

The German reaction to the Russian-Ukrainian conflict – shock and disbelief

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The crisis in Ukraine and the Russian intervention have brought about a situation in which it is necessary for Germany to make decisions and take action. No one in Berlin was prepared for this nor did anyone want this to occur. The effect of this is that the government has adopted a clearly critical stance on Russia, albeit in tandem with cautious diplomatic moves; it has given its consent to limited sanctions on representatives of the Russian elite, and has disapproved of economic sanctions. On the other hand, voices have been heard in the political debate in Germany not only warning of the catastrophic consequences of a deterioration in German-Russian relations but also those in fact expressing understanding for the Russian reaction. Although it is typical above all of the business circles engaged in Russia and the authors of Germany's *Ostpolitik* to downplay the Kremlin's moves, political parties and the German public are divided over how Germany should respond to Moscow's policy, and this dispute will worsen. Berlin will take a whole array of actions to de-escalate the conflict, since the imposition of radical political and economic sanctions on Russia would also have a strong adverse effect on Germany. As regards sanctions, Germany would not only sustain economic losses, but they would also undermine the ideological foundations for the still popular vision for Germany's strategy towards Russia in which great emphasis is laid on a strong "respect for the EU's most important neighbour and its interests".

Germany's diplomatic offensive¹ in response to the Russian-Ukrainian conflict is intended at preventing President Vladimir Putin from expanding his military intervention beyond Crimea and at causing representatives of Russia and Ukraine to become involved in direct talks and thus settle mutual relations and end the conflict. Germany has also agreed to talks with Russia concerning

the economic part of the Association Agreement between the EU and Ukraine, and seems to be ready to accept part of Russian demands regarding Ukraine², including the most important one, namely a 'federalisation of Ukraine'. This federalisation *de facto* means transforming Ukraine into a confederation of independent regions, and will offer Moscow direct influence on the southern and eastern parts of Ukraine, and indirectly on the whole country. Berlin is

¹ Chancellor Merkel has held numerous telephone conversations with President Putin since the conflict began, which is very important for the Russian side (this was emphasised by Putin's spokesman, Dmitry Peskov, in an interview for ZDF TV on 30 March). Furthermore, the German minister of foreign affairs, Steinmeier, visited Kyiv and Donetsk on 22 March, and Gernot Erler, the German government's Russian affairs coordinator, visited Moscow on 24–25 March.

² This also concerns accountability for crimes committed by those involved in the clashes on the Maidan (by both sides, as emphasised by Germany), radical right groupings being excluded from government bodies and the need to guarantee the Russian minority's rights in Ukraine.

ready to help Kyiv conduct the reforms and will employ for this purpose the numerous forums of political and economic co-operation Germany has been developing in Ukraine since the mid 1990s. It is also prepared to help stabilise Ukraine's financial situation, above all by taking action as part of the IMF and the EU. Such aid may be offered on condition that Ukraine commits to adopt a package of structural reforms.

The German government has adopted a clearly critical stance on Russia in the Russian-Ukrainian conflict, albeit in tandem with cautious diplomatic moves.

Germany has thus far backed the EU's plan to grant immediate financial assistance to Ukraine and loans worth 15 billion euros in the coming years and also to open up the EU's internal market for Ukrainian companies. Berlin has also suggested that funds offered to Ukraine as part of development aid could be increased by 20 million euros annually (33 million euros were offered as part of this aid in 2011).

The background of the German stance

The German stance on the Russian-Ukrainian conflict is an effect of the changes which have been taking place on the German political scene over the past few years and in German public opinion regarding the country's policy towards Russia. Two opposing approaches have been present in the debate on this issue. **Supporters of the first approach cultivate the key guidelines of Germany's *Ostpolitik*** dating back to the 1970s ("change through rapprochement"), including its more recent variation, i.e. *neue Ostpolitik* and the Partnership for Modernisation ("change through integration"). They view Russia as the European Union's key economic partner with whom it is necessary to co-operate in order to establish a stable Euro-

pean security order³. In their opinion, stability in Europe requires a strategic partnership with Russia, even if this involves making concessions, especially given the security challenges in the post-Soviet area, which is seen as Russia's natural "sphere of influence." To put co-operation of this kind with Russia into practice, political and economic relations should be institutionalised both at the bilateral level and as part of contacts between the EU and Russia. This is also expected to contribute to enhancing the global role of the European Union, and thus serve the political and economic interests of Germany, since it is a leading EU member state. According to this approach, the strong economisation of German-Russian relations is a positive factor, which will trigger the synergy effect – economic interests (enhancing energy co-operation and increasing the engagement of German companies on the Russian market) will build up the political interests, and thus both platforms of the strategic partnership – political and economic – will be reinforced.

