Abstract

The United Kingdom’s decision to leave the European Union, known as Brexit, brings uncertainty to Europe. While the future of the UK is unknown, other states within the EU seem well-positioned to gain from the exit; Germany is in such a position. Germany, a regional hegemon and continuously growing economy (and already the largest economy in the EU), will be prominently at the top of the EU pecking order. The downtrace implications of Brexit have ripple effects across Europe, and beyond. The subsequent reactions from British action is a domino effect. Having this leading role is advantageous, since Germany can shape and lead the direction of the EU. The history of German-Russian relations in the modern era starts with Ostpolitik and rapprochement, which normalized efforts. Yet Germany has increased economic ties to Russia in recent years, and continues to focus on projects with Russia such as the Nord Stream 2 pipeline. While German-Russian relations continue to grow, EU-Russian relations remain tepid, especially after EU-imposed sanctions in response to the Russian invasion of Crimea. Given Germany’s increased trade partnership with Russia in recent years, Germany’s relationship with Russia may be an influencing factor in the direction of the EU.

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**Introduction**

Germany, a regional and perhaps reluctant European hegemon, leads the European Union as the largest economic power, along with the second largest economic power, the United Kingdom. Socially liberal Germany is counterbalanced by the moderately conservative UK when it comes to EU leadership. The UK continues to prepare for Brexit, the British exit from the EU, and its departure from the EU. France, the third largest economic power in the EU, maintains close Franco-German relationship, but has a significantly lower economic contribution to the EU. Germany will stand alone as the economic power of the EU. This economic superiority places Germany in the EU driver seat.

In recent years, Germany has developed, and continues to develop, economic ties to Russia. German-Russian relations in the modern era starts with Ostpolitik and rapprochement, which normalized efforts. This economic relationship ties the lead economic EU power with outsider Russia, pulling Germany east. Yet the EU, along with the United States, continues to pull Germany to the west. While Germany has ties to Europe and a strong sense of Atlanticism, economic opportunities compel German interests toward Russia. Germany’s dilemma is highlighted by the divergence of direction which may be characterized by national interests versus regional hegemonic aspirations, European and Atlantic focus versus the Kremlin, civilian power versus a hard power, and East versus West. *Given Germany’s increased trade partnership with Russia in recent years while in a leadership position in the EU, how has Germany’s relationship with Russia influenced the direction of the EU in regards to EU-Russian relations?* The
lessons learned from Germany and its influence on the EU as a whole is extremely relevant considering the future direction of the EU post-Brexit.

Brexit looms as a catalyst for the discussion on the future direction of the EU. No longer will the EU have the UK and Germany pulling in different directions. One such topic that the two countries differed greatly on is the issue of immigration and the migration crisis as a result of the Syrian civil war. Germany will have a much more advantageous posture at the forefront of the EU. As for the UK, future trading with the EU is likely, but not a foregone conclusion. A hard Brexit, a departure from the EU with no deal, is possible given the contention surrounding the negotiations for the separation. A soft Brexit, a Brexit in which some deal or bilateral agreement between the UK and EU is established, would mean continued relations between the two parties. Yet regardless of which Brexit ensues, the UK departure creates a void that will have to be filled. While trade might change little, other opportunities are created for Germany, such as one less conservative-leaning country to oppose German interests. Germany will be able to sit solely at the top of the EU, with France ascending to a new more-distant second economically.

Brexit will have a lasting impact on the geopolitical and economic order of Europe, as well as beyond Europe’s borders. The ripple effect will be felt by other organizations and countries. The United Kingdom has been a major contributor to the EU, and a leader. Their departure will certainly provide an opportunity for Germany, the largest economy in Europe, to fill the void. With the absence of the UK, Germany will be the sole heavyweight at the EU table. France is a major contributor to the EU in numerous ways, and to the larger European community, but economically is dwarfed by
Germany. Germany will have the clout to steer the group of 27 EU member countries in new economic directions, relying upon its robust economic, trade partnerships, Franco-German partnership, and other tools. While pushback exists over German rise to military prominence due to historic events, there is no pushback over the rise of Germany economically.

Various fields of existing scholarship overlap and contribute to the discussion of the EU’s direction and Germany’s role in that direction, as well as Russia’s effect on German influence. Relevant topics and fields include: the EU and its direction, Brexit and downtrace implications, Germany and its political and economic interests, Russia and its interactions with the EU, German-Russian economic relations. The broader discussion includes: security structure and implications, geopolitical landscape of the EU and Europe, geoeconomic issues across Europe. Research will utilize a qualitative approach in order to delve into primary sources that outline the German-Russian economic relationship, specifically examining energy trade between the two countries. Additional information will be pulled that highlights the use of sanctions between actors, namely the EU and Russia.

