

Merkel and Putin's consultation: the economy first of all

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The 14th German-Russian intergovernmental consultations took place in Moscow on 16 November. The meeting had originally been scheduled for October, but it was delayed due to the ongoing cooling of political relations between Berlin and Moscow. Despite rising frustration in Germany, no change can be expected in the current model of German-Russian relationship, wherein economic cooperation is separated from ideological issues (such as human rights and democratisation), and which allows Russia to benefit from economic relations without having to adjust its domestic policies. There is little hope that closer economic ties will translate into deeper cooperation between Berlin and Moscow in areas such as security policy or regional conflict resolution.

The main topics of the talks between Angela Merkel and Vladimir Putin was economic cooperation, including in the energy sector, as well as Russia's upcoming presidency of the G20 next year. The Russian and German leaders also discussed international matters, including the escalation of the conflict in the Middle East, the situation in Syria, Iran's nuclear program, and Afghanistan. During her talks with the Russian President, the German Chancellor touched on the changes in Russia's internal policy, which Berlin has found disturbing. In this context, she mentioned the laws adopted in recent months restricting the development of civil society, as well as the court verdict against the members of the band Pussy Riot.

Berlin's growing disillusionment

Before the visit, the German media had described the atmosphere between the Kremlin and the Chancellor's office as 'the coldest in years'. The consultations were preceded by an unprecedented debate in Germany about human rights in Russia. This was provoked by the verdict in the Pussy Riot trial, but covered a much wider range of issues. This time the German media, which have traditionally been more critical of Russia than German officials, were not alone; since Putin's return to the Kremlin, many German research institutes and think tanks have published critical analyses of Russian policy and German-Russian relations. This reached its peak with the publication of a draft Bundestag resolution drawn up by Andreas Schockenhoff, a CDU deputy and the Federal Government's representative for German-Russian inter-societal cooperation, which included harsh criticism of the Kremlin. Schockenhoff has been criticised both within his own party and by the coalition partners

(the CDU/CSU and the FDP), who accused him of provoking unnecessary conflicts; the German Foreign Ministry edited the text to soften its harsh language. Responding to criticism from the Russian Foreign Ministry, Merkel's spokesman joined in the dispute; while supporting Schockenhoff, he emphasised that factual criticism does not constitute slander.

The discussions among political analysts and the media, as well as the conflict over the Schockenhoff resolution, clearly show a clash between different paradigms of German policy towards Russia. At present, the idea of a strategic partnership limited to economic cooperation, especially in the area of raw materials is in the ascendant. The reason for this is not only that Berlin does not take Putin seriously as a partner for any kind of broader cooperation, including on foreign policy and security questions; another factor is that Germany lacks a broader strategy towards Putin's Russia which would go beyond the development of economic relations. This is because Berlin is fatigued and increasingly frustrated by developments in the Russian Federation, as well as by the obvious failure of the German doctrine of 'change through rapprochement' (*Wandel durch Annäherung*) and its later variant of 'change by integration' (*Wandel durch Verflechtung*). Despite high hopes, the main project of German-Russian relations – the Partnership for Modernisation, which has been underway since 2008 – has not met Berlin's expectations, because Russia, as it turned out, was interested only in technology transfers and investment, and not at all in implementing democratic standards or strengthening democratic institutions.

In Germany, there are growing doubts about the validity of the main principles on which Berlin has based its policy of cooperation with Russia (such as the Partnership for Modernisation; intensifying and widening ties with the Russian Federation in order to change economic and political standards there; readiness for one-sided engagement without expectations of immediate reciprocity; understanding for the difficulties Russia encounters on its path to modernisation and democratisation). Aside from the failure of the Partnership for Modernisation – which was understood completely differently by the two parties – the Russians have exploited for their own ends – principally to strengthen their current political system – the German desire to intensify and broaden mutual ties. The German push for 'rapprochement' often ends up with the adoption of Russian standards by the German side, as shown in how German companies conduct business in Russia. Nevertheless, the failure of Germany's approach towards the Russian political elite has not persuaded Berlin to abandon it, as for now nobody in Germany is able to formulate a satisfactory alternative policy towards Russia, while the countries' are still tied by economic relationship that can be described as strategic.

Maintaining the current model

Institutional cooperation at the level of civil society, which according to German calculations should have fostered systemic political and social evolution in Russia, has in fact had the opposite effect. The ease with which Russia ignores German criticism on human rights issues, democratisation and the rule of law only reinforces the belief widespread among both the Russian public and the elite that these issues are truly irrelevant (also for Germany), and of secondary importance compared to economic issues.

There is no sign that Berlin's critical attitude towards the Kremlin has had any impact on economic relations between the two countries. The summit showed once again that ideological issues (such as human rights and democracy) will not hamper the development of economic relations between Germany and Russia. After a period of stagnation, bilateral trade has been increasing rapidly; in 2011, Russia ranked 11th of Germany's trading partners (just behind Poland, which came 10th). According to the German Economic Committee for the East (*Ostausschuss*), the volume of trade between Russia and Germany in 2012 will exceed that of the previous year (€75 billion). The data from 2012 years suggests that Russia will advance to tenth place in the rankings, ahead of Poland. Today about 6,000 German companies are operating in Russia. In the first eight months of 2012, German exports to Russia amounted to €25.1 billion, 14% more than in the same period last year. Simultaneously, imports from Russia increased by 7%, and by August amounted to €27.7 billion. In the first half of this year German investment in Russia reached €20 billion, of which direct investments make up €8.6 billion.

On 14 November, two days prior to the summit, Germany's BASF and Russia's Gazprom signed an agreement on asset swap (see Appendix). Gazprom's takeover of the German gas companies means that it will be able to implement its energy strategy (i.e. systematically increase its presence on the European gas market by investing in assets) in Germany. In addition, by obtaining shares in Wintershall Noordzee, which has the rights to explore deposits in the southern shelf of the North Sea, Russia has gained access to confidential geological data which is useful for the drawing up of Russia's energy policy in Europe. During the consultations, the German company Siemens signed an agreement to supply 675 locomotives to the Russian state railway company; this contract is worth €2.5 billion.

Appendix

The BASF-Gazprom agreement

As part of the transaction, Wintershall (a subsidiary of BASF) will receive 25% plus one share in blocks IV and V of the Achimov (Urengoy) deposits in western Siberia, whose reserves are estimated at 274 billion m³ of gas. In addition, Wintershall will be able to increase its share in both blocks to 50%. Gas production is to start there in 2016. In return, Gazprom will take full control of the trading and gas storage companies which had previously been jointly controlled: Wingas, Wintershall Erdgashandelshaus Berlin, Wintershall Erdgashandelshaus Zug and Wingas-Speichergesellschaft Astor, as well as a 50% stake in the Wintershall Noordzee BV company. Both companies will maintain joint control over the gas transport company Gascade.

The transaction must be approved by Gazprom's board of directors as well as the European Commission, and is expected to be completed by the end of 2013; if it is approved, then it will be financially retroactive to 1 April 2013.

Gazprom's takeover of the German gas companies is part of its energy strategy of systematically increasing its presence on the European gas market. The proposed

transaction, which will have significant impact on competitiveness of the gas market in Germany and several other European countries, will certainly be taken into account by the European Commission as it conducts its antitrust proceedings against the Russian monopolist.

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