The other approach is an effect of the frustration with the lack of success of the policy towards Russia as described above and is based on the conviction that the strength of this country should be measured by its destructive potential rather than its desire for constructive action. This approach has been formed as a consequence of events in Russia itself, i.e. Vladimir Putin's return to power and his increasingly aggressive policy oriented towards Russia regaining its superpower status and rebuilding its area of influence – one proof of which is the annexation of Crimea – and suppression of any signs of civil society activity in Russia. Germany has made changes in its policy, i.e. a growing interest in and the development

³ Germany has thus far made consistent efforts to establish co-operation with Russia in Eastern Europe. This co-operation has been based, for example, on including Moscow in attempts to stabilise the region (e.g. the so-called "Meseberg Process") instead of antagonising it (hence Merkel's firm rejection of the proposal to cover Ukraine with a Membership Action Plan at the NATO summit in 2008).

of closer political and economic co-operation with new regional powers, especially China, the establishment of partnerships based on raw material supplies, and – last but not least – Germany’s decision to undergo an energy transformation which is aimed at ensuring Germany’s independence from energy suppliers through the development of renewable energy sources (RES). All these taken together have all had an equally great impact on the formation of this viewpoint. Given this new context, those who view Russia from a more critical and demanding angle believe that it will remain an important strategic partner but will no longer be the only one in the economic and political co-operation of Germany besides the EU and the USA. However, both of these factions **have a few key features in common:**

- the unbreakable belief in the success of Willy Brandt’s *Ostpolitik*, as part of which strong economic relations were established with Russia in the 1970s and 1980s, and which has been interpreted as a key strategy which enabled the reunification of Germany;
- sticking to the key principle in German political culture, namely continuing dialogue and the search for consensus, especially with a strong partner;
- viewing Berlin as a mediator and intermediary between Russia and the West;
- not seeing Russia as a military threat to Europe;
- advocating the broadest possible participation for Russia in debate and actions concerning the future of the EU’s eastern neighbourhood, which in fact means treating Russia as the only real partner in the areas of politics, security and economy in the CIS countries.

The Russian-Ukrainian conflict and the growing pressure on Germany to take a clear stance on the Russian aggression in Crimea have fuelled the debate in politics and the media in Germany. As a consequence, the above mentioned divides have reappeared. Although these divides have been increasingly evident recently, they have been underplayed on purpose.

One of the reasons for this was the fact that even though political relations between Berlin and Moscow had cooled significantly, trade and economic co-operation was still going well⁴.

The pro-Russian lobby in Germany views Russia as the EU’s key geopolitical partner who has its natural “sphere of influence” and co-operation with whom is necessary, being beneficial for the German economy.

Most political parties (the CDU/CSU and the SPD from the government coalition and the Green Party from the opposition) have backed the actions taken in response to the present crisis by both Chancellor Merkel and Foreign Minister Steinmeier (he became the most popular politician in Germany during the crisis, overtaking Merkel). They are of the opinion that the West had to respond firmly to Russia’s violation of Ukraine’s territorial integrity, but they are sceptical about the possible imposition of heavy sanctions. A significant part of the German public also have a positive opinion about the foreign policy adopted by the grand coalition (67% of respondents) and more broadly also that of the West as a whole (60% of respondents).

The German government is united in its stance, regardless of the party its individual ministers belong to: Chancellor Angela Merkel (CDU), Sigmar Gabriel (the minister for economy and deputy chancellor representing the SPD), the minister of foreign affairs, Frank-Walter Steinmeier (SPD) and the minister of finance, Wolfgang Schäuble, (CDU) all want to continue dialogue with Russia while emphasising that Russia has much more to lose than Germany and the EU in both political

⁴ Anna Kwiatkowska-Drożdż, ‘Germany on Russia. Yes to links, no to rapprochement’, *Point of View*, OSW, February 2014, <http://www.osw.waw.pl/en/publikacje/policy-briefs/2014-03-03/germany-russia-yes-to-links-no-to-rapprochement>

and economic terms⁵. It is clear that the German government is determined to avoid a confrontation with Russia and is surprised that Russia has not taken a similar approach in return.

However, politicians are still divided in the debate concerning the Ukrainian-Russian conflict, and the differences between them are not precisely determined by their party membership.

Germany wants to continue dialogue with Russia while emphasising that Russia has much more to lose than Germany and the EU in both political and economic terms in case the conflict is aggravated.

