russia's human rights abuses and Putin's realpolitik. It includes politicians and MPs from the Green Party who have a longstanding interest in Russia, such as Marieluise Beck and Werner Schulz. It also takes in some Christian Democrats, most prominently the former Russia co-ordinator of the German government (2006–2014) and deputy head of the Christian Democratic/Christian Socialist Union (CDU/CSU) faction for foreign and defence policy, Andreas Schockenhoff, who during Chancellor Angela Merkel's last administration became the voice of Putin critics in Germany. Merkel sympathises with this group, but not prominently.

The second group, the so-called *Russlandversteher* ("those who understand Russia"), support a more co-operative, and more understanding, approach to Moscow. This posture is particularly associated with the Social Democratic Party (SPD) and representatives of the German business lobby,

2 Charlemagne, "Disarmed diplomacy", the *Economist*, 8 March 2014, available at <http://www.economist.com/news/europe/21598725-germany-needs-do-more-work-telephones-resolve-ukraine-crisis-disarmed-diplomacy>. The Conference on Security and Co-operation in Europe was a diplomatic conference during the Cold War that supported trust building between the two blocs. In 1994, it was converted into the international Organization for Security and Co-operation in Europe (OSCE) to carry on the diplomatic dialogue into the post-Cold War order

3 The latest quote on this mantra of German Eastern policy was made by German Foreign Minister Frank-Walter Steinmeier in a speech at the members' meeting of the German-Russian Forum in Berlin on 19 March 2014. See Auswärtiges Amt, "Rede von Außenminister Steinmeier anlässlich der Mitgliederversammlung des Deutsch-Russischen Forums e.V. am 19.03.2014 in Berlin", 19 March 2014, available at http://www.auswaertiges-amt.de/DE/Infoservice/Presse/Reden/2014/140319-BM_dtrus-Forum.html.

4 Germany held a share of 35 percent of all EU exports to Russia in 2012. See Federal'naya Sluzhba Gosudarstvennoi Statistiki, "Torgovlaya v Rossii 2013", available at http://www.gks.ru/bgd/regl/b13_58/IssWWW.exe/Stg//%3Cextid%3E/%3Cstorag%3E:06-05.doc. And with 26 percent of Germany's total, Russia was the second biggest supplier of coal to Germany. See Bundesministerium für Wirtschaft und Technologie, "Energie in Deutschland", February 2013, p. 15, available at <http://www.bmwi.de/Dateien/Energieportal/PDF/energie-in-deutschland>.

5 Auswärtiges Amt, "Partner in Europa", 20 March 2014, available at http://www.auswaertiges-amt.de/DE/Aussenpolitik/RegionaleSchwerpunkte/Russland/Russland_node.html.

6 Ost-Ausschuss der deutschen Wirtschaft, "Russische Föderation", March 2014, available at <http://www.ost-ausschuss.de/russland>.

but also has some subscribers among Christian Democrats. The new government co-ordinator for relations with Russia, the Social Democrat Gernot Erler, is a strong proponent of a conciliatory Russia policy and one of the architects of the Partnership of Modernisation. The speaker for foreign policy of the CDU/CSU faction, Philipp Missfelder, is also a prominent Russia appeaser. Other key supporters of a cooperative German Russia policy are Rainer Lindner, CEO of the Ost-Ausschuss (Eastern Committee of the German Economy). The Ost-Ausschuss is the most prominent lobby organisation for large German companies investing in Russia and post-Soviet countries, with close ties to German politicians. For years, the organisation funded research and pro-Russian lobbying at one of Germany's leading think-tanks, the German Council on Foreign Relations (DGAP). Another prominent Russia ally is Rainer Seele, president of the German-Russian Chamber of Commerce and chairman of Wintershall Holding, the largest German gas importer from Russia.

When Merkel became chancellor in a Christian Democratic-Liberal coalition (2009–2013), a sober tone replaced the warm congeniality of German-Russian relations typified with Helmut Kohl and Boris Yeltsin and then Gerhard Schröder and Vladimir Putin. During Dmitri Medvedev's term as president, Merkel held fewer meetings with then Russian Prime Minister Putin, to signal her support of the new, modern Medvedev Russia over the old, authoritarian Putin Russia. During this coalition, the labels "special" or "strategic partnership" were dropped. Russia was not mentioned as a strategic partner in the CDU/CSU-FDP coalition agreement, but as an "important partner for overcoming regional and global challenges".⁷ The coalition supported continuing efforts to modernise Russia, but focused on strengthening areas such as human rights, the rule of law, and democracy. Nonetheless, as policy towards Eastern Europe was not a priority for Merkel or the Foreign Office, the shift in Germany's Russia policy was more a matter of tone than substance.

Wishful thinking in lieu of expertise

German policy towards Eastern Europe is fundamentally impaired by policymakers' lack of knowledge about developments in Russia and other post-Soviet states. German decision-makers have been allocating fewer and fewer resources for research on Russia. Post-Soviet countries were not a political priority during the Christian Democrat/Liberal coalition (2009–2013). But even when Putin's friend, Social Democrat Gerhard Schröder, was in the chancellery, funding was cut for research on Russia and post-Soviet countries; institutions were closed and

analyst positions on the region were eliminated.⁸ The German media has followed this trend. Respected German newspapers such as *Handelsblatt* or the weekly *Die Zeit* no longer have correspondents in Russia.

Meanwhile, German and European companies have invested generously to polish Russia's image and promote German-Russian investment. Events that bring together representatives of Gazprom and German political decision-makers are held regularly, funded by Gazprom or partner companies such as Wintershall, which also organises Petersburger Dialog conferences with Russian and German decision-makers.