Recent direction of the EU is extremely important to understand, for a number of reasons. The influence of Brexit needs to be understood, as well as whether and how Germany has increased its influence in the EU. Germany and Russia have developed and continue to develop economic ties. Some other EU countries, on a smaller scale, also rely upon Russian energy imports. The German-Russian economic relationship has potentially affected the direction of the EU. Examining recent decisions by the EU, including the use of sanctions, would provide insight.
The initial or primary interest is understanding the recent developments of Germany, Russia, and the direction of the EU, in the shadow of the Brexit decision. Another and perhaps larger reason for interest is the rise of Germany a regional hegemon. Additionally, the actions of Russia, including ties to Germany and the EU, should also be of concern to the West. Lastly, the direction of the EU moving forward, assessed based upon recent policies, affects the West and numerous multilateral institutions. These reasons identify the interest in, contemporary importance, and relevance, of the research question.

**Background**

In 2016, the citizens of the United Kingdom (UK) voted to leave the European Union (EU) after decades of membership. The Referendum posed a simple question to British citizens in regards to staying or leaving the EU.\(^1\) The country was almost equally split, with a simple majority favoring the nationalistic trend towards independent sovereignty. This impending British exit from the EU has become known as “Brexit.” Brexit has not only polarized the United Kingdom, but also Europe, and countries with an interest, such as the United States.

Citizens of the United Kingdom chose to leave the European Union for a variety of reasons, although there is no decidedly “smoking gun.” The direction of the EU has been one towards more centralized leadership and oversight, with policies that benefit all 28 member nations. While the EU has trended towards the collective, the UK has tried to maintain a sense of its own identity. The UK has kept the pound for its currency instead

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of adopting the euro as a fully invested member of the EU. This exception through the
European Union regarding adoption of the euro makes the UK separate from the group,
allowing for the UK to maintain national identity. Currently, 19 EU countries out of 28
utilize are in the Eurozone.\(^2\) The UK has also not signed the Schengen Treaty, focusing
on maintaining border sovereignty. Currently, there are four EU countries not in the
Schengen Area.\(^3\) As one of the few countries left to not sign the Schengen Treaty, the
UK maintains national control over its borders, and control over the nation. So, the UK
vote for Brexit was considered by many a vote for nationalism, and towards UK-centric
policies.

Germany’s bilateral relationship with Russia dates back to post World War II.
The efforts by Germany on a new politic approach during the Cold War, known as
*Ostpolitik*, focused on establishing positive ties. German Chancellor Brandt, Chancellor
1969-74, developed the policy of *Ostpolitik*, and the efforts of normalizing relations with
the then Soviet Union.\(^4\) *Ostpolitik* “was based on the idea that economic and political
engagement with Moscow would lead to positive change, both within the Soviet Union
and in bilateral relations.”\(^5\) The 1970 signing of the Moscow Treaty by Germany and the
Soviet Union connected the two.\(^6\) The treaty lacked substance, but still linked the two
states, even if only symbolically. Even after the Soviet Union dissolved, Germany
continued to push for building an economic relationship. “German governments adopted

\(^3\) European Commission, “Europe Without Borders: The Schengen Area”.
\(^5\) Marco Siddi, “German Foreign Policy towards Russia in the Aftermath of the Ukraine Crisis: A New
Ostpolitik?,” *Europe-Asia Studies* 68, no. 4 (June 2016): 665.
\(^6\) Gray, “Paradoxes of Ostpolitik,” 412.
the same stance towards post-Soviet Russia, with an even stronger emphasis on promoting ‘change through economic interlocking’ (Annäherung durch Verflechtung).”

Since Germany has developed an economic bilateral partnership with Russia, their relationship has grown recently with the development of various energy trade projects. Their growing economic ties could impact the direction of the EU. This partnership, and growing economic ties, is demonstrated by large projects like Nord Stream 1 and Nord Stream 2, which deliver Russian oil and natural gas to Germany. These ties are further demonstrated by financial investments into each other’s economies, policy lobbying, and other ties. Even leadership plays an important role, considering former German Chancellor Gerhard Schroeder sits on the board of Russian gas company Gazprom. If Germany continues to strengthen economic ties with Russia, this may not bode well for their European neighbors, as well as the larger international community that has ties to Western Europe, such as the United States.

