

LEGACY OF *OSTPOLITIK*: GERMANY'S RUSSIA POLICY AND ENERGY SECURITY

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Germany seems to be suddenly in a policy pickle. Almost a half century of German engagement with Russia that was supposed to have tamed Moscow's historical impulses appears to have come to naught in the wake of Russia's annexation of Crimea from Ukraine in March 2014. But that engagement has left Germany (and many other Central European countries) more dependent on Russia for much of their energy supplies.

Of course, even without the Ukrainian crisis, Germany's approach to energy security, riven with paradoxes, has often confounded outsiders. Germany is a country that is abundant in coal, but feels ashamed to mine it; a country that is deficient in sun, but has pinned a large part of its future on solar power; and a country that has well-run nuclear power plants, but has decided to shutter them (importing nuclear power from France instead). Rather than pursue an energy security policy that ensures the continuous availability of energy at affordable prices, it is almost as if German leaders have chosen one that does the opposite.

Much of this has been the product of Germany's *Energiewende* (energy transition) policy. First talked about in the 1980s and put into practice in the following decades, it envisions Germany gradually doing away with its conventional forms of power generation in favor of renewable energy sources, like wind and solar power. Most Germans hoped that, in time, *Energiewende* would produce an abundance of renewable energy and a greatly diminished for fossil-fuel or nuclear power. In theory, that would not only reconcile the paradoxes in its current energy situation, but also help create a more verdant society.²

But the absence of large-scale electricity storage technology or a suitably designed transmission network has meant that the power generated from renewable energy sources, such as solar and wind, remains intermittent. That volatility makes electrical grids difficult to manage. The amount of electricity put on a grid must precisely match the amount that is consumed; otherwise variations in voltage could cause rolling blackouts. And so, even as renewable energy sources have become a bigger part of the country's energy mix, Germany has been unable to wean itself from coal and natural gas. Indeed, it has become even more reliant on them to even out the amount of

¹ Author would like to thank Ronald Granieri and Kimana Zulueta-Fuelscher for their comments.

² "German Lessons," *Economist*, Apr. 3, 2008.

electricity on its grid.³

Meanwhile, to pay for the subsidies that have underwritten the growth in renewable power generation, German households have had to accept electricity costs that have grown to be 48 percent higher than the average in Europe in 2013. (That is on top of a 40 percent increase in European electricity costs over the last decade.) Already some energy intensive industries, like steel and machinery, have shown signs of disinvesting in Germany and locating elsewhere. To prevent that from happening, Germany has exempted some companies from having to pay the subsidy, putting an even greater burden on households. At such high rates, some have begun to wonder whether *Energiewende* might hollow out Germany's industrial base before it reaches its goal.⁴

That was the unenviable position that Germany was in when the Ukrainian crisis began. Until recently, environmental concerns have driven Germany's energy security outlook, much like those in other European countries. Most Germans considered the impact that international security would have on reliable energy supplies as a second-tier concern, whether they admitted it or not. And so, even as Germany curbed its own conventional energy production (principally brown coal), it willingly accepted Russia as a major new natural gas supplier. Berlin appeared untroubled by the possibility that Russia could turn its natural gas supply relationship into political leverage. That seemed to suddenly change with the Ukrainian crisis, when Russia made clear the power that its energy supplies held over Europe's still-recovering economies. German policymakers surely took note. Perhaps for the first time in a long time, Berlin had to reconsider the assumptions that underlay its energy security, not to mention its approach to Russia.

A BRIEF HISTORY OF *OSTPOLITIK*

But was this really so sudden for Germany? Not really. Since the late 1960s, Germany (then West Germany) had begun to take incremental foreign policy steps in its relationship with Russia (then the Soviet Union) that led to its natural gas reliance on Russia. At the time, West Germany's Social Democratic Party (SDP) had just come to power. Chancellor Willy Brandt and his center-left adherents believed that the best path to European security lay in building bridges to, rather than strengthening bulwarks against, the Soviet Union. Brandt hoped he could establish trust with the East, as his Christian Democratic Union predecessor, Chancellor Konrad Adenauer, had done with the West.