As a result, Germany has fewer and fewer experts with adequate knowledge of domestic developments in Russia, and both elite and lay opinion has been increasingly influenced by lobby and clientele interests. The outcome is a Russia policy shaped by wishful thinking and lobbying rather than comprehensive knowledge and analysis.

The economic lobby

German business interests and economic lobby organisations influence Germany's Russia policy significantly. For German companies, Russia is a huge market with vast energy wealth and more than 140 million customers. The business community supported the government's policy of "change through interweavement" because it dovetailed with their interests in doing business with a problematic authoritarian regime. In fact, German companies and the Foreign Office co-operated closely in creating and implementing the Partnership for Modernisation. Within the context of the partnership, the Foreign Office, representatives of the business lobby organisation Ost-Ausschuss, and the German-Russian Chamber of Commerce have worked together to organise events with Russian officials and experts. One of the key platforms for this exchange is the Petersburger Dialog, which was founded in 2001 as a pet project of Schröder and Vladimir Putin, to improve German-Russian civil society co-operation.⁹ The Petersburger Dialog, organised by the German-Russian Forum, convenes bilateral discussions, mainly in the form of expert seminars for lawyers, academics, or representatives of small and medium-size companies.¹⁰ More than any other, the Petersburger Dialog is where representatives of Russian

⁸ This process started with the end of the Soviet Union. At German universities, many chairs in Eastern European history or political science with a focus on post-Soviet countries have been closed over the last 20 years. Furthermore, the Federal Institute for Eastern European and International Studies in Cologne was closed in 2001. Although some expert parts of the institute have been integrated into the German Institute for International and Security Studies (SWP), the number of regional experts on Russia and the post-Soviet countries is also decreasing at SWP. See M. Sapper, Niedergang und Neuanfang, "Die Krise der deutschen Russlandexpertise", Osteuropa, no. 6–8, 2012, p. 505–520.

⁹ See <http://www.Petersburg-dialog.de>.

¹⁰ The German-Russian Forum is a membership organisation that was founded in 1993 to improve mutual understanding between Germans and Russians. In addition to the Petersburger Dialog, it organises the German-Russian Youth Office, different information and cultural portals on the internet, and the Young Leaders Seminars with young Russians and Germans. See <http://www.deutsch-russisches-forum.de/index.php?id=taetigkeitsbereiche#c430>.

⁷ Wachstum, Bildung, Zusammenhalt, Koalitionsvertrag zwischen CDU, CSU und FDP, 17. Legislaturperiode, p. 119–120, available at https://www.bmi.bund.de/SharedDocs/Downloads/DE/Ministerium/koalitionsvertrag.pdf?__blob=publicationFile.

and German business interests meet German politicians to organise projects for the Partnership for Modernisation.

Details on how these Partnership for Modernisation projects are organised, what events take place, or even who funds what, are difficult to obtain, despite the fact that it is taxpayers' money being spent. This kind of opaqueness is a common feature of German-Russian relations. Generally, small and exclusive circles organise meetings and take the decisions.

The Petersburg Dialog is archetypal for the Russification of German formats. The German partners accepted that the Kremlin can select (or veto) Russian participants, and that German and Russian companies would be important donors and participants in the dialogue. Regime critics are generally not invited and issues that might be detrimental to co-operation with Russia are in the main not raised. The result is that Germany set up a new format for co-operation, to improve dialogue and initiate change in Russia, but then Berlin accepted Russian rules – rules that are meant to fight off any change that might reduce the power and profits of the Russian elite. What remains is a “dialogue” that legitimises the Russian status quo. This is all the more problematic because the Petersburger Dialog receives funding from the German Foreign Office.

These networks and institutions strengthen the informal ties between German and Russian officials and give companies the opportunity to lobby for their interests. More than half of the members of the board of the German-Russian Forum are currently working for companies with an interest in doing business in Russia.¹¹ Informal ties between Russia and Germany run across the economy. Russian state companies, such as Gazprom, pay former German politicians to represent their interests. Prominent examples of this include former Chancellor Gerhard Schröder as the chairman of the board of Nord Stream, and the former mayor of Hamburg, Henning Voscherau, who chairs the board of the South Stream project. Both Nord Stream and South Stream are pipeline projects to bring Russian gas to Europe. Nord Stream is operational, but South Stream has not yet been completed. Such former political figures are still seen as influential representatives of Germany, both within and outside the country, but it is unclear whose interests they serve now that they are on Gazprom's payroll. For instance, Schröder has been an outspoken critic of EU policy towards Russia in the context of the current crisis in Ukraine, imploring the West to try to understand Putin's side of the conflict.¹²

The energy sector remains central to the common interests and interdependence between Germany and Russia. The

Nord Stream pipeline is the largest among the projects of the Partnership for Modernisation. Gazprom is trying to develop Germany as the northern hub for its export infrastructure to other EU member states. There are also many interdependent energy arrangements; for example, Wingas is a gas distribution company active in Germany, which was established as a joint venture between Wintershall (an oil and gas-focused subsidiary of the large German chemical company BASF) and Gazprom. In December 2013, Wintershall and Gazprom agreed to an asset swap that put all of Wingas's shares in Gazprom's control; in exchange, Wintershall received access to large gas fields in Siberia. Thus far, no liquefied natural gas (LNG) terminal, which could act as an alternative source to Russian pipeline gas, has been built in Germany, because German energy companies do not want to risk relations with Gazprom and its cheap gas supply.

Acknowledging failure

Despite continued economic and energy interdependence, there has been a shift in Germany's Russia policy recently. In particular, since Putin returned to power in 2012, Berlin has begun to question its assumptions about Moscow. Putin's confrontational foreign policy and crackdowns on civil society, sexual minorities, opposition, media, as well as foreign and domestic NGOs have helped underscore the ideological miscalculation of Germany's “change through interweavement” policy and reconcile the opposing camps of Russia's friends and critics in Germany.