Many members of the EU, and other European countries outside the EU, have not had positive relations with Russia in recent years. Russia may seize on an opportunity to gain a strategic foothold in Europe through a weakened EU and a strengthened bilateral tie to Germany. Complicating the matter further are the various security issues that arise from such a premise. A pro-Russian Germany causes reason for concern and would affect the EU.

7 Siddi, “German Foreign Policy towards Russia in the Aftermath of the Ukraine Crisis,” 666.
Dating back to the early 1990’s, the development of EU policies created many of the practices currently employed. The Common Foreign and Security Policy (CFSP) was developed in 1992 in order to have a shared EU stance on foreign policy.\textsuperscript{10} While the common CFSP was developed to stand for the EU writ-large, each member state was able to also have its own specific foreign policies. The updated EU policy came about in 2008, with the Common Security and Defence Policy (CSDP). This policy “enables the Union to take a leading role in peace-keeping operations, conflict prevention and in the strengthening of the international security. It is an integral part of the EU’s comprehensive approach towards crisis management, drawing on civilian and military assets.”\textsuperscript{11}

The CSDP gives the EU a larger unified response to certain threats, but still falls short of compelling countries to buy into the policy. Member states still have the sovereign will to decide individual policies regarding other nations.

One such example of unified policymaking has been the levying of sanctions against Russia. The EU, in conjunction with the United States, imposed sanctions against Russia in response to the Russian invasion of Crimea, a region of Ukraine.\textsuperscript{12} The use of sanctions demonstrated a concerted effort by the west to exert economic influence on Russia. While Russia has publicly condemned the sanctions and admittedly is hurt by the

\textsuperscript{11} European Commission, “The Common Security and Defense Policy (CSDP)”.
sanctions, Russia refuses to adjust course and remains in Crimea. Use of sanctions as a tool is important, and must be examined further.

**Literature Review**

*Economics of Brexit*

Economic considerations for Brexit involve significant geopolitical economic analysis. Elżbieta Kawecka-Wyrzykowska looks at the “Brexit Gap,” the economic shortfall of EU income once the UK leaves the EU. After Brexit, the Gross National Income of the EU will be somewhere between 15-17% less which is the current UK share, according to Kawecka-Wyrzykowska. In her article “Implications of Brexit for Financing of the EU Budget, with Particular Stress on the Effects on Poland,” she also assesses the effects of Brexit specifically on Poland, but also EU member states in general. The UK will also have an internal financial gap, and will have to compensate for the lack of trade with new partnerships and agreements. The identified financial gap for the EU in the wake of Brexit is one that would have to be addressed by EU members nations. Germany would likely be forced to fill much of that gap as the leading economy within the EU.

Iain Begg introduces the complexity of the EU-UK relationship, its intricacies, and the uncertainties they face in “Making Sense of the Costs and Benefits of Brexit:

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14 Ibid, 3.
15 Ibid.
Challenges for Economists.”\textsuperscript{16} The author considers future relations and economic ties for both UK and EU, separately and collectively moving forward. The looming departure means that the UK has to consider a hard or soft Brexit.\textsuperscript{17} The importance of the type of Brexit means security and economic implications for the EU27 after the separation.

Thomas Sampson also analyzes economic factors surrounding Brexit. He finds that the separation will increase trade barriers, a detriment to the UK in “Brexit: The Economics of International Disintegration”.\textsuperscript{18} He further points to the uncertain burden of cost that British citizens will bare as a result of Brexit. The EU could require the UK to pay the EU a certain amount, which would cover various losses. The financial requirement of the UK to pay the EU over costs incurred from the departure further takes burden off of Germany and the rest of the EU27 in the wake of Brexit.

Sampson also examines the motives of British citizens in voting for Brexit, as well as the greater geopolitical implications.\textsuperscript{19} Much of the voting divide was based upon issues such as immigration policy, which was a polarizing topic between Germany and the UK. In response to the immigration crisis from the war in Syria, Germany welcomed immigrants and pushed for EU policies that provided safe-haven for fleeing refugees. The UK was not interested in open door policies for refugees, in addition to immigration from Eastern Europeans looking for better opportunities in the British economy. The migration crisis caused dissension across Europe, with some EU members supporting

\textsuperscript{17} The term “hard Brexit” referencing a complete break from the EU, while “soft Brexit” refers to a break from the EU with some existing agreement on partnership.
\textsuperscript{19} Ibid.
immigration, such as Sweden, with others staunchly against it, such as Austria and Hungary. Considering the broader support for pro-immigration in Europe, Germany comes out on top as a leader.

