Szabo, Stephen F. "Doing Business with Russia Inc.." *Germany, Russia, and the Rise of Geo-Economics*. London: Bloomsbury Academic, 2015. 61–82. *Bloomsbury Collections*. Web. 26 Apr. 2023. <<http://dx.doi.org/10.5040/9781472596352.ch-004>>.

Downloaded from Bloomsbury Collections, www.bloomsburycollections.com, 26 April 2023, 09:19 UTC.

Copyright © Stephen F. Szabo 2015. You may share this work for non-commercial purposes only, provided you give attribution to the copyright holder and the publisher, and provide a link to the Creative Commons licence.

Doing Business with Russia Inc.

Economics is the driving factor in the German–Russian relationship.¹ Almost all of Germany’s Russia watchers see this as the constant factor and one that favors a geo-economic approach over a value-oriented one. Whatever the ups and downs in the broader relationship, the economic one remains a success story from the German perspective and remains its anchor. This relationship preceded unification. During the Cold War, the West German government resisted extraterritorial attempts by the Reagan administration to block the construction of the Trans-Siberian gas pipeline and the head of Deutsche Bank, Wilhelm Christians Friedrichs, was a major and influential advocate for Russia–German trade at that time.² Major energy deals followed in the 1980s. Unification itself was a German–Russian economic deal with Germany paying over \$52 billion in aid to the USSR up to the time of its collapse in 1991, and then to Russia, in order to get Soviet/Russian troops out of eastern Germany. As the director of the Center for Eurasian, Russian, and East European Studies at Georgetown University, Angela Stent pointed out, “One major legacy of unification was that a united Germany was as central to Soviet foreign policy as a divided Germany had been . . . United Germany was the USSR’s major economic partner, key to its economic health.”³ As she goes on to observe, the asymmetries in the relationship shifted after the end of the Cold War from a German dependence on Russia for inter-German relations to a Russian dependence on unified Germany for its post-communist transition.⁴

The economic relationship in the first decade after German unification did not greatly change from what it was in the Gorbachev years. The collapse of East German–Russian trade, which resulted from the radical restructuring of the former East German economy, resulted in a major decline in the economy of the former East Germany. United Germany continued to be Russia’s most important trading partner, but the pattern of trade remained unchanged with Germany importing Russian raw materials, especially oil and gas, and exporting manufactured goods.

Energy trade remained the most important aspect in the relationship although there were changes in the players with Ruhrgas, which had a monopoly of the German–Soviet gas deals, now in competition with Wintershall.⁵ In the 1990s German firms became more active in the Russia telecommunications, truck and auto markets, but remained frustrated by the delays, administrative confusion and absence of an enforceable commercial legal system.⁶

The relationship remained stagnant through the 1990s, reaching a low point during the Russian financial crisis in August 1998. The Red–Green coalition came to power in the wake of this crisis and was facing the impact of major losses by German investors as a result of asset stripping and defaults on bond payments in Russia. Yet this bad start was soon followed by a period where “Russia was transformed from an unreliable boarder to a market of unlimited possibilities.”⁷ Schröder and Putin created a partnership between an energy-dependent German trading state and a modernizing Russia. Schröder became the major advocate for German investment in Russia and for an energy policy dialogue, arguing in 2004 that the confidence of Western investors in Russia had been fundamentally renewed and reestablished.⁸ By 2011, German–Russian trade resulted in a turnover of about €75 billion, with German exports to Russia totaling €35.4 and imports at €40.8 billion. Russia ranked twelfth in exports and eleventh in imports for Germany with a total turnover equal to that of German trade with Poland.⁹ Germany has an embassy and a number of consulates in Russia, but the representation of German business is much more intense with over six thousand German firms on the ground and an investment of over \$19.5 billion in Russia.¹⁰ German companies created 226,000 jobs in Russia in 2011.¹¹ In contrast, only about 950 Russian firms employ about 4,600 people in Germany. Add to this the major energy relationship in which over a third of German energy imports come from Russia¹² and the constraints on German public policy are obvious. This relationship will deepen in the wake of the Merkel decision to shut down Germany’s nuclear capacity, as nuclear energy accounts for a quarter of German electricity, a gap that cannot be filled by renewable sources alone. To the extent that German elections are about the economy and jobs, the relationship with Russia is an important, if indirect, electoral factor.

Dealing with the devil: German business in Russia

Gazprom’s monopoly-seeking activities cannot be explained by economic motives alone. It is difficult to distinguish where the Russian Government ends

and where Gazprom begins. Clearly Gazprom has sacrificed profits and needed domestic infrastructure investments to achieve Russian foreign policy goals.

Senator Richard Lugar, Hearing of the Senate Foreign Relations Committee, June 13, 2008

As Senator Lugar has noted, dealing with Putin's Russia Inc. is hardly a purely commercial relationship, especially in energy. Fiona Hill and Clifford Gaddy have described the Putin system in their book, *Mr. Putin: Operative in the Kremlin*, as a tiered system or a series of concentric circles, with Putin at the center acting as a CEO of the corporation that is Russia. Putin rules as a CEO, or at least his version of CEO. It is a one-man operation, which avoids overlapping spheres of authority, with all power emanating from Putin. It is a new version of the old Soviet democratic centralism with individuals in the inner circle allowed to differ on policy until Putin decides, then absolute loyalty is required. As Hill and Gaddy note, "it is a highly centralized decision-making system that is based on trust only among a few inner circle confidants and with distrust of everyone else and is backed up by threats . . . it is not money that guarantees loyalty or holds the top level together. Instead it is the fact that the money derives from activity that is or could be illegal. Participants are not bought off in the classic sense of that term. They are compromised; they are made vulnerable to threats. . . . Loyalty is ensured through blackmail."¹³ Corruption, they note, "is the glue that helps keep Putin's informal system together."¹⁴