Germany has sought political change through economic co-operation, but Russia's elite wants the transfer of technical know-how without political reform. The reality is that Russia's elite has long grasped that the rule of law, transparency, and increased political competition would curtail their power, privileges, and rent-seeking opportunities. Corruption and secrecy are central features of the Putin system, not the exception. Thus, Germany's idealistic Russia policy is simply not compatible with Putin's *realpolitik*. The German political elite thinks in terms of win-win situations (co-operation and synergies), whereas the Russian leadership lives in a zero-sum world of international politics, characterised by domination and competition. Moscow's recent actions in Ukraine, including the annexation of Crimea and the destabilisation of eastern Ukraine, demonstrate Moscow's competitive posture towards the EU.

These mismatched mindsets are causing rifts between Berlin and Moscow, but they also explain Germany's appeasement policy. In seeking compromises with Russia, Germany has hoped to build trust and understanding. The illusion that German policy could influence Russian domestic policy was born in the 1990s, when Russian leadership was weak. Many of Germany's Eastern European policy architects came of age in the 1980s and 1990s, and continue to be under the illusion that Russia is malleable. What is more, as my colleague Hans Kundnani has argued, in a sense, German political elites

¹¹ Vorstand des Deutsch Russischen Forums e.V., available at <http://www.deutsch-russisches-forum.de/index.php?id=13>.

¹² “Ukraine-Konflikt: Schröder macht EU für Krim-Krise mitverantwortlich”, Spiegel Online, 9 March 2014, available at <http://www.spiegel.de/politik/deutschland/krim-krise-ex-kanzler-gerhard-schroeder-kritisiert-eu-a-957728.html>.

have since 1991 clung to the mantle of Bahr's successful Cold War Ostpolitik, while fundamentally misinterpreting it as an idealistic approach.¹³ Bahr's original conception was based on a realist assessment of how to achieve German unification. The policy was never envisaged as a means to democratise or change the Soviet Union (Bahr would be the first to argue that such a goal is foolhardy), but to obtain Russian approval for the long-term goal of German unification by pursuing closer and non-confrontational relations with Russia.¹⁴ Increasingly, though, even the staunchest of Russia's allies in Germany are beginning to see that economic interweavement and a co-operative demeanour is not going to push the Putin regime towards reform, not least because of the conflict in Ukraine.

There have also been some new developments in the German Russia debate, including a roundtable organised by the Heinrich Böll Foundation (which is aligned with Germany's Green Party) in June 2013. It was initiated by Marieluise Beck from the Green Party (a critic of Putin) and Christian Democrat Philipp Missfelder (a Russian conciliator), and brought together opposing views on Russia, though without including leading Social Democrats.¹⁵

Almost six months prior to the roundtable, the German Bundestag passed a resolution criticising domestic repression in Russia. Christian Democrat Andreas Schockenhoff was a central proponent of the act. During his tenure as Russia co-ordinator for the German government (2006–2014), Schockenhoff spoke out against Moscow's repression of civil society, NGOs, and the opposition, and also accused it of manipulating elections. The resolution, which he spearheaded, was the most critical official statement of any German government coalition against Russia in the past two decades.¹⁶ Schockenhoff was subsequently deemed a persona non grata by Moscow, a move that has even further accelerated the Russian-German alienation.¹⁷ But he was also criticised by other German politicians for being too critical towards Russia and provoking conflict.

Frank-Walter Steinmeier's return to the helm of the Foreign Office in the new government could have indicated a return to the uncritical Russia policy of the Schröder years. Steinmeier has generally been a proponent of a conciliatory policy towards Russia, but at least he sees policy towards Eastern Europe as a key strategic priority – unlike Merkel

or Steinmeier's predecessor in the Foreign Office, Liberal Guido Westerwelle. Steinmeier's new Russia co-ordinator is Gernot Erler, who speaks Russian, knows the country well, and has extensive networks in Russia. The position has been expanded to include not only civil society relations with Russia, but also the co-ordination of relations with Central Asia and Eastern Partnership (EaP) countries, indicating that Steinmeier is prioritising engagement in the eastern neighbourhood.¹⁸ Erler's posting was controversial among critics of Russia. Contrary to his predecessor Schockenhoff, Erler favours a more co-operative approach towards Russian leadership and is less engaged with civil society.

Russia's interference in Ukraine is helping forge a stronger and more unified Russia policy. Steinmeier's first speeches and interviews following his return to the Foreign Office in late 2013 were critical of Russia's behaviour towards Ukraine.¹⁹ Although Steinmeier has traditionally favoured a co-operative approach to Moscow, he cannot ignore the annexation of Crimea. And furthermore, even for Steinmeier it has become hard to believe that Putin genuinely seeks compromise and modernisation.

While Germany's idealistic approach has sought to bring Russia into the twenty-first century, the reality is that Putin wants the exact opposite. He would like to impose on the West the power paradigms of the twentieth century, and convince the EU and the United States to accept a Russian sphere of influence over post-Soviet states.²⁰ This is precisely Putin's goal with the annexation of Crimea and provocations in eastern Ukraine. Russian leadership wants the West to accept that Ukraine's future will be decided in Moscow. And not just Ukraine's – following the Crimea incursion, Putin made it clear that he proudly and manifestly rejects the post-Cold War order in Europe.²¹

While the German elite now largely agrees that Berlin needs a new Russia policy and that Russia's provocations in Ukraine make business as usual impossible, it is not clear how far Berlin or the German public will be willing to go. Polls show that a large majority (two thirds) of Germans do not support sanctions against Russia in the context of the Ukraine crisis.²² The business lobby, and prominent figures like former chancellors Schröder and Helmut Schmidt, who have defended Putin's actions and place central blame for the Ukraine crisis with the EU, remain influential.