Appeals for treating the Russian moves with understanding have been heard among the Christian Democrats (e.g. Philipp Mißfelder and Peter Gauweiler), from the SPD (e.g. Gernot Erler, the German government's Russian affairs coordinator and the former chancellors Gerhard Schroder and Helmut Schmidt), as well as among politicians of the Left Party (the largest opposition grouping in the Bundestag). Accepting and propagating Russian arguments, for example that Russia has been surrounded by the EU and NATO, that the West is co-responsible for the annexation of Crimea due to NATO enlargement and that Moscow's actions need to be treated with understanding⁶ are also widespread in part

of the media and among experts and business circles in Germany (which are traditionally represented by the Committee on Eastern European Economic Relations⁷). As a result, part of the German public tolerate Russia treating Ukraine, and especially Crimea, as its "sphere of influence" (54% of respondents). The fear of retaliation from Russia as a consequence of the possible imposition of sanctions by the West causes most respondents (58%) to reject this form of pressure on Moscow and to be opposed to the international isolation of Russia and to desire direct talks with Putin (82%; the surveys were conducted in March by the following research centres: Emnid, TNS and Infratest dimap). Furthermore, frequent references have been made in the German debate to the one hundredth anniversary of the outbreak of World War I, which is viewed in Germany as the main cause of the subsequent European tragedies of the 20th century (World War II and the division of Europe). This is used as an additional argument for the need to continue dialogue with Russia. This dialogue is expected to prevent military conflict between the West and Russia, which the pacifist German public is anxious about.

The possible economic consequences of a conflict with Russia – what does Germany fear?

In retaliation to possible sanctions, Moscow could use two channels of economic cooperation in an attempt to harm the German economy: trade and investments. However, it appears that Russia could sustain greater losses as a consequence. Trade with Russia is important for Germany because of its structure, and not its value.

⁵ This has been emphasised among others by Mr Schauble, who said that "Russia has more to lose than we do in the medium term. Germany is not interested in escalating the conflict, but the events in Crimea cannot be accepted so easily." W. Schauble, 'Russland hat mehr zu verlieren', *Handelsblatt*, 27 March 2014, Cf.: 'Merkel lehnt schärfere Sanktionen gegen Russland ab', <http://www.zeit.de/politik/ausland/2014-03/merkel-wirtschaftssanktionen-russland-obama>

⁶ Cf. for example: P. Mißfelder, 'Russland ernst nehmen', <http://de.theeuropean.eu/philipp-missfelder--2/8121-deutschlands-rolle-auf-der-krim--2> (accessed on 27 March 2014), 'Gauweiler hält deutsche Russland-Politik für gefährlich', <http://www.stern.de/politik/deutschland/stern-interview-gauweiler-haelt-deutsche-russland-politik-fuer-gefaehrlich-2098929.html> (accessed on 27 March 2014); <http://www.faz.net/aktuell/feuilleton/medien/faz-net-fruehkritik/tv-kritik-anne-will-der-westen-hat-russland-betroegen-12866221.html> (accessed on 26 March 2014).

⁷ Gerhard Schroder, Alexander Rahr, Vladimir Grinin and the head of *Ost-Ausschuss*, Eckhard Cordes, met in early March at the Russian embassy in Berlin to discuss the creation of an economic space to integrate Russia and Europe. Cf.: 'Die dubiosen Aktivitäten des Altkanzlers im Sinne Putins' <http://www.swr.de/report/die-dubiosen-aktivitaeten-des-altkanzlers-im-sinne-putins/-/id=233454/did=13102054/nid=233454/958krn/index.html> (accessed on 26 March 2014).

Germany has scarce natural resources and needs uninterrupted supplies due to its well-developed industry. Russia is above all a major supplier of fuels: natural gas, crude oil and coal. Supply cuts would cause shortages of these fuels in Germany, but Russia would also lose credibility.

The key suppliers of the most important fuels for Germany in 2013 (as percentage of total imports)

Crude oil	Natural gas	Hard coal
Russia 35% Norway 12% United Kingdom 10% Nigeria 8% Kazakhstan 8% Libya 7%	Russia 38% Holland 26% Norway 20%	Russia 27% USA 22% Columbia 16% Poland 12% Australia 10%

Germany could react in different ways to raw material supply cuts, but Russian gas supplies would be the most difficult to substitute for. Germany decided to develop its gas storages already after the Ukrainian gas crisis in 2009.

The one hundredth anniversary of the outbreak of World War I is used as an argument for the need to continue dialogue with Russia.