Brandt's approach became known as *Neue Ostpolitik* (new eastern policy). He argued that Germany could bring about *Wandel durch Annäherung* (change through rapprochement). His efforts culminated in a number of accords between West Germany and the Soviet Union in 1970. Among the first was one in which the two countries agreed to exchange West German wide-diameter steel pipe for future deliveries of Soviet oil and natural gas. At the time it was the biggest trade deal ever concluded between the communist and non-communist blocs. Later that year, the two countries signed an historic agreement to renounce the use of force. Brandt assured his Western allies that *Ostpolitik* would neither weaken West Germany's commitment to NATO nor make West Germany dependent on the Soviet Union.

However, Cold War realities eventually intruded on West Germany's embrace of *Ostpolitik*. In 1981, the Soviet Union pressured Poland's communist government to crack down on Solidarity, a Polish trade union which had been agitating for social change. That prompted the United States to impose economic sanctions on the Soviet Union. But Brandt's SPD successor, Chancellor Helmut Schmidt, opposed such a confrontational approach to the Soviet Union. Instead, Schmidt, in line with *Ostpolitik*, pushed ahead with West Germany's pipeline deal with the Soviet Union to bring natural gas from Siberia to Europe, antagonizing the United States. Doing so Schmidt demonstrated how *Ostpolitik* could divide West Germany from one of its closest allies.

³ Some German environmentalists argue that more renewable energy sources would not undermine grid reliability. With enough wind and solar power generation spread across Germany, there would be enough wind or sun somewhere to provide a consistent flow of electricity to the grid. As evidence, they point to the fact that Germany's grid has not yet failed. "How to lose half a trillion euros," *Economist*, Oct. 12, 2013.

⁴ Exempting companies from paying the subsidy has drawn the attention of the European Union's competition commissioner, who has begun investigating whether the whole subsidy and exemption scheme violates European law. Henning Gloystein and Vera Eckert, "Analysis: German households pay for lower industrial power prices," Reuters, May 21, 2013; Bjørn Lomborg, "Germany's energy policy is expensive, harmful and short-sighted," *Financial Times*, Mar. 16, 2014.

West Germany's next chancellor, the Christian Democratic Union's Helmut Kohl, managed to mend much of the rift between West Germany and the United States. Kohl's firm support for NATO and American missile deployments in Western Europe helped immensely. But Kohl did not undo the economic ties that West Germany had established with the Soviet Union. Like most West Germans, he was concerned about the fate of those in East Germany and thought it wise to maintain a dialogue with Moscow. Then, after the end of the Cold War, the reunification of Germany, and the dissolution of the Soviet Union, *Ostpolitik* seemed like a good rubric under which to knit Russia into a broader Europe. The policy also neatly facilitated the greater penetration of German companies into Russia. Many argued that such economic integration would reduce the chance of future conflict, since both sides stood to lose if that was to occur.

That mindset reached its peak during the chancellorship of Gerhard Schröder. A Social Democrat and disciple of Brandt, Schröder reenergized *Ostpolitik* through his policy of *Wandel durch Handel* (change through trade) with Russia (and China). He came to believe that Russia (and its president, Vladimir Putin) had fundamentally changed. Thus, during his time as chancellor, Schröder pushed for stronger ties with Russia. He met with Putin at least 37 times and, in 2004, called him a "flawless democrat."⁵ Schröder also pushed for the construction of Nord Stream, a major natural gas pipeline project that is majority-owned by Russia's Gazprom and would directly connect Russia to Germany. More fearful of natural gas supply disruptions due to differences between Russia and Ukraine (through which its natural gas must pass) than its relations with Russia souring, Berlin approved Nord Stream. The project's twin pipelines were laid down in 2011 and 2012.⁶