13 Hans Kundnani, "The Ostpolitik Illusion", IP Journal, 17 October 2013, available at <https://ip-journal.dgap.org/en/ip-journal/topics/ostpolitik-illusion> (hereafter, Kundnani, "The Ostpolitik Illusion").

14 Kundnani, "The Ostpolitik Illusion".

15 Heinrich Böll Stiftung, *Runder Tisch: Kontroversen um die deutsche Russland-Politik*, 25 June 2013, available at <http://www.kulturportal-russland.de/veranstaltung.30716.runder-tisch-kontroversen-um-die-deutsche-russland-politik.perm>.

16 "Durch Zusammenarbeit Zivilgesellschaft und Rechtsstaatlichkeit in Russland stärken", motion of the factions of CDU/CSU and FDP in the German Bundestag, 6 November 2012, available at <http://dip21.bundestag.de/dip21/btd/17/113/1711327.pdf>.

17 Some Russian allies in Germany also criticised Schockenhoff, e.g., the former chairman of the Petersburg Dialog, Ernst-Jörg von Studnitz, criticised Schockenhoff's approach as "politically too short-sighted" and counterproductive. See Severin Weiland und Benjamin Bidder, "Streit um Russland-Beauftragten: Merkels Russland-Koordinator erziemt Putin-Partei", Spiegel Online, 23 October 2012, available at <http://www.spiegel.de/politik/deutschland/merkel-streitet-mit-putin-um-russlandsbeauftragten-schockenhoff-a-862850.html>.

18 See more at http://www.auswaertiges-amt.de/DE/AAmt/Koordinatoren/D-RUS-Koord/KO-RUS-Aufgaben_node.html.

19 Speech by Frank-Walter Steinmeier, Berlin, 17 December 2013, available at http://www.auswaertiges-amt.de/sid_1027B9ACEF7C8208268E8197634838B6/DE/Infoservice/Presse/Reden/2013/131217-BM_Antrittsrede.html?nn=382586.

20 See Igor Torbakov, "Understanding Moscow's conduct: The analysis of the domestic politics-foreign policy nexus in Russia", in Stefan Meister (ed.), *Economisation versus power ambitions: Rethinking Russia's policy towards post-Soviet states* (Baden-Baden: Nomos, 2013), pp. 19–33, esp. p. 29.

21 Kadri Liik, "Putin's New World Order", European Council on Foreign Relations, 18 March 2014, available at http://ecfr.eu/content/entry/commentary_putins_new_world_order242.

22 In an opinion poll by Forsa in mid-March, 69 percent of Germans said that sanctions will not help in the current situation. See "Mehrheit der Deutschen hält nichts von Sanktionen", *Handelsblatt*, 13 March 2014, available at <http://www.handelsblatt.com/politik/international/umfrage-mehrheit-der-deutschen-haelt-nichts-von-sanktionen/9609838.html>.

There are a number of other factors, new and old, that also complicate German perceptions of Russia. Many Germans have residual guilt towards Russia and believe that they did not compensate Russians enough for the atrocities of the Second World War. In addition, the current climate in Germany provides a sizable audience who are receptive to Putin's anti-Western rhetoric: growing anti-Americanism since the Iraq War and, more recently, the NSA scandal, and a more critical view of EU institutions in Germany since the bailouts. At the same time, the German population is rather indifferent to Ukraine, which is also an indictment of the German elites' failure to promote the importance of neighbourhood policy.

An economic relationship in decline

Just as the political mood on Russia has started to shift, German business is reaching the limits of its potential growth in its biggest eastern neighbour. Russia's lack of reform and structural stagnation means that most German enterprises cannot make much more progress in the country. Large German companies, which have always had access to decision makers in the Kremlin, still stand to gain from doing business with Moscow: deals are often launched or concluded during German chancellors' state visits to Moscow, when prominent business leaders often make up part of the chancellor's delegation. But the situation is less favourable for small- and medium-sized enterprises, which form the backbone of the German economy. These companies cannot succeed without transparency, the rule of law, and low administrative barriers. Russia does not at the moment offer this kind of business climate. During Putin's first two terms, the size of Russia's administrative apparatus more than doubled. Corruption is a serious problem and without protection from powerful figures connected to the regime, property rights are not secure.²³ In 2013, Russia ranked 127th out of 177 countries in Transparency International's Corruption Perceptions Index.²⁴

Putin's return to power has caused the business and investment climate to degenerate even further. Assets have been redistributed and central administrative roles are now held by people from security backgrounds rather than economists or business leaders.²⁵ In 2013, Germany's trade with Russia shrank by more than 5 percent on 2012 figures. And the trend has continued even in the face of Russia's WTO accession and the global economy's modest recovery.²⁶

- ²³ Along with corruption, German businesses criticise Russia's bureaucratic barriers and its lack of skilled specialists. See Ost-Ausschuss der deutschen Wirtschaft, "Geschäftsklima in Russland eingetrübt", 29 January 2014, available at <http://www.ost-ausschuss.de/gesch-ftsklima-russland-eingetr-bt>.
- ²⁴ Transparency International, "Corruptions Perceptions Index 2013", available at <http://www.transparency.org/cpi2013/results>.
- ²⁵ Kadri Liik, "Regime change in Russia", European Council on Foreign Relations, 31 May 2013, available at http://www.ecfr.eu/publications/summary/regime_change_in_russia209.
- ²⁶ Statistisches Bundesamt, "Deutscher Handel mit Mittel- und Osteuropa", Ost-Ausschuss der Deutschen Wirtschaft, 2014, available at http://www.ost-ausschuss.de/sites/default/files/pm_pdf/Handel%20MOE%20Jan-Nov%202013.pdf.