The system of concentric circles emanate out from the President with links to outer circles through key individuals who play the role of ombudsmen. The Russian economy is structured around the exploitation of its natural resources and paying for imports with exports of energy and raw materials. The economy of Russia Inc. is distinctive in its heavy reliance on this single sector and on a very few value-creating companies. Ten companies provide for 90 percent of Russia's oil output with Gazprom producing nearly 80 percent of its natural gas. These resources provide "a built in reserve for surviving crises."¹⁵ This structure allows the ruling elite to gain income without undergoing structural reform of the wider economy.¹⁶

This model also gives a major role to the state requiring foreign companies to work with it. Many have done this despite the major obstacles including massive corruption, because returns on capital have been worth the cost. Beyond these "strategic sectors" Western businesses have had a more mixed record, "but with the right local political and economic connections there is money to be made. Without them, foreign firms can fall prey to powerful and better-connected

competitors or rapacious officials.”¹⁷ When Putin was prime minister foreign energy companies worked with Igor Sechin, who served as Putin’s ombudsman on energy through a commission known as TEK. When he returned from being prime minister to being president in 2012 he was intensively lobbied by foreign energy companies to create a TEK in the Presidential office, which he finally did much to their satisfaction.¹⁸

The costs of corruption

While corruption is endemic to the Putin system and is the oil on which it runs, there are different types of corruption, most importantly the corruption of the state and its companies and the corruption of organized crime. The Wikileaks release of American diplomatic cables revealed that one leading Spanish prosecutor, Jose Ginda Gonzales, labeled Russia, Belarus, and Chechnya as mafia states in which “one cannot differentiate between the activities of the government and OC (organized crime) groups.” The US embassy in Moscow also filed numerous cables alleging close connections among criminal gangs, top political leaders, and the security services.¹⁹

The emergence of mafia states are a new threat, which are the product of the end of the Cold War and globalization. As Moises Naim of the Carnegie Endowment has observed, “Across the globe, criminals have penetrated governments to an unprecedented degree. The reverse is also happening: rather than stamping out powerful gangs, some governments have instead taken over their illegal operations. In mafia states, government officials enrich themselves and their families and friends while exploiting the money, muscle political influence and global connections of criminal syndicates to cement and expand their own power.”²⁰ Given this intermeshing of crime and politics, in mafia states, “the national interest and the interests of organized crime are now inextricably linked.”²¹ While organized crime is hardly a new phenomenon, what is new in today’s world is that criminals no longer stay underground and with the end of the east–west division and the opening of the world economy in its wake, the opportunities for organized crime through immigration, money laundering, narcotics, and human trafficking combined with weak states have resulted in a merger or take over of states by these new types of nongovernmental organizations. Developments in Bulgaria, the Czech Republic, and other new democracies in Europe have provided evidence of the political impact of the Russian mafia on political stability.

If Russia is a mafia state it is a different kind of mafia state because the mafia is under state control and does not control the state as it does in weak states. Many members of Russian OC come from pasts in the Russian intelligence and police services and it is unclear to what extent their activities are directed by the state or simply tolerated. Russia ranks near the bottom on Transparency International's Rating of Perceived Corruption and the return of Putin to a third term as president cemented the fusion of crime, corruption, and politics for at least the medium term. This Russian variant of a broader phenomena is the most dangerous given its size and proximity to major European countries and the fact that Russia has nuclear weapons and a permanent seat on the UN Security Council.

Germany faces a number of major challenges in dealing with this Russian combination of state and organized crime. On the criminal level, Germany has become in the words of one German state interior minister, "a paradise for the mafia."²² The head of the Berlin Criminal Office reported already in 2008 that Berlin had 68 organized crime cases with more than a thousand individual crimes. These range from the booming car theft market through extortion and protection rackets up to high-end money laundering. Influencing of politicians has also become a major concern of the police, one they feel is not adequately shared by German politicians.²³ In addition Russian criminal elements have often linked up with former East German Stasi agents.

The bigger issue is the problem of business corruption. Given the major role of German business in the Russian economy, the challenges and risks are great. Dealing with Russia Inc. poses real dangers for a liberal democracy. Western and German business practices can have a beneficial effect on Russian business and legal cultures, and the view of German business in general is that they will reduce corruption and introduce a *Rechtsstaat*, that is a state of law. As the former British ambassador to Russia, Sir Andrew Wood points out, Germany "has a highly developed system of cooperation between its firms abroad, and between those firms and its foreign ministry. One result is to give prominence to those who argue that restraint in criticizing Russia is necessary for engagement and longer term progress towards the integration of Russia into a Europe based on common values."²⁴ This is a main point of the OA as well. As its managing director, Rainer Lindner pointed out:

The often cited conflict between business interests and democratic values does not stand up to closer examination: through their economic activity, new production plants, and the creation of jobs, German companies contribute a great

deal to the stabilization and development of societies in all of Eastern Europe. German companies and plants employ millions of people in these countries. Through their business practices they export values and rules that change these societies. Even if they are not immediately visible, these are lasting changes.²⁵

While Germany has a well-deserved reputation for honesty, reliability, and efficiency in government and business, there have been a number of high profile corruption scandals in both the public and private sector, including the resignation of the President, Christian Wulff, over an influence buying scandal in 2012. An article in a German business publication has even labeled Germany a “banana republic,” arguing that it has become a systemic problem.²⁶ Statistics indicate a rise in cases of corruption reported by German police forces from 2009 to 2010 of 148 percent totaling 15,746 cases.²⁷ One estimate puts the cost of corruption to Germany at €250 billion in 2012, up from €220 billion in 2005.²⁸ German criminal law prohibits the private sector from both offering and accepting bribes, but only individuals, not corporations or other legal entities, are criminally liable. However, corporations are subject to fines. Until the late 1990s, bribes paid by German companies to foreign officials were tax deductible.²⁹ Legislation passed in 1999 has made foreign bribes illegal.