The end of Schröder's tenure in office did not end Germany's close relationship with Russia. Chancellor Angela Merkel and her current foreign minister, Frank-Walter Steinmeier, once Schröder's chief of staff, have kept the lines of communication open to Moscow. Throughout the Ukrainian crisis, Merkel probably had more direct contact with Putin than any other Western leader. She apparently did so because of her belief that constant dialogue can avoid the sorts of miscommunication that could lead to open conflict. She also did so in order to avoid jeopardizing the major business interests that German companies had built in Russia. But equally as important as both those factors, is that most Germans would rather see their country as a mediator in the crisis between Russia and the West rather than a partisan in it. German politicians who opined that the West had shown insufficient sensitivity towards Russian interests in the years before the crisis reflected that sentiment. In this way, *Ostpolitik* has continued to resonate in Germany.⁷

As a consequence, over the course of nearly a half century and under various flavors of *Ostpolitik*, whether *Wandel durch Annäherung* or *Wandel durch Handel*, Germany's reliance on Russian natural gas has been allowed to grow. In 2012, Russia supplied about 37 percent of Germany's total natural gas demand. That share will rise this year after Nord Stream begins to operate closer to full capacity.⁸ Berlin's decision to abandon nuclear power by 2022—in the aftermath of Japan's Fukushima Dai-Ichi meltdown in 2011—will force Germany to further rely on natural gas (and coal) to not only smooth out the ebb and flow of electricity from renewable energy sources, but also provide baseload power for its grid. That will further exacerbate Germany's vulnerability to energy supply shocks. And since energy prices are usually set on the margin, even a slight decline in energy supplies could push up already-

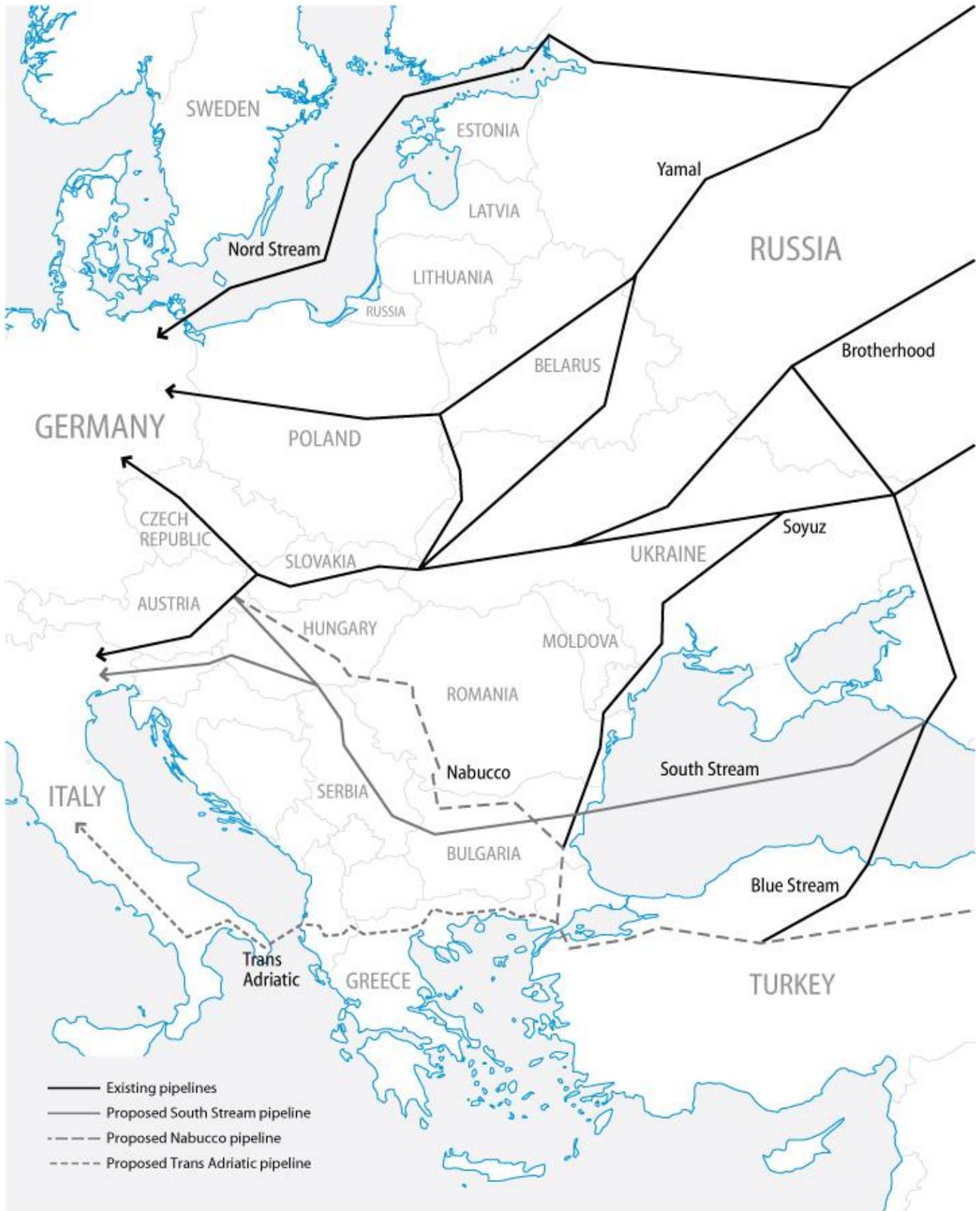
⁵ "Ex-Chancellor Schröder defends Putin in Helsinki," *Helsingin Sanomat*, May 8, 2007, <http://www.hs.fi/english/article/Ex-Chancellor+Schr%C3%B6der+defends+Putin+in+Helsinki/1135227092892>; J. Himmelreich, "Wieder nüchtern werden," *Tagesspiegel*, Jan. 15, 2006.

