

# BULLETIN

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Editors: Marcin Zaborowski (Editor-in-Chief), Agnieszka Kopeć (Executive Editor),  
Łukasz Adamski, Beata Górka-Winter, Artur Gradziuk, Leszek Jesień,  
Beata Wojna, Ernest Wyciszkievicz

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## A New Stage in German–Russian Energy Cooperation?

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Jarosław Cwiek-Karpowicz

*Germany's decision to abandon nuclear power by 2022 has opened opportunities for Russian companies to strengthen their positions as gas suppliers and enter the German electricity market. A further strengthening of German–Russian economic relations, however, is not certain. German Chancellor Angela Merkel has refused Russia's offer to enlarge gas supplies by a third as well as extend the Nord Stream gas pipeline. Counting on the more effective use of energy and wider access to renewable sources, the German government probably perceives few benefits resulting from close economic ties with Russia and is not interested in further increasing energy dependency on that country. This new situation could lead Germany to be more active in establishing a single, well-diversified and competitive EU energy market.*

**Benefits of a German–Russian Energy Partnership.** Germany has perceived Russia to be an attractive economic partner because of its enormous natural resources and energy transport system. Germany imports about 40% of its natural gas from Russia (34–38 bcm) and more than 30% of its oil (32–34 mil. tons), which made it the top consumer of Russian fossil fuels in the European Union. The German government's decision to repudiate nuclear power from 2022, approved by the national parliament, creates both many challenges and risks for the domestic electricity industry. It means that in one decade Germany will have to manage a huge electricity deficit resulting from decommissioning nuclear power plants, which are estimated to provide more than 20 GW of power to the national grid, consisting of more than one-fifth of domestic energy production. The development of new gas power plants is one of the options seriously being taken into account by the German energy companies.

The accelerated departure from nuclear energy in Germany opened a window of opportunity for Russian companies to not only increase gas supplies to its most important European partner in the energy sector but also to enter the western European electricity market by acquiring assets from German concerns. On July 14, Russia's Gazprom signed a memorandum of understanding (valid for three months) with Germany's RWE aimed at establishing a joint venture for the exploitation of existing gas and coal-fuelled power plants and the construction of new ones in Germany, the UK and the Benelux countries. According to "Handelsblatt" newspaper, Germany's third largest energy company, EnBW, is interesting in selling off up to 25% of its shares in another German energy company, VNG, to Novatek, the second-largest gas producer in Russia. EnBW also would place its remaining shares in VNG (the largest gas supplier in eastern Germany already is partly owned—10%—by Gazprom) in a joint venture with Novatek, counting on lower and more competitively priced Russian gas in exchange. During recent intergovernmental consultations, which were held in Hanover on 19–20 July with Chancellor Merkel and Russian President Dmitry Medvedev in attendance, the Russian side proposed increasing the volume of gas it supplies by one third and building a third branch of Nord Stream. It is worthy to note that E.ON and BASF, which participate with Gazprom in the Nord Stream project, have not revealed any information so far about increasing cooperation with the Russian gas giant. Moreover, at the end of 2010, E.ON sold all of its shares (3.5%) in Gazprom and in the middle of 2011 applied to the International Court of Arbitration to make Russia's gas monopolist reduce gas prices under long-term contracts, which revealed serious tensions between the partners.

Although Russia remains Germany's main supplier of energy resources, recent changes in the global energy market relating to the growing production of shale gas in North America as well as the worldwide using of LNG technology reduce the attractiveness of cooperation with Gazprom. The price of Russian gas for German and other European consumers still depends on the price of crude oil and exceeds not only the price of gas offered on the spot-market by other suppliers but also the price negotiated under long-term contracts. As a result, Norway sold Germany almost the same volume of gas (30.2 bcm) in 2010 as did Russia (34.4 bcm) and was very close to becoming Germany's biggest gas supplier. Therefore, the Russian proposal to increase gas supplies was met with a cool reception from the German side. During recent intergovernmental consultations Chancellor Merkel expressed her scepticism at Russian offers to extend Nord Stream and said that she is against an "uncontrolled increasing of gas import(s)." She explained that the electricity deficit resulting from the abandonment of nuclear power should be compensated for by growing production of electricity from renewable sources as well as increasing energy efficiency (which is consistent with the objectives of the German energy strategy adopted in September 2010). Nevertheless, she pointed out that a "reasonable enlargement of gas supplies" has not been excluded and that Russia is still one of Germany's major energy partners. In this context, that a statement about Germany's plan to build its first LNG terminal was made to the press by a member of the German government seems important.

**Problems with Germany's Foreign Policy Towards Russia.** After re-unification, Germany wanted to develop close economic ties with Russia not only due to its energy supplies but also because of its huge population (about 145 million people) and domestic consumer market, which seemed to be very attractive for German exporters. Before 2008, Germany was the largest exporter in the world and possessed a leading position in trade with Russia. The economic crisis deeply affected German–Russian trade relations. Germany not only was passed by China as Russia's main trading partner but also had to face growing Russian protectionism in the automobile sector, which caused serious problems for German car makers operating in Russia. Moreover, political support from both governments for foreign investors was completely ineffective in the case of small- and medium-sized German enterprises operating in Russia because of a high level of corruption in the country.

In the face of the decline of democracy in Russia over the last decade, the original German concept to develop close economic ties with Russia and encourage Moscow to adopt Western values ("change through rapprochement") has become less convincing for some parts of Germany's political elite. Lobbying by former Chancellor Gerhard Schroeder for Gazprom and the business careers of Matthias Warnig and other ex-Stasi agents in Russia also have met with disapproval from parts of Germany's elite. Divisions within the elites about German foreign policy towards Russia were clearly observed after word leaked that Russian Prime Minister Vladimir Putin would be awarded the Quadriga prize. The leak made public by "Suddeutsche Zeitung" led to a public outcry, and Quadriga board members Cem Özdemir of the German Green Party and Heidelberg University professor Edgar Wolfrum stepped down in protest. The decision to cancel the awards ceremony made not only a bad impression in Russia but also led to a deterioration in the political influence of the circles in Germany that were interested in an enhanced special relationship with Russia.

**Conclusions for Poland and the EU.** Although the German government's decision to abandon nuclear power by 2022 is regarded by Russian leaders as a chance to strengthen energy cooperation with Germany, Berlin is less interested in developing a close partnership with Russia. This situation creates a chance for greater German engagement in establishing a single, competitive and well-diversified EU energy market. Only a free market is able to secure the most effective, economical and stable energy supplies to Europe. A changing gas market also offers Germans their best opportunity to tack to a strong, unified EU position. The construction of the country's first LNG terminal as well as the full implementation of the Third EU Energy Package in Germany would increase the energy security of Poland and other EU countries that are dependent on Russian gas supplies.

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The author is a political analyst at the Polish Institute of International Affairs. Currently, he is a visiting fellow at the German Council on Foreign Relations (DGAP) in Berlin where he takes part in the research project "Leaving Polarisation Behind? The West, Central and Eastern Europe and Russia between Integration and Re-Nationalization," financed by the Fritz Thyssen Foundation.