After years of weak regulation and enforcement, German authorities are now stepping up the investigation and prosecution of anticorruption laws. This is done at the state (*Land*) level rather than the federal level. While many of these cases involve American and West European countries, entry into the Russia market has caused great opportunities for both profit and corruption. Major German companies such as Siemens, Commerzbank, and Mercedes as well as German subsidiaries of global companies such as Hewlett Packard, have been involved in bribery cases in Russia.

The case of Siemens AG

Perhaps the most notorious case involved the electrical and engineering giant, Siemens AG. Siemens has developed a large stake in the Russian market in the area of renewable energy, especially wind turbines, and other high-tech sectors. The experience of Siemens in Russia illustrates both the potential and the pitfalls for the German role in Russia. Siemens was welcomed to Russia by both Medvedev and Putin as Peter the Great had welcomed artisans and manufacturers from Germany to modernize Russia. The company has taken the lead in modernizing Russia's train network getting a contract for almost €2 billion for the Moscow-

Petersburg line and Sochi Olympics trains. All in all Siemens made €1.3 billion in Russia in 2009, and its profits there have been rising, with the number of Siemens employees planned to double from 3,000 to 6,000 over the next three years.

In this new endeavor, Siemens joined with Russian billionaire Dmitri Pumpjanski to form a new company, Sinara. The exclusive entrée to the inner Russian power center paid off. Siemens is more deeply connected than anyone else. As its CEO, Peter Löscher said, “Russia is a very important market for us.” In order to compete in this market, he needed the Kremlin given the Russian state is the most important contractor. Putin and Medvedev had to be persuaded to invest in certain projects of national significance as would any private entrepreneur.³⁰ The other side of this coin is corruption. As *The New York Times* reported in 2008:

The company pleaded guilty in federal court in Washington to charges that it violated a 1977 law banning the use of corrupt practices in foreign business dealings. The fines that the company agreed to pay on the American side of the case—\$450 million to the Justice Department and \$350 million to the Securities and Exchange Commission—dwarf the previous high for a foreign corruption case brought by Washington. . . . Officials said that Siemens, beginning in the mid-1990s, used bribes and kickbacks to foreign officials to secure government contracts for projects like a national identity card project in Argentina, mass transit work in Venezuela, a nationwide cellphone network in Bangladesh and a United Nations oil-for-food program in Iraq under Saddam Hussein. “Their actions were not an anomaly,” said Joseph Persichini Jr., the head of the Washington office of the FBI. “They were standard operating procedures for corporate executives who viewed bribery as a business strategy.”³¹

Siemens was sanctioned by the World Bank in 2009 for corrupt practices of its subsidiary, Siemens Russia, for paying \$3 million in bribes for its transportation project in 2005 and 2006. The settlement included a commitment by Siemens to pay \$100 million over the next 15 years to support anticorruption work, an agreement of up to a four-year debarment for Siemens’ Russian subsidiary, and a voluntary two-year shut-out from bidding on World Bank business for Siemens AG and all of its consolidated subsidiaries and affiliates. Siemens had also agreed to co-operate to change industry practices, clean up procurement practices, and engage in collective action with the World Bank group to fight fraud and corruption.

“This settlement provides significant consequences for past wrongdoing by Siemens. At the same time, Siemens ongoing extensive cooperation could

help the World Bank hold more corrupt firms and individuals accountable for diverting precious development resources away from the people who need them,” said Leonard McCarthy, Integrity Vice President at the World Bank. . . . “We look forward to continuing to work with the Bank to eliminate fraud and corruption in our markets and we see this as confirmation of our work to establish a robust compliance program and to pursue collective action together with the Bank in those markets,” said Andreas Pohlmann, Siemens Chief Compliance Officer.³²

Siemens’s use of bribery and other forms of corruption was worldwide, but its dealings with Russia have led to charges that it sold parts to a Russian firm, Atomstroyexport, which were destined for or ended up in the Bushehr nuclear power plant in Iran. Siemens claimed that it did not know that the parts were headed for Iran via Russia when they were intercepted at Frankfurt airport in 2010.

Other companies, most prominently Daimler and the German subsidiary of Hewlett Packard have been involved in corruption as well. Daimler’s Russia related corruption was on a much smaller scale than that of Siemens, involving about \$4 million in bribes to encourage Russian representatives to buy €65 million worth of Daimler vehicles.³³ However, its global operations resulted in a fine of \$185 million from the US Securities and Exchange Commission for bribes it paid in over 20 countries. Hewlett Packard’s fully owned German subsidiary was under investigation for allegedly paying about €8 million as bribes for a contract worth €35 million to provide a computer system to the Russian Prosecutor General’s Office.³⁴

These and other cases have raised questions about this seamy side of the German export success story.³⁵ The Russian side of this is part of this larger picture and for some companies a small part of larger corporate practice. Both Siemens and Daimler as part of their SEC fine agreements have pledged not to pay bribes in the future, although Daimler and a number of other German companies have also decided to no longer be listed on the US stock exchange in order to avoid this type of SEC scrutiny in the future.³⁶ In order to combat this pervasive Russian culture of corruption, over 50 international firms, the majority being German firms including Siemens, Deutsche Bank, and Daimler’s Mercedes Benz Russia undertook an initiative to combat corruption. They pledged not to give bribes to officials or to give payments to political parties in an initiative developed by the Berlin-based Transparency International.³⁷ However, if Russian firms do not also comply, these foreign firms will be at a disadvantage.