⁶ After Schröder left office, he became chairman of Nord Stream's shareholders' committee. Later he joined the board of directors for TNK-BP, a joint venture between Russian and European energy companies. During the Ukrainian crisis, he argued that Russia's actions in Crimea were no different from NATO's intervention in Kosovo in 1999. Schröder has continued his friendship with Putin, even spending his seventieth birthday with him. Andrea Thomas, "German Ex-Chancellor Schröder Celebrates Birthday With Russia's Putin," *Wall Street Journal*, Apr. 29, 2014; Christopher S. Chivvis and Thomas Rid, "The Roots of Germany's Russia Policy," *Survival* 51:2 (April-May 2009), pp. 105-122; "Germany's Russia policy," *Economist*, Mar. 22, 2014; Gerhard Schröder, "Change through Integration," *Spiegel Online*, May 22, 2007, <http://www.spiegel.de/international/world/former-german-chancellor-advocates-closer-ties-with-moscow-change-through-integration-a-484013.html>.

⁷ Matthew Karnitschnig, "Corporate Germany Opposes Sanctions," *Wall Street Journal*, May 2, 2014, pp. A1, A6; Matthew Karnitschnig, "Germany's Angela Merkel Treads Softly With Russia's Putin On Ukraine," *Wall Street Journal*, Apr. 7, 2014; Alison Smale, "Ukraine Crisis Limits Merkel's Rapport With Putin," *New York Times*, Mar. 12, 2014.

⁸ Nord Stream consists of two pipelines, with a total annual capacity of 55 cubic meters. Pipeline continuation problems limited Nord Stream's flow to half its capacity until 2014. "Russia, EU Agree to Let German Pipeline Run at Full Capacity," *RIA Novosti*, Jan. 29, 2014, <http://en.ria.ru/world/20140129/186999579/Russia-EU-Agree-to-Let-German-Pipeline-Run-at-Full-Capacity.html>.

high German electricity prices. And so, as Berlin determines how it will deal with Russia's resurgence, it must keep its energy security in mind.



Perhaps unsurprisingly, Russia always viewed *Ostpolitik* somewhat differently than Germany. To be sure there were varied opinions about it within the Soviet Union. One group wanted nothing to do with the West, fearful of its corrupting influences. Another group was open to *Ostpolitik*, but for reasons that were far from homogeneous. A few may have been genuinely interested in better relations. More wanted to take advantage of the economic benefits that would derive from energy exports to West Germany. Still others sought to use it to promote German “neutralism,” loosening West Germany’s ties with the NATO alliance. Apparently, *wandel* (change) could work in both directions.⁹