Unless Russia's political and economic system undergoes a fundamental change, the growth of German trade with Russia has hit a ceiling. The ongoing Ukraine crisis will worsen the investment climate in Russia and increase capital outflow. This will further impede Russian economic growth, which is already estimated at less than 1 percent for 2014.²⁷ According to Russia's deputy economy minister, Andrey Klepach, Russian capital outflow reached \$70 billion in the first three months of 2014, compared to \$63 billion for the whole of 2013.²⁸ Former finance minister Alexei Kudrin estimates total outflow for 2014 of at least \$150 billion.²⁹

Energy: a fading glow

The energy sector has been at the heart of German-Russian co-operation for a long time, and Russia has long been Germany's key energy partner. But even here, the picture has become less rosy. Much of Russia's pipeline infrastructure terminates in Germany, and German energy companies have gained substantial profits through co-operation with Russia. However, several factors signal change in Germany's energy relations with Russia. The European Commission's Third Energy Package has brought about shifts in European energy policy.³⁰ The global energy and gas market is being revolutionised by developments such as the shale gas revolution in North America. And Germany is phasing out its use of nuclear energy.

Gazprom's prices in Germany have fallen because of changes in the global gas market, particularly in the areas of LNG and shale gas. After the global financial crisis in 2009, gas prices on the stock market were temporarily lower than the price of Russian pipeline gas. German energy companies began to buy cheaper gas from Norway and Qatar, and opened negotiations aimed at receiving a smaller quantity of Russian gas at lower prices. By 2010, Norway and Russia supplied roughly equal amounts of gas to the German market. Gazprom's inability to respond to changing global gas prices led to price disputes between the Russian energy giant and German companies such as E.ON and EnBW.³¹ At the same time, the European Commission's unbundling policy, which is meant to increase competition in the European market through liberalisation, has come into

- ²⁷ BOFIT Russia Team, "BOFIT Forecast for Russia 2014–2016", Bank of Finland, 25 March 2014, available at http://www.suomenpankki.fi/bofit_en/seuranta/ennuste/Documents/brf114.pdf.
- ²⁸ Kathrin Hille and Richard McGregor, "Russia braced for \$70bn in outflow", Financial Times, 24 March 2014, available at <http://www.ft.com/intl/cms/s/0/19b9ad88-b37c-11e3-bc21-00144feabdc0.html#axzz2wxSEEPzr>.
- ²⁹ "Kudrin: Nulevoj rost vvp RF v 2014 godu stanet platoj prisoidinenie kryma", Praim, 27 March 2014, available at http://www.iprime.ru/state_regulation/20140327/781345039-print.html.
- ³⁰ The European Commission's Third Energy Package was adopted in 2007 to develop an integrated and competitive energy market through unbundling and liberalising the gas and energy market. See European Commission, "Third package for Electricity & Gas markets", available at http://ec.europa.eu/energy/gas_electricity/legislation/third_legislative_package_en.htm.
- ³¹ In 2000, Russia was responsible for 46.6 percent of German gas supply and Norway was responsible for 26.1 percent. By 2010, Russia contributed 37.8 percent compared to Norway's 36.6 percent. In 2013, Gazprom had a share of 38.7 percent and Norway had 29.4 percent. See Ost-Ausschuss der deutschen Wirtschaft, "Russische Föderation", March 2014, available at [http://www.ost-ausschuss.de/russland; and Bundesamt für Wirtschaft und Ausfuhrkontrolle, "EnergieINFO", available at http://www.bafa.de/bafa/de/energie/erdgas/energieinfo/index.html](http://www.ost-ausschuss.de/russland; and Bundesamt für Wirtschaft und Ausfuhrkontrolle,).

conflict with Gazprom's policy of setting long-term contracts and inflexible prices. German companies and politicians may continue to push for exceptions from initiatives such as the Third Energy Package (see below), but in the long term, they will have to implement European policy.

The German government plans to stop producing nuclear energy by 2022, which will cause German demand for gas – including Russian gas – to increase. But the medium-term increase in German demand for gas is only one part of the changing energy picture. German energy companies are looking for new strategic partners for large-scale investments in renewable energy and in the power grid system. However, Gazprom is focused on securing its transit monopoly and its long-term contracts. Because of this, it lacks the flexibility to be a suitable partner in these new developments. The Ukraine crisis will not change the German consensus on a nuclear phase-out – but it will accelerate Germany's search for alternatives to Russian gas.

Due to decreasing production in Europe, Russian energy resources will continue to play an important role in the German and European economy for a long time to come. Nonetheless, disputes are multiplying and interests are diverging. The Ukrainian crisis has caused the German government to question its dependency on a single energy supplier. The crisis has also brought about louder criticism of the deal selling Wingas to Gazprom, as well as of German utility company RWE's decision to sell its oil and natural gas subsidiary, RWE Dea, to the second richest Russian, Mikhail Fridman.³²

As the Russian government becomes less willing to modernise and more willing to provoke strife with the EU, Berlin is finding it increasingly difficult to reconcile German economic interests with the political interests of the EU. Because of its conflicted stance, Germany has taken some inconsistent positions. For instance, Berlin asked for an exception from the EU's Third Energy Package for the OPAL pipeline, which links the Nord Stream pipeline with the Central European gas pipeline network. This move only helps Gazprom to maintain its position of dominance.³³ At the same time, Merkel's government supported the European Commission's antitrust case against the monopoly of Russian companies on gas transit to Europe.