This series of cases raises the question of who is changing whom and whether immersion in the Russian market is leading to reforms in Russia or is rather deepening corruption. Under the Medvedev Presidency there were at least

some attempts to reign in corruption, but the return of Putin to the Presidency resolidified the “Putin system” and has undermined these inadequate reforms. How will German business react to this continuing climate of corruption and crime? As Marieluise Beck of the Alliance ’90/The Greens and a critic of Germany’s approach to Russia put it, the German approach to corruption in Russia has been bolstered by Germany’s unwillingness to criticize it: “Our logic is we must be nice, good friends with the Kremlin because we want their oil and gas. But the Putin show would be over if he couldn’t sell them to his Western partners.”³⁸ Corruption has hindered even further foreign investment in Russia and is costing Russia at least \$300 billion annually.

As one former Canadian corporate executive warns, “penalties in US courts certainly should help remind German corporations of their own global vulnerabilities. But even this is simply outside pressure. There is a cultural challenge here. Corporations rot, like all systems, once they are touched by corruption. Their long term profitability or even survival is put at risk by placing too much reliance on unreliable partners. Complicity is a short term strategy.”³⁹

Gazprom in Germany

As already noted, most of the recent growth in German exports is now coming from the East—Russia, Eastern Europe, the Gulf states and Asia, while United States–German trade with the United States remains robust with a total trade in 2010 of \$130 billion, with exports ranging from \$71 to \$94 billion since 2007 with an average net balance for Germany of plus \$37 billion.⁴⁰ This compares to total trade with Russia of \$63 billion in 2010. German trade with China in contrast stood at \$140 billion in 2010.⁴¹ While trade with Russia is roughly in balance, Germany is running about a \$14 billion dollar deficit with China, yet almost all of the growth in German exports over the past two years has come from China. The economic crisis in the eurozone has seen a further relative diminishment of the role of the EU market in German exports and the rise of exports to non-EU countries.⁴²

The energy link with Russia puts it on a different level than the one with Poland and other Central European markets. In addition, the scare over the availability of rare earth metals, which arose when China halted its exports of these metals, has Germany looking to Russia for access to these vital metals.⁴³ Add to this the major energy relationship in which over a third of German energy imports come from Russia and the constraints on German

public policy are obvious.⁴⁴ This relationship deepened in the wake of the Merkel decision to shut down Germany's nuclear capacity, as nuclear energy accounts for a quarter of German electricity. However, as Senator Lugar's comments illustrate, Gazprom is not a normal multinational energy company. Rather than a simple profit-oriented company it is rather an organization that serves the interests and the agenda of the Russian state. It emerged from the privatizations of the 1990s to become Russia's largest company, following Putin's policy of supporting national champion companies in strategic sectors of the Russian economy. Putin has used it as a tool of his foreign policy, cutting supplies to Ukraine, Georgia, Belarus, and Moldova and using its resources to buy up television stations and newspapers, which then become supportive of his policies.⁴⁵

In order to gain control of the energy sector, Putin has used Igor Sechin, his deputy prime minister, as his enforcer. Upon returning to the presidency, Putin made him the president of Rosneft and the secretary of his Commission for the Strategic Development of Fuel and Energy and Environmental Safety, which has exclusive competence over the oil and gas sectors. Sechin, who has been described as Darth Vader in the Russian press and as "the scariest person on Earth," oversees the country's abundant natural resources, reigns over the storied Kremlin faction known as the "siloviki"—roughly, "powerful ones"—which includes the military and intelligence services. These men believe that the state should control access to natural resources, and were against the appointment of Dmitry Medvedev to the presidency. An increasingly vocal cadre of Medvedev appointees, some reform-minded, made moves to quell the influence of the siloviki, but Sechin kept his grip on power.

There is little solid information about the man. Like many of Putin's inner circle, Sechin is a St Petersburg native. In the 1990s he worked in city government. Before that, it's widely believed that he was a spy; Moscow sources confirm that he was a member of the GRU, the KGB's foreign-intelligence arm. His duties may have included working in Angola and Mozambique, probably as a translator. An American who worked directly with Sechin in the 1990s said Sechin showed utter loyalty to Putin—a fact that is key to his current standing.⁴⁶

After assuming the presidency for the first time, Putin replaced the leadership of Gazprom with his own team, including Medvedev, and they all profited as a result. Putin himself is reported to own 4.5 percent of the company.⁴⁷ Gazprom is a vertically integrated company, which controls all aspects of gas production from extraction through delivery, including the ownership and laying of pipelines. This has opened up multiple opportunities for skimming and bribery

for a wide variety of those close to Putin and to organized crime.⁴⁸ Gazprom's reach extends beyond energy to include the media company Gazprom Media that controls the five most important television stations in Russia, and two-thirds of all Russian media.⁴⁹