After the Cold War, many of Russia’s pillars of strength faded. The country itself was thrown into economic and political turmoil for most of the 1990s. Russia’s ability to influence events abroad came to be centered on its oil and natural gas exports. Due to pipelines built during the Soviet era, Russia has continued to dominate energy distribution in much of Central and Eastern Europe. Not surprisingly, Moscow has sought to protect and build on that capability. In 2011, Russia solidified its hold on Belarus, not through military force, but rather through the acquisition of its natural gas pipeline network.¹⁰

Another example has been Russia’s efforts to promote its South Stream pipeline project as an alternative to a European-backed one, called Nabucco, which had envisioned bringing non-Russian natural gas to Central Europe through the Balkans. Many Europeans hoped that Nabucco would increase price competition and ease their energy reliance on Russia. But a series of setbacks halted Nabucco. In 2013, one of its principal backers, a major German utility company, pulled out and then the consortium that was to provide it with natural gas rejected Nabucco as its preferred link to Europe. Finally, Moscow seemed to have won over Hungary, a key Nabucco transit country, to the South Stream camp in early 2014. It did so by granting Hungary aid for its ailing steel industry and state credit for the construction of two new nuclear power blocs at its Paks nuclear power plant. Although there are still hopes for the Trans Adriatic Pipeline, which plans to ship natural gas across Greece and into Italy, that route would leave countries like Bulgaria and Romania dependent on Russian energy.¹¹

GERMANY’S ENERGY OPTIONS

In the short term, Germany has few good options. Almost half a century of choices created the situation that Germany finds itself. It is unrealistic to think that they could be quickly reversed. Some Germans sympathetic to Schröder’s view argue that nothing needs to be reversed and that, if only given more time and understanding, Russia can change. But the rest of Germany is not so sure any more. In fact, more Germans hold a dim view of Russia than do Americans, according to the German Marshall Fund survey late last year.¹² But to improve the state of its energy security, Germany must either create new domestic energy sources or find them elsewhere.

Of course, the fastest way to create new domestic energy sources is not to discard those already in existence. In short, Germany could slow or stop its process of rapid decommissioning of its nuclear power plants. Rather than phase out nuclear power, it could replace its last-generation plants with next-generation ones that produce less radioactive waste and have additional safeguards against meltdown. But that is unlikely, given the strength of anti-nuclear sentiment in Germany.

Another course would be for Germany to accelerate its *Energiewende*. Theoretically, the faster it can make the transition to renewable energy the better. Unfortunately, simply boosting Germany’s intermittent renewable energy sources would also increase the volatility of electricity on the country’s grid. That in turn would exacerbate the difficulties (and costs) in balancing the grid’s electricity supply and demand. To do that today, Germany has had to import and burn more coal, raising the country’s carbon dioxide emissions to their highest levels since 1990.

⁹ Michael J. Sodaro, “Soviet Foreign Policy and the Two German States,” National Council for Soviet and East European Research *Working Paper*, Oct. 1988, pp. 58-66.

¹⁰ Alan Cullison, “Russia Tightens Its Grip in Belarus,” *Wall Street Journal*, Nov. 26, 2011.

¹¹ Selina Williams and Vanessa Mock, “Gazprom Pushes Ahead With New Pipeline, Despite Ukraine Standoff,” *Wall Street Journal*, Apr. 8, 2014; “Power out(r)age,” *Economist*, Feb. 10, 2014; Vladimir Socor, “Russian Energy Projects and Hungarian Politics,” Jamestown Foundation *Eurasia Daily Monitor*, Feb. 10, 2014; Art Patnaude and Jan Hromadko, “European Pipeline Loses Bid to Ship Gas,” *Wall Street Journal*, Jun. 26, 2013.

¹² Steve Szabo, “Germany Faces Tough Choices on Russia,” *GMF Blog*, German Marshall Fund of the United States, Dec. 11, 2013, <http://blog.gmfus.org/2013/12/11/germany-faces-tough-choices-on-russia>.