Germany's Russia policy in Europe

Germany's bilateral relations with Russia have in the past undermined the construction of a coherent European Russia policy. Berlin has been heavily criticised for its co-operative approach and its patience with the Putin system. Bilateral projects such as Nord Stream have held back efforts to diversify the EU's gas supply. Even German proposals such as the 2010 Meseberg Memorandum, which invited Moscow to join an EU–Russia security council to resolve the Transnistrian conflict, were not co-ordinated with other EU member states or with the European Commission.³⁴

Germany is not solely to blame for the EU's policy incoherence. Many other countries, including Italy, France, the United Kingdom, and Finland, also have business interests in Russia. In fact, the EU is split on Russia because of member states' different priorities, divergent economic interests, and incompatible security and risk assessments. Even so, Germany has always been central to EU policy on Eastern Europe. A large number of German initiatives for Russia and the eastern neighbourhood have become common EU policy, including Black Sea Synergy and European Neighbourhood Policy (ENP) 'Plus' as a pre-concept for the Eastern Partnership. And the EU's adoption in 2010 of the German Partnership for Modernisation concept is evidence of Berlin's substantial influence on Europe's Russia agenda.³⁵ As well as pushing judicial and economic reforms, the EU's Partnership for Modernisation supports projects in areas such as human rights and civil society. However, its scope is very limited: since 2010, it has had a budget of only €7 million, and it has been further held back by lack of consensus and insufficient interest within the EU.

For its part, Moscow has always wanted to maintain exclusive bilateral relations with the EU rather than being included with other post-Soviet states in a shared EU policy approach. Therefore, it had no interest in participating in the EaP. In fact, Russia became increasingly distrustful of the EaP, which it began to see as an anti-Russian policy. Germany tried to address Moscow's concerns by suggesting that the EaP framework should include co-operation projects with both Russia and Turkey.

Merkel has taken a more critical stance on Russia than some of her predecessors, but until 2014 this did not translate into a policy shift either at national or at EU level. Other topics have taken priority, including the EU's institutional crisis, the euro crisis, and transatlantic tensions. Under Merkel's leadership, the Partnership for Modernisation has continued to be pursued, even if only in a lacklustre

³² Markus Balsler, "RWE Deal verschärft Abhängigkeit von Russland", Süddeutsche.de, 17 March 2014, available at <http://www.sueddeutsche.de/wirtschaft/verkauf-der-energie-tochter-dea-rwe-deal-verschaerft-abhaengigkeit-von-russland-1.1914472>.

³³ Vladimir Socor, "Germany in New Role as Transit Country for Russian Gas", Eurasia Daily Monitor, 13 February 2014, available at [http://www.jamestown.org/regions/russia/single/?tx_ttnews\[tt_news\]=41963&tx_ttnews\[backPid\]=48&cHash=dee63fd5381f54c6e3890b8292ddbe#.UwsVYYU9sp0](http://www.jamestown.org/regions/russia/single/?tx_ttnews[tt_news]=41963&tx_ttnews[backPid]=48&cHash=dee63fd5381f54c6e3890b8292ddbe#.UwsVYYU9sp0).

³⁴ Permanent Mission of the Russian Federation to the European Union, "Memorandum: Meeting of Chancellor Angela Merkel and President Dmitri Medvedev on 4–5 June 2010 in Meseberg", available at <http://www.russianmission.eu/sites/default/files/user/files/2010-06-05-meseberg-memorandum.pdf>.

³⁵ This concept was first introduced at the EU–Russia summit in Rostov-on-Don on 31 May–1 June 2010. See Delegation of the European Union to Russia, "Partnership for Modernisation", available at http://eeas.europa.eu/delegations/russia/eu_russia/tech_financial_cooperation/partnership_modernisation_facility/index_en.htm.

fashion. However, co-ordination with Poland on Russia and the Eastern Neighbourhood Policy has improved. Bilateral initiatives between the German and Polish foreign offices have been expanded in recent years and a trilateral format between Germany, Poland, and Russia was initiated in 2011.³⁶ This trilateral format has included meetings between representatives of different ministries from the three countries. It has had some successes, such as the institution of a visa-free travel regime for Kaliningrad. However, because of Russia's limited engagement, the trilateral format has become at best a trust-building instrument rather than a serious platform for furthering EU-Russian relations.

The lack of German leadership and of close co-ordination between Germany and other member states on Russia has been a serious problem for the EU's attempts to create an effective Russia policy. Individual initiatives such as Meseberg have undermined rather than supported efforts to build a coherent EU approach. And Germany's misreading of Russian and eastern neighbourhood priorities has caused it to make missteps that have had an impact on EU initiatives. The German government's insistence during talks on the proposed Association Agreement (AA) between Ukraine and the EU on the release of Yuliya Tymoshenko from prison was one such misapprehension of domestic Ukrainian politics. The failure of Germany and other member states to anticipate that Russia might push back strongly against the AA did not serve the EU well. Germany is not the only EU member that assessed the situation incorrectly, but it played a leading role in pursuing the association and trade agreements that set off the crisis in Ukraine.

Germany's foreign policy debate

The current moment has brought about a real shift and a great opportunity to develop EU policy towards Russia. The grand coalition in Berlin is headed by a chancellorship that is more critical of Russia than previous governments, and the crisis in Ukraine has shown the German leadership the significance of the eastern neighbourhood. And, in Steinmeier, Germany has an experienced foreign minister for whom Russia and Eastern Europe are key priorities.