Gazprom's European strategy is part of its larger international expansion strategy that has been centered around the goal articulated by Alexander Medvedev, director general of Gazprom Export, "to become the largest energy company in the world." Within Europe its strategy is to diversify its structure to control the distribution and sale of the gas to the European consumer. It has, consequently, diversified into the transportation, distribution, and power-generation industries, including acquiring storage facilities and distribution hubs. It does this through ownership of foreign subsidiaries or shell companies to invest overseas.⁵⁰ The liberalization of energy markets in the EU offered an opportunity for Gazprom to expand in Europe, but EU legislation also requires notification of non-EU companies operating in European gas networks, a policy directed against an overdependence on Russian energy.⁵¹ In September 2011, European Commission investigators raided a number of Gazprom's European offices, including Gazprom Germania in Berlin, with the purpose of investigating allegations that the companies had colluded to divide markets, hindered access to distribution networks and blocked efforts to widen sources of supply. This was part of a wider effort to liberalize European energy markets by making it easier for companies without distribution networks to gain market access through unbundling supply and infrastructure operations.⁵²

Gazprom has tried to increase European energy dependence by attempting to work arrangements with Algeria to establish a cartel to limit Europe's gas alternatives and to push the South Stream pipeline over Nabucco, which was designed to limit European dependence on Russian energy. The decision to construct the Trans Adriatic Pipeline (TAP) effectively killed the Nabucco project in 2013. The Nord Stream pipeline is an important component of this strategy. Gazprom does all that it can to prevent a common EU energy policy and prefers bilateral relations and special deals with countries such as Germany and Italy. A common EU policy would foster diversification of sources and unbundle national utilities, in the process cutting profit margins and reducing Gazprom's incentives to buy European companies. It would also weaken bilateral special relationships with Russia.⁵³

Gazprom operates in Germany through its fully owned subsidiary, Gazprom Germania. About half the jobs created by Russian firms in Germany are due to

Gazprom. Its reach within Germany includes owning shares in the following companies:

- Wingas (50%), with about 18 percent share of the gas market in Germany, a joint venture between GAZPROM Germania GmbH and *Wintershall*, the largest crude oil and natural gas producer in Germany.
- VNG—*Verbundnetz Gas AG* (10.5%), the third largest natural gas company in Germany (after *E.ON Ruhrgas* and *Wintershall*).
- *Wintershall Erdgas Handelshaus Zug AG* (WIEE) (50%).

These holdings give Gazprom control of 38 percent of the German gas market. The Nord Stream Pipeline is a joint venture in which Gazprom owns 51 percent and *Wintershall Holding* and *E.ON Ruhrgas AG* each with 15 percent. The key German companies in this sector are *E.ON*, *Vattenfall Europe*, *RWE*, and *EnBW*. Gazprom has a joint venture with *Wintershall* through *Wingas*, which is a subsidiary of *BASF*, the chemical giant. Its main Nord Stream collaborators are *E.ON* and *BASF*. Merkel's hasty decision to end German reliance on nuclear energy went against previous CDU policies and concerns about the implications of such a shut down for German dependence on Russian energy. The initial commercial reaction was the decision of *RWE* to sign an MOU with Gazprom, which opened the door to the latter's expansion into Germany and Europe. *RWE*, unlike *E.ON* and *Wintershall*, had avoided dependence on Gazprom prior to the nuclear phase-out decision.⁵⁴ However, it now faces major losses in the German market and is carrying heavy debts, opening it up to foreign ownership.

To this point the German government has blocked Russians from investing in aerospace and defense corporation *EADS*, *Deutsche Telekom*, or the semiconductor manufacturer *Infineon*—all companies with high tech or national security assets. If Gazprom becomes a part owner of *RWE* it will get into the business of downstream delivery of energy, a lucrative business. Gazprom now sees the decision to get out of nuclear power by 2022 as increasing annual German demand for gas by 20 billion cubic meters (bcm) from its current level of 36 bcms. As one analyst argues, "Moscow seeks to extend into Germany (and into Europe via German partners) a business model whereby commercial supply of gas is linked with acquisition of industrial assets through joint ventures."⁵⁵ Gazprom's activities have raised some concerns in Germany including those of Elmar Brok, Member of the European Parliament and a leading CDU politician, who already warned in 2006 that the Russian energy concern was pursuing a strategy, which would result in "without Gazprom nothing can happen."⁵⁶

The Gazprom German team

<p>Gerhard Fritz Kurt Schröder (1944)</p> <ul style="list-style-type: none"> • Chancellor of Germany from 1998 to 2005. • chairman of the board of Nord Stream AG. • Close friend to Putin. 	<p>Vladimir Kotenev</p> <ul style="list-style-type: none"> • 2004-2010 Russian ambassador to Germany. • Director of Gazprom Germany since 2010. 	<p>Hans-Joachim Gornig</p> <ul style="list-style-type: none"> • Former Managing Director of GAZPROM Germania GmbH. • Former deputy chief executive of the gas and oil industry in East Germany
<p>GAZPROM Germania GmbH (Berlin)</p> <ul style="list-style-type: none"> • Engagement in the production, trade, and storage of natural gas, liquefied gas, and gas condensate in Europe and Asia. • Exploration and production of refined gas, liquefied petroleum gas, liquefied natural gas, and gas condensate. • Trading of natural gas from Russia and Central Asia in Germany and Western Europe. • Formerly Zarubezhgaz-Erdgashandel-Gesellschaft mbH-founded in 1990. 	<p>Vladimir Vladimirovich Putin (1952)</p> <ul style="list-style-type: none"> • Prime Minister of Russia. • From 1985 to 1990 KGB agent stationed in Dresden, East Germany. 	<p>Felix Strehober (1963)</p> <ul style="list-style-type: none"> • Financial Director of GAZPROM Germania GmbH. • Studied in Moscow from 1978 to 1982 and worked for the Stasi between 1985 and 1989.
<p>Matthias Warnig (1955)</p> <ul style="list-style-type: none"> • Managing Director/CEO of the Nord Stream AG and former intelligence operative for the East German Stasi. • Furthered by KGB Lieutenant-Colonel Vladimir Putin in Dresden. 	<p>Hans-Uwe Kreher</p> <ul style="list-style-type: none"> • Director on personnel and organizational matters of GAZPROM Germania GmbH. • Former Stasi agent under operative names "Roland Schröder" and "Hartmann". 	