Its present reserves are sufficient to satisfy the country's demand for gas for around two months. However, if Gazprom and BASF implement the deal as scheduled in mid 2014⁸, the Russian side will gain control over 20% of the German gas storage facilities. Another problem is posed by the fact that Germany would find it difficult to diversify its gas supply sources,

since it has no LNG terminal. Furthermore, gas supplies from Holland will be gradually reduced since its fields are approaching exhaustion. Germany hopes that development of renewable energy sources (RES) could contribute to a reduction of its gas imports⁹. Oil supply cuts would also be problematic, especially in eastern Germany, whose refineries (Schwedt – owned by a consortium formed by Shell, BP, Total, Eni and Rosneft; and Leuna – owned by Total) are totally reliant on supplies from Russia. Since they have been adapted to processing of Russian oil, a conflict with Russia might restrict their production capacity. When oil supplies were interrupted at the time of the Russian-Belarusian crises in 2007 and 2010, the output of the refineries fell, and it was only possible to bring part of the missing raw material from Russia by sea via the Rostock port. However, this route cannot compensate fully for the transport capacity of the oil pipelines running from Russia. If supplies from Russia were reduced, Germany could try to modernise its eastern refineries to make them able to process other brands of oil in addition to those from Russia, and to increase the production capacity of the refineries in the west of the country, which would supply fuel to eastern Germany. However, the necessary adjustments required to put such changes into place would be expensive and time-consuming. A cut in coal supplies would not cause any major problems, since the markets are currently oversupplied with coal.

Russia is not a key outlet for German goods; it is ranked 11th after such countries as China, Poland and Belgium, and is only slightly ahead of the Czech Republic. Therefore, losing the

⁸ On 23 December 2013, BASF and Gazprom signed an asset exchange agreement (to be implemented in mid 2014). As part of this agreement, BASF's subsidiary, Wintershall, is to receive shares in block IV and V of the Achimov gas field (25% +1 shares) in western Siberia, while Gazprom may take over half of Wintershall's stake in gas trader companies which have thus far been co-controlled by both companies. Gazprom will also receive as part of the deal half of shares of companies responsible for gas exploration, trading and storage in companies ensuring BASF sales worth 10 billion euros and profits worth 0.5 billion euros.

⁹ Although the share of gas in electricity production has been falling as a consequence of RES development, it is becoming an increasingly important heating fuel for economic reasons. Furthermore, Russian gas bought at competitive prices would serve as a good supplementation in case of fluctuations in renewable energy levels due to weather conditions. The output of wind farms and solar panels is dependent on weather conditions (sun exposure, wind strength), and gas power plants are a good substitute for them, since they can be quickly connected to and disconnected from the network, unlike coal and nuclear power plants, whose reaction time is much longer.

Russian market would not be painful for Germany, since it could be compensated by exports to other rapidly growing markets. German firms beyond any doubt would be able to recoup their losses in Russia by expanding to other emerging markets, where their position is already strong, such as China, Mexico, India, Brazil and Indonesia.

The two countries also have close capital links, which would also have to be restricted should economic sanctions be put in place. Capital flow from Germany to Russia is definitely more intense than in the reverse direction. In 2011, accumulated German investments in Russia reached 18 billion euros, while Russian investments in Germany were worth 3.2 billion euros.

Germany will take active measures to de-escalate the conflict, since in the case of its aggravation Germany will be forced under external pressure to take further steps against Russia.

This means that Germany is an important source of funds for Russia, and German high-quality products contribute to the modernisation of the Russian economy. For Germany this means the possibility for 6,000 firms to do business and these employ, according to estimates, 300,000 people. Russian firms have a share in the German energy sector and also in shipyards, tourist services and chemical and fertiliser production. German banks, which have granted loans to Russian companies worth 16.8 billion euros, would also sustain losses.

The awareness of the above mentioned economic consequences in the case of a long-term deterioration of relations with Russia has given rise to active appeals from representatives of German heavy industry, especially from the energy, electrical engineering and machine-building sectors, to treat the stance taken by Moscow in the present conflict with understanding. Press and TV interviews given by the CEO of E.ON and represen-

tatives of the Committee on Eastern European Economic Relations opposing the imposition of economic sanctions on Russia and talks between the CEO of Siemens and Vladimir Putin¹⁰ have in fact backed the Kremlin's narrative. The hasty deal struck by Germany's RWE and the Russian fund LetterOne¹¹ as part of which a company involved in oil and gas exploration was sold can also be interpreted as an attempt to soften the tension between Germany and Russia. However, the moment at which the transaction was effected is seen in Germany as being controversial.