Germany is engaging in an ongoing debate about its foreign policy role. In the past six months, a number of high-level German politicians have made the case that Berlin needs to take a more active role in international relations: perhaps the most prominent example of this was President Joachim Gauck's speech at the Munich Security Conference at the end of January 2014.³⁷ Presumably, a more active Germany

would not only join its EU allies in responding to conflicts in Africa, but would also step up its role in the eastern neighbourhood, where it has more influence and interests. Steinmeier's efforts with his colleagues from Poland and France to arrange the 21 February deal between the Ukrainian opposition and government could offer a model for a more engaged German foreign policy in the eastern neighbourhood.

Germany's current Russia policy is also the subject of serious political debate at the highest levels. Berlin is becoming aware that its traditional "change through interweavement" approach needs a realist update. Such a reframing would not entail a complete reversal of Germany's co-operative approach towards Russia. Berlin still believes that consistent long-term engagement is more likely than isolation to bring about change. But Germany's analysis of what can be expected from the Putin regime has changed. Putin's annexation of Crimea and subversion of Ukraine's sovereignty has only increased an already growing disillusionment about Russia's commitment to co-operation.

The outcome of the debate will likely be a German Russia policy that is co-operative, but has clearer limits. Steinmeier's efforts to work with other EU foreign ministers in his recent initiatives are a good indication that the German government understands Europe's unease with Berlin's tendency to go it alone with Russia. Germany's new Russia policy will be better co-ordinated with other EU member states and more prepared to set red lines for Russia. In a speech at the Bundestag in late March, Merkel questioned Russia's G-8 membership and repeated the threat of economic sanctions as a response to Russian interference in Ukraine.³⁸ This speech, along with other statements by the German leadership, offers evidence that the German leadership is likely to support a tougher European policy towards Moscow.

Reframing German and EU Russia policy

Policy co-ordination between EU member states on post-Soviet states has already improved, in response to growing conflict with Russia on the common neighbourhood, Putin's lack of interest in co-operating with the EU on Ukraine, and the Russian leadership's anti-democratic domestic policy. But it has been external forces (mainly Russia's undermining of Ukraine's sovereignty) rather than a common strategy that have brought member states closer together on, for example, the deployment of sanctions. The failure of the Vilnius summit in November 2013 and the ensuing crisis in Ukraine have made it critical that the EU reframe its common Eastern Neighbourhood Policy as a key priority. Member states need to re-evaluate the EU's role in its eastern neighbourhood, along with its credibility, interests,

³⁶ Stefan Meister, "A New Start for Russian-EU Security Policy? The Weimar Triangle, Russia and the EU's Eastern Neighbourhood", Genshagener Papiere, 7 July 2011, available at https://dgap.org/sites/default/files/article_downloads/Genshagener-Papiere_2011_7_eng.pdf.

³⁷ "Deutschlands Rolle in der Welt: Anmerkungen zu Verantwortung, Normen und Bündnissen", speech by President Joachim Gauck at the 50th Munich Security Conference, 31 January 2014, available at <http://www.bundespraesident.de/SharedDocs/Reden/DE/Joachim-Gauck/Reden/2014/01/140131-Muenchner-Sicherheitskonferenz.html>.

³⁸ Chancellor Angela Merkel, government policy statement at the German Bundestag, Berlin, 20 March 2014, available at <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2014/2014-03-20-bt-merkel.html>.

and ability to provide sufficient resources to implement its policy. At the same time, EU countries must consider how they plan to deal with an aggressive and unco-operative Russia, and whether in fact the EU and Russia still share common interests. The EU must acknowledge that Russia is going to ignore its existing agreements with Europe. Business as usual is simply no longer possible.

The annexation of Crimea and destabilisation of eastern Ukraine demonstrates a fundamental shift in Russian policy that precludes engaging with Russian civil society for the moment. But it is vital that the EU stands behind its normative principles. The economic and political stabilisation of Ukraine represents a litmus test for the EU's ability to act as an effective player on foreign policy. The price tag will be very high, but if it is to prevent state collapse in its direct neighbourhood, the EU will have to be ready to invest significant resources.

If the EU wants to stabilise Ukraine and to support the reform process in countries such as Moldova and Georgia, it needs to discuss a real path towards EU membership with an appropriate conditionality. Ukraine does not have to gain membership in five years' time – in fact, anything less than a 25- to 30-year accession perspective is unrealistic. But even a long-term perspective would act as a powerful driver of reform and would give the EU leverage and influence.

If its current shift in perspective on Putin's Russia continues, Germany could become a leader of the EU's policy towards Russia and the eastern neighbourhood. Germany is the only EU member state that features prominently in Russian discourse. And it is the only EU state that is both sufficiently interested and economically powerful to make EU policy in the eastern neighbourhood relevant. Interested member states such as Poland, the Baltic states, France, Finland, and Sweden should support Berlin in crafting a more proactive common policy on Russia and the eastern neighbourhood. This will require more compromise, more resources, and more co-ordination in the Russia policies of the member states. And, crucially, states must refrain from bilateral action. Even with strong German leadership, EU policy can only be effective if the member states can come together to agree on a plan for their neighbours to the east.

The reanimation of the Weimar Triangle, largely pushed by the German foreign minister in the context of the Ukraine crisis, indicates that the German elite has realised that it should co-ordinate its eastern policy with other member states. In a common declaration at a Weimar Triangle meeting in Weimar on 31 March 2014, the foreign ministers of Germany, Poland, and France called for a new dynamic in the European Neighbourhood Policy. The new direction should include more flexible financial support, deeper inclusion of neighbouring countries in the EU's internal market, expansion of youth exchange programmes, and loosened visa restrictions.³⁹ None of these ideas are new, but the declaration emphasises the growing significance of the eastern neighbourhood for important member states.

The Weimar Triangle's role in crisis management in the Ukrainian conflict sent a positive signal with regard to the group's intention to increase common engagement and joint responsibility. But rather than being dependent on particular foreign ministers at a given time, this kind of crisis management should form part of an improved institutional mechanism within the EU.