German economists Ansgar and Gros also assess the economic effects of Brexit, in regards to trade. In “The Economic Impact of Brexit: Evidence from Modelling Free Trade Agreements,” they assert that the size of the EU will bear less of the burden proportionally, while the UK will benefit from the release of trade restrictions, among other pros and cons. Their findings further support the need for the United Kingdom to pursue various bilateral trade agreements and partnerships.

Winston Chang discusses the economic consequences of Brexit for the UK and greater Europe in “Brexit and Its Economic Consequences.” Considering the framework of Europe, he notes that there are many uncertainties as the UK moves forward in its departure from the EU. Significant treaties are examined, as well as the arguments surrounding staying and leaving the EU. Also considered is the shape and scope of a bilateral agreement between the UK and EU, which would lead to a soft Brexit.

Sanctions

Sanctions by a state require a multinational, coordinated effort in order to be effective in a global market. Coordination is key to imposing sanctions, considering the sanctioned country could have alternative trade partners. Imposing countries ensure

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coordination by agreeing upon the criteria of the sanctions, and agreeing to collective enforcement. According to Portela, “sanctions are defined as the deliberate interruption, reduction or withdrawal of normal relations or of a benefit that would otherwise be granted, in response to what is considered objectionable behavior.” According to Kazantsev, “levying them requires a proper assessment of the balance of power and a position of power over the target.” In addition to multilateral coordination, in-depth analysis must be conducted to determine the sanctions, targets, and downtrace effects. “In formulating their sanctions, the European Union assessed their effectiveness, the ratio of costs to benefits, the balance among industries and member states, their reversibility and extensibility, legal protections and ease of implementing them, and international coordination.” Sanctions allow states to coerce others through economic soft power. Kazantsev opines that “sanctions are weapons.”

The use of sanctions in a multilateral effort wields significant power over the sanctioned state. According to Elena Shadrina, “sanctions serve to help transmit/impose policy preferences of one nation or group of nations (senders) on a target nation.” Shadrina further identifies that sanctions are either for the purpose of punishment or to force compliance.

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23 Kazantsev, “Anti-Russian Sanctions” 91.
24 Ibid.
25 Ibid, 97.
27 Ibid.
EU Levying Sanctions

The EU has utilized sanctions for several decades in order to exert influence and power. Constance Barbou des Courières cites De Wilde d'Estmael that “EU economic sanctions are…a formidable tool used by the Union to convert its economic power into greater political influence.” Broadly, the use of sanctions by the EU allows the multilateral organization to push policy based upon its economic reach.

The EU as a collective actor, has the economic clout to engage Russia with sanctions. “According to the World Bank, Russia … makes up 2.8 percent of the world’s GDP, while the EU make up 23 percent…” The challenge for the EU is to enact effective policies that are best for the EU, while also carrying out EU strategy. Aune et al discuss the dilemma the EU faces in balancing the EU interest to avoid energy ties to Russia with the need for energy, efforts to engage Russia, and in consideration that the energy will be sold elsewhere. Oil will spread to countries that buy it, and fulfill market needs, whether the EU buys it or another actor buys it. The EU could gain from trade ties to Russia by ensuring some economic interdependence, and therefore some level of behavioral predictability from Russia, but this is a risk.

The concept of targeted sanctions came out of the United Nations in the 1990’s, based upon a need for the international community to target only wrongdoers while

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avoiding innocents.\textsuperscript{31} Trade embargoes, or wide-sweeping sanctions, punish not only wrongdoers but a larger community that includes innocent citizens from a state.\textsuperscript{32} The appeal of targeted sanctions is that states can hold specific parties responsible while avoid hurting innocent parties. Targeted sanctions allow the US and EU to target transgressors, while avoiding (or at least minimizing) economic collateral damage. “The attempt to design sanctions to hit only the wrongdoers represents a fundamental innovation in the sanctions landscape.”\textsuperscript{33} Both the US and EU use targeted sanctions in order to directly coerce bad actors. A difference between the US and EU is that while the US will utilize wide-sweeping sanctions, the EU only utilizes targeted sanctions.\textsuperscript{34} Portela cites documentation from the Council of the European Union that:

“Sanctions should be targeted in a way that has maximum impact on those whose behavior we want to influence. Targeting should reduce to the maximum extent possible any adverse humanitarian effects or unintended consequences for persons not targeted or neighbouring countries.”\textsuperscript{35}

The EU’s use of targeted sanctions is motivated by the morality international acceptance, utilizing acute precision, which is indicative of European nuanced geopolitical efforts, but also due to the constraints imposed by the Court of Justice of the EU.\textsuperscript{36} Targeted sanctions are considered more acceptable amongst the international community, since they avoid actions against the targeted state’s general population. This creates an internal

\textsuperscript{32} Ibid, 914.
\textsuperscript{33} Ibid, 912.
\textsuperscript{34} Ibid, 914.
\textsuperscript{35} Ibid, 918.
\textsuperscript{36} Ibid, 919-20.
self-regulatory mechanism by which sanctions are scrutinized in order for the sanctions to be upheld. The scrutiny of targeted sanctions includes examination of effect, scope of actions, and other considerations. The required consensus for sanctions by the EU forces this scrutiny, since sanctions would otherwise not be approved.

The EU implements sanctions gradually, in order to avoid inflicting harm upon the populace. The sanctions process by the EU is generally carried out in three phases: limiting contact, “adoption of…CFSP measures,” applying wider embargoes. The structure of the CFSP allows for “smart sanctions,” or targeted actions. Even though the CFSP provides the EU with common policy for member states, it is still a responsibility for member states to follow suit, in order to provide weight for sanctions to be effective. Yet the door of opportunity remains open for countries, such as Germany, to act independently from the CFSP. “The rare cases of non-compliance arise from ‘big’ member states which have the resources to defect and whose goals are incompatible with EU goals.”

EU member states retain a high degree of individual say regarding sanctions, as their annual renewal require unanimous voting. This means that individual states that differ in opinion from the majority have to act strategically. Actions by Germany to politic against Russian sanctions while still voting for sanctions demonstrates the

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37 Ibid, 921.
38 Ibid.
40 Ibid, 20.
complexity of the relationship between Germany and the EU. Germany pushed for light sanctions against Russia, and was reluctant in voting for stricter sanctions.

The notion of individual action within the framework of a multilateral institution is not lost in the EU. Pointing to collective effort, “the EU has exceeded expectations of many observers by imposing and sustaining a damaging economic sanctions regime on Russia in response to its annexation of Crimea.” Yet individual states within the EU have set up independent national policies regarding Russia. German ties to Russia have brought about policies and lobbying for Russian interests, easing sanctions or at least avoiding harsh sanctions, such as in the response to the Skripal murder, pointing towards a larger effort by Germany to go against or diverge from the EU on policy. The lack of concert amongst the collective regarding foreign policy and forward strategy highlights the limitations still within the EU as an actor, while pointing to the importance of specific actors like Germany.

*Russian Sanctions*

Russian President Vladimir Putin has long maligned the West as an instigator and as an antagonist. Citing a speech from 2014, Putin directly indicts the West, namely the United States as well as US allies, in addressing the Russian Federal Assembly on the topic of sanctions against Russia:

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42 Ibid.
“This is not just a nervous reaction from the United States or its allies in response to our position in relation to the events and coup in Ukraine, nor is it even related to the so-called Crimean Spring ... if all these had not occurred ... they would have come up with some other reason to prevent the growth of Russia’s capabilities, to impact them, or even better: to use them for their own interests. Containment was not invented yesterday. It has been carried out against our country for many, many years: constantly, one might say, for decades, if not centuries. In short, whenever someone says Russia has become too strong or too independent, these tools are rapidly applied.”

The speech derides the West’s use of sanctions, and accuses the West of attempting to suppress Russia without valid justification. He names the US, likely because of its leading role, but he is undoubtedly including the EU in the statement, since both worked together to ensure multilateral sanctions were levied.

In 2013, the United States imposed sanctions against Russia for a number of reasons, including Russian incursion into Syria and for providing asylum to American defense contractor Edward Snowden. These sanctions were followed by a new spate of sanctions in the following year, as a Western response to Russian aggression in the Crimean region of Ukraine. The 2014 round of sanctions targeted three key sectors.