German firms have already sustained losses as a consequence of the conflict. These losses are above all an effect of the significant weakening of the Russian currency, causing a serious fall in the value of income transferred from Russia to Germany. The media have also reported that many firms had withheld their decision to invest in Russia. Companies fear that sanctions could adversely affect their financial results and that this will be difficult to compensate given that the financial crisis is still ongoing in the EU. A deterioration of relations with Russia could also seriously undermine their negotiating position as part of the competition for contracts connected with the organisation of the 2018 FIFA World Cup on Russia. Berlin does not want to restrict economic relations with Moscow precisely due to this resistance from a section of German business engaged in Russia; one exception was the decision to suspend the implementation of the contract by the weapons producer Rheinmetall AG covering the construction of a combat training centre in Mulino in Russia. The contract is worth 120 million euros. However, this decision has also been determined as "temporary".

¹⁰ Joe Kaeser, the CEO of Siemens, met President Putin on 26 March. They discussed the future investment conditions for this German company among other issues; <http://www.zeit.de/wirtschaft/unternehmen/2014-03/ukraine-krim-putin-siemens>

¹¹ On 17 March, RWE signed an agreement under which RWE DEA was sold to LetterOne for 5.1 billion euros. RWE DEA is involved in oil and gas exploration and production in the United Kingdom, Norway, Germany and Poland. The sale was probably motivated above all by RWE's deteriorating financial results due to problems on the energy market in Germany.

It is also worth emphasising that part of the economic elite are aware of the fact that Moscow's violation of international law set a dangerous precedent which has adversely affected the investment climate in Central Europe, where Germany invests much more heavily than in Russia. The Russian economy's co-dependence on exports of its raw materials to Europe is also well-known and has been emphasised in interviews given by the presidents of the Federation of German Industries and the German Chamber of Industry and Commerce¹².

Forecasts

Unless the Russian-Ukrainian conflict worsens, the German government will continue its policy of reducing tension. In the German interpretation this means *de facto*, if not *de jure*, recognition of the annexation of Crimea and putting pressure both on President Putin to normalise relations with Ukraine as soon as possible and on the Ukrainian government to accept Russian demands.

If the conflict escalates, external pressure will force Germany to take further steps against Russia, which would put both the economic interests of Germany and the future of building European security in co-operation with Russia at stake. Berlin can feel the effects of pres-

sure from the USA and part of the EU's member states to take more radical measures that would go beyond just strong rhetoric already at this stage of the conflict¹³.

In the long term, Russia's stance in the conflict with Ukraine will reinforce the viewpoint shared by some in the German government that the Kremlin's ruling elite has a destructive power and is irrational, resulting in: (a) an accelerated process of diversification of investments and raw material imports coming into Germany, (b) an intensification of the internal dispute in Germany on its Russian policy, as a consequence of which the lack of a concept for this policy will become especially evident; and (c) even more caution in dealing with Russia, especially as regards the EU eastern neighbourhood policy. Although Ukraine's accession to the EU is not on the agenda in German policy, fear of Russian actions could bring about a change in Germany's approach to signing the economic part of the negotiated Accession Agreement with Ukraine and also with Moldova.

¹² http://www.deutschlandfunk.de/krim-krise-bdi-warn-t-vor-sanktionen-gegen-russland.694.de.html?dram:article_id=280036; <http://www.welt.de/politik/deutschland/article125942484/Der-Mindestlohn-ist-Zement-fuer-den-Arbeitsmarkt.html> Russia benefits from foreign trade alone as a consequence of a trade surplus at 4-6 billion euros annually. This is equivalent to adding this amount directly to Russian foreign currency reserves.

¹³ Nikolas Busse, 'Der verborgene Teil deutscher Aussenpolitik', FAZ, 27 March 2014 <http://www.faz.net/aktuell/politik/ausland/ukraine-krise-der-verborgene-teil-deutscher-aussenpolitik-12867581.html> http://wiadomosci.gazeta.pl/wiadomosci/1,114871,15701051,_FAZ__o__Ukrytej_czesci_niemieckiej_polityki_zagranicznej_.html#BoxWiadTxt "Despite initial reservations, Germany will offer military assistance to eastern NATO member states," *Der Spiegel* reported on Saturday. The Ministry of Defence wants to support the Baltic states with a maximum of six fighter aircraft. A warship will also be sent to the Baltic Sea. "Germany will take part in reinforced routine operations in NATO" by a source from the inner circle of the minister of foreign affairs, Frank-Walter Steinmeier, disclosed to the weekly. Quoted from: <http://zw.lt/litwa/niemcy-przysla-mysliwce-krajow-baltyckich/>

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