That this is far more than a commercial operation is clear from the key personnel employed by Gazprom Germania. It employs a number of former East Germans reputed or suspected of being Stasi agents who had worked with Vladimir Putin when he was a KGB agent in East Germany in the 1980s. Putin was deeply shaped by his time in Dresden and when he has returned on his trips there as the leader of Russia has referred to it as “returning home.” He arrived there in 1985 when he was 32 and just beginning his intelligence career. The KGB office was located at No. 4 Angelikastrasse across the street from the city’s main Stasi headquarters.

There is little information about Putin’s specific tasks in Dresden, but specialists and documents point to several assignments, including recruiting and preparing agents. The work likely involved Robotron, a Dresden-based electronics conglomerate, which was the Eastern Bloc’s largest mainframe computer maker and a microchip research center. At the time, a major KGB effort was underway to steal Western technology. The Soviet Bloc was so far behind, according to a German specialist, that agents at Stasi headquarters often preferred to work on a Western-made Commodore personal computer rather than on their office mainframe. The presence of Robotron may have provided Putin with legends (covers) for sending technicians to the West, or for recruiting Westerners who came to East Germany from such large electronics companies as Siemens or IBM. Putin may also have been interested in military electronics and intelligence about NATO from informers in the West.⁵⁷

Putins’s current Gazprom networks includes the following key figures:

Matthias Warnig, managing director of Nord Stream AG, who is reported by the *Wall Street Journal* and Moscow’s *Kommersant* business daily to have been a former Captain in the foreign intelligence directorate of the Stasi and allegedly cooperated with Putin in the 1980s in recruiting West Germans citizens for the KGB.⁵⁸ According to an extensive report in the *Wall Street Journal*, Warnig received numerous medals in recognition for his service, which seems to have focused on industrial espionage, including the energy business in the West.⁵⁹ After German unification, Warnig became head of the Russian division of Dresdner Bank and during his tenure there the Moscow office enjoyed a lucrative business relationship with Gazprom and Rosneft.⁶⁰ Dresdner played a role in the state takeover of Khodorkovsky’s Yukos oil company in 2004 facilitating its acquisition by Rosneft. Warnig plays an

important role for Putin as an ombudsman and a crucial intermediary between Russian and Western energy companies and is on the board of directors of Rosneft.⁶¹

Hans Joachim Gornig, vice director for Oil and Gas, was responsible in the GDR for gas lines linked to the USSR and convinced the then head of Gazprom, Viktor Chernomyrdin, to establish Gazprom Germania. He is also the manager of ZMB GmbH, a subsidiary of Gazprom Germania since 1993. In 2008 the German media reported that Gornig arranged contracts between ZMB GmbH, with the company Gasconsult GmbH in which he was the co-owner. According to the conditions of the contracts, amounting to €1 million, Gasconsult GmbH was to provide communication and PR services to the ordering party. However, in reality these services were provided by the employees of Gazprom Germania and Gazprom. Gazprom Germania refused to comment on the allegations within the German media.⁶²

Felix Strehober, finance director and reputedly a former high ranking Stasi member, who denies he worked for the Stasi, a denial contradicted by a file found in the Office of the Federal Commissioner dealing with former Stasi files. These records indicate Strehober served as an elite officer in the Stasi and worked for a time in the company run by the infamous currency trader and Stasi officer, Alexander Schalk-Golodkowski.⁶³ As one report notes:

He came under investigation in May 2008 for allegedly lying about his past as a former East German spy, according to Cologne chief prosecutor Guenther Feld. More than a hundred documents from the Stasi archives were uncovered accusing him of working with state security, while he was a student in East Berlin. Strehober, who studied in Moscow from 1978 to 1982, joined the Stasi in 1985 and worked for the feared East German secret police until 1989. Strehober was fined for hiding his past, but no verdict was reached and his case was suspended.⁶⁴

Hans-Uwe Kreher, Gazprom Germania's director for personnel and organizational matters was an informal employee of the Stasi, "and collaborated with the organization under the operative pseudonyms of Roland Schroeder and Hartmann. Kreher himself does not deny that he had worked with the Stasi. A company spokesman declared that they knew about his past, however, he added that 'we are not an enterprise penetrated by Stasi agents.'"⁶⁵

Finally, there is the connection to former Chancellor Gerhard Schröder, who accepted a position as chairman of the supervisory committee of the North

European Gas Pipeline Company (NEGPC), which had overall responsibility for the building of the Nord Stream pipeline. The majority shareholder in NEGPC is Gazprom, with 51 percent, while the German energy companies E.ON and BASF each own 24.5 percent. Schröder receives a salary of upward of €250,000 in his new post. As one website reported at the time:

It has now emerged that shortly before stepping down from office, Schröder proposed that the German government underwrite a loan of one billion euros to Gazprom from two German banks for the construction of part of the pipeline. In the event that Gazprom was unable to repay the loan, Schröder's government agreed to pay much of the Russian company's debt. Gazprom recently declared it would not take up the offer. On December 9, just weeks after the formation of a new grand coalition (Christian Democratic Union-Social Democratic Party) government in Germany, the new economics minister, Michael Glos, and the head of Gazprom, Alexei Miller, publicly celebrated the launching of the pipeline project. On the same day, ex-chancellor Schröder accepted an offer from his friend Putin to take up the post of chairman of the supervisory committee.⁶⁶

The Washington Post reacted sharply to Schröder's move:

It's one thing for a legislator to resign his job, leave his committee chairmanship and go to work for a company over whose industry he once had jurisdiction. It's quite another thing when the chancellor of Germany—one of the world's largest economies—leaves his job and goes to work for a company controlled by the Russian government that is helping to build a Baltic Sea gas pipeline that he championed while in office. To make the decision even more unpalatable, it turns out that the chief executive of the pipeline consortium is none other than a former East German secret police officer who was friendly with Vladimir Putin, the Russian president, back when Mr. Putin was a KGB agent in East Germany. If nothing else, Mr. Schroeder deserves opprobrium for his bad taste.⁶⁷

The comments of the then Chair of the House Foreign Affairs Committee, Tom Lantos, were even more searing, referring to Schroeder as a "political prostitute." Lantos said, "I referred to him as a political prostitute, now that he's taking big checks from (Russian President Vladimir) Putin. But the sex workers in my district objected, so I will no longer use that phrase."⁶⁸

It is hardly surprising that former Stasi agents would be employed by Russia. They had limited job prospects after unification and their only comparative advantage was their networks in the former Warsaw Pact and their Russian language capabilities. Dresdner Bank alone hired over three thousand people

from the former East Germany, all of whom had to sign a questionnaire in which they denied connections to the Stasi. As the investigative reporter, Jürgen Roth commented, although most Germans don't suspect it, the old Stasi connections still exist, "Gazprom couldn't have been as successful without them."⁶⁹ It is not surprising that Putin would use his old network to create a new one in the country, most important to Russia's energy and other economic and strategic interests. He himself was quoted telling the German consul in St Petersburg, "I understand you've got a campaign going against former employees of state security, they're being caught and persecuted for political reasons, but these are my friends, and I will not renounce them."⁷⁰ As the *Wall Street Journal* noted, "It isn't surprising that Mr. Putin would turn to veterans of the KGB and friendly intelligence services to get things done. In the eyes of many Russians, the agency's former operatives still have an aura of cool efficiency and patriotic self-sacrifice. Men who risked their lives as spies during the Cold War developed special bonds of loyalty that carry over into post-communist times. Mr Putin has openly celebrated his KGB résumé. Former Stasi officials, by contrast, were often stigmatized in post-unification Germany because people saw them as representatives of a hated police state. East Germans believed that the Stasi spied on people in schools, at work and in church."⁷¹

Today Saxony, Putin's old base of operations, remains a main base for Russian business. Using Schröder's wide network, Putin expanded this base and helped legitimize what the Russians are doing in Germany and provided a lobby to promote not just Gazprom's interests but those more broadly of Putin's regime. As Marieluise Beck, the Green parliamentarian put it, "With the Nord Stream deal, Schröder gave the Russians the first real possibility of dividing and conquering." A report on her comments went on to note, "She is convinced Gazprom is different from Western firms because beyond the usual merging of politics and business, it actually helps execute Moscow's foreign policy by offering very lucrative contracts to European energy companies. Their executives then act as lobbyists for the Kremlin, leaning on their governments to put their national interests above a unified European energy strategy."⁷²

Gazprom lobbying is especially strong in North Rhine Westphalia, where RWE and E.ON Ruhrgas are located. Gazprom sponsors the Schalke soccer club, and spends lavishly on public relations including amusement parks, and Russia language lessons in schools. Its reach and overreach was exemplified by the awarding of the Quadriga Prize in October 2011 to Putin, which in the past went to Gerhard Schröder, Vaclav Havel, and Mikhail Gorbachev. He was to be awarded the prize for his "service to the dependability and stability of

German-Russian relations.” The public outcry that followed a report in the *Sueddeutsche Zeitung* and the threat to return his prize from Vaclav Havel forced the foundation, which had funds from a number of German companies, to withdraw the offer.⁷³

Doing business in Russia involves the continuing risk of corruption but beyond what might be called “normal” corruption, there is the problem of corruption as an instrument of state policy. Here Anne Applebaum’s observations on the Russian role in the West is especially relevant:

... the members of the Russian elite may no longer aspire to launch international Communist revolution, as they did in the 1930s. But they do aspire to change the Western norms and behavior that they see as standing in their way: they want to make Americans and Europeans less interested in human rights, more accepting of corruption, and perhaps more amenable to Russian investment and Russian oligarchs. To some degree they can do so openly. Their money buys them the services of retired Western officials, including a former German Chancellor, as well as access to public relations firms, advertising agencies, and lawyers.⁷⁴

The German investigative reporter, Jürgen Roth has noted that this factor is downplayed in Germany.