US sanctions, and subsequently the EU in a coordinated effort, targeted:

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46 Ibid.
47 Ibid.
“banking (Sberbank, Bank of Moscow, Gazprombank, Vnesheconombank, Russian Agricultural Bank, VTB Bank), oil and gas production (Gazprom, Rosneft, Gazprom Neft, Transneft, Lukoil, Surgutneftegas), and defense (State Corporation Rostec and its subsidiaries—Aircraft Equipment Holding, Russian Helicopters, Russian Electronics, United Engine Corporation, VSMPO-AVISMA, Bazalt weapons manufacturers, the Sozvezdie Concern, Radio-Electronic Technologies, the Machine Engineering Technologies holding company, the air defense concern Almaz-Antey, Russian Electronics holding company, and the Sirius company—the United Aircraft Corporation, Kalashnikov Concern, Instrument Design Bureau, Uralvagonzavod, Stankoinstrument, the Dolgoprudny Research and Production Center, the Kalinin Machine-Building Plant, the Mytishchi Machine-Building Plant, the Tikhomirov Scientific Research Institute of Instrument Design, the Altair Marine Scientific Research Institute of Radio Electronics, and others).”\(^{48}\) Kazantsev cites that “U.S. and EU sanctions [were] joined by Albania, Australia, Iceland, Israel, Canada, Liechtenstein, Moldova, New Zealand, Norway, Montenegro, Switzerland, and Japan.”\(^ {49}\)

Sanctions by the US and EU have targeted a number of key sectors in Russia. According to Tatiana Romanova, the Council of the European Union identifies that “this list has been continually amended … to reach 150 individuals and 37 entities.”\(^ {50}\) Due to their concerted effort, the US and EU had some impact on Russia.

\(^{48}\) Ibid, 88-9.
\(^{49}\) Ibid, 90.
A number of EU member states are divided over the continued use of sanctions towards Russia, as well as the type of sanctions to be levied.

“France was restricted by its contract to supply the Federation with two warships and was therefore reluctant to support the UK’s proposal to introduce an arms embargo. Conversely, London did not support Paris’ incentive to introduce financial sanctions, given the impact such measures could have on the City of London.”

The lack of consensus creates a challenge for the EU. Others, such as Greece, rely “greatly on the exports of agricultural goods to Russian markets,” and are less than motivated to sanction Russia. The CFSP attempts to push forward a common approach, but each member state has individual and divergent interests. Barbou des Courières shares Portela’s assertion that “measures are significantly watered-down in order to secure the support of all 28 members.” Countries essentially drop down to the lowest agreeable sanctions, creating sanctions that are likely softer than possibly warranted.

Some countries look to support an end to sanctions against Russia, canceling their renewal. “Germany or France have both also looked to ease off the sanctions during their renewal as part of their attempt to renew the dialogue with Moscow.” Countries with economic ties to Russia would understandably want to avoid any strain in economic relations with Russia. The dilemma is that their actions may go against the best course of

51 Barbou des Courières, “Between Supranationalism and Intergovernmentalism in the European Union’s Foreign Policy,” 23.
52 Ibid, 24.
53 Ibid, 23.
54 Ibid, 24.
action for the collective, subversively affect efforts, and impede or revert progress in forcing Russia to change course. Yet the overall efforts by the EU have constrained Russia’s economy. “The EU has targeted the economic sectors on which Russia’s budget is most dependent.”

The Russian response has extended beyond words and rhetoric. According to Klinova and Sidorova, citing the EU, “the Russian response—in the form of an embargo on certain imported food products—amounted to approximately €12 billion in trade, which will amount to less than 1 percent of the EU’s total exports.” So the Russian response attempts to hit back, but lacks the impetus to match the EU’s actions. “Russia has almost nothing with which to oppose the EU’s war of economic sanctions.” Consequently, the decline in potential revenue over energy is one of many instances where the West’s sanctions hurt Russia. “The Accounts Chamber of Russia has expressed doubts that Russian agriculture and food industry companies will be able to fully replace western imports.” Sanctions continue to affect Russia, and Russia is not economically powerful enough to counter the West with any significant response.

Russian tactics for dealing with sanctions has also included strategic efforts to divide the EU consensus. Russia has attempted to engage specific member states through its “charm offensive.” This strategy attempts to divide the EU and appeal to individual state aspirations. In essence, Russia courts individual states towards bilateral

56 Ibid, 220.
57 Ibid, 231.
58 Ibid, 229.
partnerships. Breaking down the EU into manageable, state-specific relationships paves the way for Russia to take an advantage of those states, manipulate, and exert influence. This divisive action highlights the realist versus constructivist debate in international relations theory. The individual state dilemma over state needs and collective needs create dissension, and conflict.