Ironically, Germany's attempt to be friendlier to the environment has led to it to pollute more.¹³

Since large-scale electricity storage technology is still unavailable, Germany could speed up its plans to build 4,000 km of new transmission lines to shift electricity from parts of the country where renewable energy is produced to those parts where shortages will exist after its nuclear power plants are closed. So far, only 300 km of transmission lines have been built. By one count, 15 out of 24 grid-expansion projects are up to seven years behind schedule. The reasons why vary: difficulty in securing the appropriate financing; a lack of coordination between German states; and the paradoxical opposition from German citizens who "(demand) an end to nuclear power but (object) to the new transmission grid being built in their backyard."¹⁴

A fourth course for Germany would be to use hydraulic fracturing technology (commonly known as fracking) to produce natural gas from the shale formations that lie under its northern states. Early in 2013, it seemed as though Germany would seriously consider fracking as a method to fuel gas-fired power plants. But a year later, domestic concerns about the technology's possible environmental impact had essentially shelved that solution.¹⁵

As for sourcing Germany's natural gas from elsewhere, that is easier said than done. Given the major financial investment that German companies have made into Nord Stream and the fact that it just came online, it would be difficult for Berlin to suddenly back away from it. With the Nabucco pipeline project stymied for the moment, Germany could turn to Norway's offshore natural gas fields. However, those fields are too small to satisfy all of Germany's natural gas demand. Ultimately, Germany would have to make new billion-euro investments to building liquefied natural gas terminals to import natural gas from more distant sources. Even if left unused, such terminals would provide Germany with the flexibility to do so, if the need ever arose. Though extremely expensive, they would give Berlin more bargaining room with its existing natural gas suppliers, like Russia.

For the time being, Germany's plan is to press forward with its *Energiewende*. Indeed, there is little else Berlin can do, given that German law prevents it from retroactively reneging on its current subsidy scheme. And, as some have calculated, changing the scheme now would do little to alter its economic costs. But Germany could change the goal of its subsidy program from creating more renewable energy to deploying new electricity storage technologies, like flywheels or gas to power (whatever their current level of development) or speeding the construction of its new transmission network (even if that means overriding the parochial interests of German states). Such measures would make *Energiewende* more practical, but could not free Germany from its rising reliance on Russian natural gas.¹⁶

CONCLUSION

Germany needs reliable and cost-effective energy to support its world-class industrial economy. *Energiewende* has demonstrated that renewable energy sources can satisfy a substantial share of Germany's electricity demand. But they cannot satisfy all of it, nor can they ensure the stability of the country's electrical grid without support from coal and gas-fired power plants. That ultimately means figuring out how to deal with Russia.

Perhaps it is time for Berlin to reconsider the flavor of *Ostpolitik* that it should pursue. For all of Germany's engagement with Russia over the last 44 years, the basic motivations of Russian foreign policy are fundamentally *unverändert* (unchanged). Similar security concerns continue to inform Russia's strategic behavior. What changed in the intervening years was only Russia's ability to act on its impulses.

As such, Russia is likely to continue to loom large in German foreign policy thinking, as it has been since the nineteenth century. After all, Germany has always been a country sandwiched in the heart of Europe, with great powers to its east and west. To think that Germany could completely distance itself from its massive eastern neighbor is unrealistic. However, perhaps a new incarnation of *Ostpolitik* is warranted, one that is pursued under the banner of *Wandel durch Stärke* (change through strength). That would be something that Russia (and Russian

¹³ Stefan Wagstyl, "German coal use at highest level since 1990," *Financial Times*, Jan. 7, 2014.

¹⁴ "Tilting at windmills," *Economist*, Jun. 15, 2013.

¹⁵ Vera Eckert, "Unleash German shale to halt gas output decline, industry pleads," Reuters, Feb. 6, 2014; William Boston, "Germany Debates Fracking as Energy Costs Rise," *Wall Street Journal*, Mar. 1, 2013.

¹⁶ Chris Nelder, "Turn Up the Juice: New Flywheel Raises Hopes for Energy Storage Breakthrough," *Scientific American*, Apr. 10, 2013, <http://www.scientificamerican.com/article/new-flywheel-design>.

leaders) would understand and take more seriously when pursuing its agenda in Europe. *Stärke* would require that Germany get more practical about not only its energy security, but also its national security.

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