In Germany, with a few exceptions, politicians and publicists persistently sustain the foolish opinion that the mafias are a *quantité négligeable*, a parasite in an otherwise virginal society, a kind of octopus of the Mediterranean and East. This stubborn refusal to face reality on the part of politicians along with a condescending attitude towards citizens is based on a dominant, politically fragile way of speaking, by which the concept of mafia describes a method of exercising power socially and culturally linked to the south of Italy.⁷⁵

This Russian strategy is most apparent in the states of eastern and southern Europe. While Russia is not openly promoting an alternative model to that of liberal democracy outside of its borders, as a Bulgarian commentator has noted, “The clash between the Russian oligarchic model of economic and political control and a Western style democratic system produces structural instability in the Eastern part of Europe, which may prove a strategic challenge for the EU and the transatlantic security system. The Russian strategy of energy monopolization is aimed, first, at charging extraordinarily high prices and, second, at undermining the Western strategic periphery in Eastern Europe.”⁷⁶ The use of both energy companies and shell companies, which disguise Russian control of business interests has become a major security threat in eastern and southern Europe.⁷⁷

A complicating factor in the Russia first approach of many German businesses has been the return of the markets of east Central Europe to significance for German exports and investment. German trade with the Czech Republic, Poland, and other former Warsaw Pact countries is booming and eclipsing business with Russia. Imports from the region total over €40 billion a year compared to the €15 billion from Russia. However the OA membership does not include these markets and thus does not effect its lobbying for business in Russia.

Implications of the energy revolution

The Russian share of the German and European energy markets has been declining since 2009 following the gas crisis with Ukraine. Its share of the EU gas market fell from 47 percent in 2003 to 34 percent in 2011. The role of the European Commission in restricting Gazprom's activities in the EU as well as the growing role of the European Parliament has created increased resistance to dependence on Russia energy.⁷⁸ The potential shale gas revolution in the United States and the prospect of Liquified Natural Gas exports to Europe promises to be a game changer. Even Wintershall is diversifying with Norway and is promoting shale gas and E.ON has negotiated lower gas prices with Gazprom.⁷⁹ Statoil of Norway and Qatar have emerged as rivals as well as its Gazprom's Russian competitors, Rosneft, and Novatek. The Russians face the irony of another American technological revolution, this time shale gas, undermining its strategic position, just as the Strategic Defense Initiative (SDI) of the 1980s did. It appears that Russian energy influence on Europe peaked in 2008 and that these changing market conditions mean that its energy exports to the EU are not likely to remain a major source of leverage, and in fact the EU may now have gained the upper hand in its dealing over energy with Russia.⁸⁰

The *Energiewende*, the new energy policy of the Merkel government, which includes the planned closure of nuclear power by 2022, also offers a long-term challenge to Gazprom. Key factors influencing demand include the promotion of biofuels and alternative fuels, renewable energy, energy taxation levels, and efficiency standards for buildings and cars. Gazprom's gasfields are aging and in decline. The precipitous drop in gas prices makes the link to oil prices unsustainable. Its revenues have fallen and its net worth in 2013 was estimated at about a third of its value in 2008. Production has been stagnant since 2001.⁸¹

The implications for Russian policy in general and for German–Russian relations may be profound. Russia Inc. under CEO Vladimir Putin, having based

its entire business model on energy and other natural resources (with the energy sector providing 40 percent of state revenue) and using Gazprom to finance its entire system has meant that Russia missed the chance to use its revenues to diversify and modernize its economy. The political authorities will have less cash to buy off a restive public and will have fewer resources to finance its foreign policy. As Anders Aslund of the Peterson Institute concludes, this may provide a silver lining in that Russia may become less of a corrupt petro state in the future, but this is only a hope.⁸²

These developments also pose choices for Germany over the coming years on where to go with Russia. As a report from Radio Free Europe concludes: “With the changing gas market offering Germans their best opportunity to tack toward a strong, unified EU position, the debate about relations with Russia is growing increasingly serious. But whether it leads Berlin to pursue energy security by looking beyond its immediate national energy interests—enriching the energy industry through a “privileged” relationship with Russia—before it’s too late to decide otherwise remains to be seen. How the struggle over energy plays out will affect other serious matters, including the advocacy of democracy in former Soviet republics, which Russia sees as part of its sphere of influence.”⁸³

What will this all mean for a geo-economic strategy? Will it shift the balance of power in the relationship more toward Germany and weaken the Russian position? Whatever the results, the deep German economic stake in Russia will continue to limit its options. Germany will continue to depend on Russian energy but the economic stake is deeper than just energy and the role of German business is likely to keep German companies engaged in Russia well beyond the Putin era. Germans will face the reality that Russia will not develop into a *Rechtsstaat*, given the extensive corruption and linkages between criminal groups and the state. The German private sector will face the growing threat of contamination by Russian practices as Anne Applebaum and others have warned.⁸⁴ German companies may reach the point where the costs of corruption and the lack of a reliable legal and investment climate may become too high and they may begin to exert concerted pressure on Russian authorities to reform, but given the extensiveness of the problem this may not be a realistic option. Given the imperative of exports for the German economic and political system, German business will continue to lead on Russia policy.

However Russia Inc. poses a geopolitical problem for the German government. The penetration of Russian crime and oligarchs into eastern and southern Europe poses a real threat to democracy and to NATO. Here the

debate of interests versus values make a return in a way in which values will redefine interests. The return of Putin and his increasingly authoritarian system led the Obama administration to the conclusion that the reset had reached its limits and that there was not much left it could accomplish with Putin. Both German policymakers and private sector leaders were facing the exhaustion of their paradigms of engagement and *Wandel durch Handel* without having any viable alternatives. This will be the challenge facing them in the remainder of this decade.