Russia as a foreign policy challenge

Since the collapse of the Soviet Union, Russia has used post-Soviet conflicts to assert its dominance. Its aggressive actions towards Ukraine provide yet more evidence of this tendency and the annexation of Crimea has set new precedents. Moscow is inciting conflict to reinforce Ukraine's dependence on Russia and, in the long term, to undermine its sovereignty.⁴⁰ Given that Russia pursues its own interests in these matters, the EU should not accept Russia as the main broker in the conflicts in the South Caucasus and Transnistria. Doing so only serves to weaken the sovereignty of the post-Soviet states involved. Moreover, while Russia still seeks dominance, it is less and less able to guarantee the economic or military status quo in the Caucasus and Central Asia. Any serious EU strategy for its eastern neighbourhood must take this fact into account.

Germany has a starkly different perception of the existential threat posed by Russia to that of the central and eastern EU member states. Germany and these states also have divergent ideas about the role NATO should play in ensuring European security. Poland and the Baltic states, for example, look to NATO to counterbalance Russia's aggressive Ukraine policy. But German decision makers (and indeed others in Western Europe) fear that a stronger NATO role might cause more harm than good in the current crisis with Russia, because of Moscow's longstanding perception of NATO as an adversary. NATO is an important security guarantor for its members, but cannot play a key role in negotiations with Russia. Therefore, EU member states need to review NATO's role in European security and its position towards Russia. We should also open a dialogue targeted at better aligning the different member states' threat perceptions.

Similarly, member states disagree about the role that the US should play in the crisis and about its policy on sanctions against Russia. Many member states are happy to have the US leading the response to Russian aggression in Ukraine, but the German political elite is more sceptical of Washington's role. Berlin believes that Washington does not see political or economic co-operation with Moscow as important, especially since Europe in general has

³⁹ The Permanent Mission of Germany to the United Nations, "Press Release: Joint Declaration of the Foreign Ministers of the Weimar Triangle on Ukraine", 31 March 2014, available at http://www.new-york-un.diplo.de/Vertretung/newyorkvn/en/___pr/press-releases/2014/20140331-steinmeier-on-ukraine.html?archive=3759636.

⁴⁰ See Stefan Meister, "Crimea: what does Putin want?", European Council on Foreign Relations, 6 March 2014, available at http://www.ecfr.eu/blog/entry/crimea_what_does_putin_want.

become much less important to a US administration that is now focused on Asia. Berlin also fears that current US policy is driven by the domestic weakness of the Obama administration. To try to bridge the gap, member states that are more aligned with US policy should engage Germany in a debate about the limits of US interest in Eastern Europe. In the debate, member states should consider ways that the EU might compensate for the waning US presence on the continent by instituting stronger political, economic, and conflict resolution engagement in the region.

Strengthening the EU's normative approach towards Russia and the eastern neighbourhood is key to winning back EU credibility in the neighbourhood. Policies that have shied away from criticism and conflict in order to maintain good business relations have only served to legitimise the Putin system, and these policies must end. To counter the effects of lobbying, member states need to come up with a more accurate assessment of the political and economic situation in Russia through building new network platforms and undertaking more research on the post-Soviet states. ECFR plans to establish a new pan-European structure to improve research and network capabilities across the EU, which should work to improve the co-ordination between member states on Russia and EaP policy.

One common task for EU member states is to give up the elite-centred Russia and eastern policy approach in favour of an approach that focuses on the public and on civil society. The most powerful impetus for change comes from the public, as events in Ukraine have demonstrated. Some EU member states (for instance Poland, the Baltic states, and Sweden) understand the role of civil society in the eastern neighbourhood. German policymakers and civil society actors should improve co-ordination with other EU member states on their eastern policy. And Germany needs to Europeanise its Russia discourse and formats with the support of other member states. EU neighbourhood policy should invest more in bringing civil society into the political process through monitoring tasks, visa policy, the Civil Society Forum, improved communication, and support of independent media.

The EU needs to adopt a two-track approach towards the eastern neighbourhood that considers Russia but also focuses on EaP countries on their own.⁴¹ EU neighbourhood policy cannot always incorporate Russian interests on the common neighbourhood. In terms of promoting democracy and good governance, the EU's goals run exactly counter to Moscow's. The Russia-first approach that has dominated German policy does not reflect the reality of post-Soviet dynamics. Russia's interests in EaP states are in direct contradiction to the EU's interests in developing a stable, democratic, and transparent neighbourhood. All the post-

Soviet states seek a balance to Russian influence, and this will be all the more so after the annexation of Crimea.

At the same time, the EU needs a forum in which it can discuss common challenges with Russia and EaP countries. Germany can play a key role in developing such a format and securing Russia's participation in it. The German idea of an international contact group for Ukraine should be just a starting point for a comprehensive discussion on security in Europe, which should also include conflict resolution in post-Soviet states. The compatibility of Russian and EU integration projects also needs to be addressed. The OSCE is toothless and NATO is both exclusive in its membership and a *bête noire* for Russia, so none of the existing institutions are up to the task.

Putin's Russia, with its unsustainable economic policy and aggressive foreign policy, needs to be countered by an EU that has a robust Eastern Neighbourhood Policy. The new realism in Germany's Russia policy, in combination with Putin's Crimea adventure, provides Europe with an excellent opportunity to develop strong and cohesive common policies towards Russia and the eastern neighbourhood.

⁴¹ On the two-track approach, see Stefan Meister, "Recalibrating Germany's and EU's Policy in the South Caucasus", DGAPAnalyse, 2 July 2010, available at <https://dgap.org/en/article/getFullPDF/17777>.

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