Energy Trade

The German-Russian trade relationship over energy sales is evidenced by Russia’s reliance on energy exports. “In 2013, crude oil, petroleum products and natural gas sales accounted for 68% of Russia’s total export revenues; the EU was the destination of most of these exports.”60 Regarding Russia’s revenues, “in 2014, the share of oil and gas revenues of the federal budget exceeded 50 percent…”61 In fact, the EU benefits greatly from energy trade with Russia as a whole. Romanova cites that “over 50% of Russia’s natural gas and approximately two thirds of its oil exports go to the EU; the EU receives approximately 30% of its hydrocarbon imports from Russia.”62 While these figures include Germany, Germany is not the only state benefitting from Russian energy. “The dependence on Russian gas varies considerably between EU member states; Russian gas covers more than 40 percent of Italy’s gas consumption and approximately one third of Germany’s…”63 But the reliance upon Russian energy isn’t even across the EU. Spain does not buy energy from Russia, some central states are at a

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70 percent level, while the Baltic states are at 100 percent. Other Western states with zero energy import from Russia include Belgium and Portugal.

Yet energy trade projects have shifted. The EU continues to alter its energy trade to avoid reliance upon Russia. Russia continues to pursue projects with other states to compensate for the loss. Russia has developed new agreements with China and Turkey for energy trade. Russia has additionally pursued individual projects such as Nord Stream 2, focused squarely on the German energy market. The ever-increasing tie between Russia and Germany is acknowledged by scholars, including Stephen Szabo. He discusses how German policymakers have focused on a geoeconomic approach in building relations with Russia. “The deepening economic relationship created a substantial Russia lobby within the German business community, which developed significant clout in Berlin and reinforced a commercial approach.” The subsequent consequences of German action brought Russia into Germany.

While the EU was interested in a possible bilateral trade agreement with Russia over Nord Stream 2, Russia was not inclined. “Russia . . . stated that it does not want to negotiate Nord Stream 2 with the EU because it does not fall within EU jurisdiction.”

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69 Ibid, 43-4.
70 Ibid, 44.
The Nord Stream 2 project, announced in June 2015, is a pipeline extending over 1,200 kilometers, focused squarely on delivery to Germany. This demonstrates that Russia does not want to support a strengthened EU, and energy bilateral agreements with the EU would do that. The pipeline further undermines European interests, connecting Russia directly to Germany, while bypassing Central European and Eastern European countries. Russian tactics demonstrate a preference towards individual agreements throughout Europe, building specific partnerships that are potentially exploitable later.

The Russian state and energy companies overlap in their intricate relationship. “The Russian gas sector is…dominated by one company—Gazprom.” Gazprom is a majority state-owned company, but can act as corporation separate from the state when advantage dictates. The primary stakeholder in the Nord Stream 2 project is Gazprom, connecting Russian oil to Germany through a €9.5 billion pipeline. Regarding energy export, “the bulk of Russian gas exports to the EU is destined to Western European countries (Germany, Italy, France and the UK)…”

Existing literature covers a number of relevant angles and facets of the German and EU economic status quo. Scholars have examined and continue to monitor the use of sanctions against Russia and the long-term implication of those sanctions levied by the West in response to the Crimean invasion by Russia. Energy trade is also discussed, as a prominent factor and relational tool between actors.

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72 Shadrina, “Choices to Diversify,” 53.
74 Ibid, 117-8.
There are deficits in the literate review. The review did not cover the balance of power relationship between Germany and the UK, or differences in power, atop the EU prior to the Brexit announcement. Both economic leaders of the EU had differing interests, and different constructs on leadership. This sets up the conversation, and would certainly increase the background information for arriving at the discussion of the current EU-Germany-Russia debate. The review also avoids discussion of the UK as an actor in the EU, admonishing state responsibility since the Brexit announcement.

*Germany as an Actor*

Germany’s propensity for exerting influence on the collective is noted by scholars. Stephen Szabo points to German actions during European economic crises in “Germany: From Civilian Power to a Geo-economic Shaping Power”.76 “Germany has used its economic power to force compliance with its political goals and ‘simply imposed its own preferences on others in the Eurozone…”77 This demonstrates Germany’s ability to push forward national interests, steer the larger group, and exert influence. Whether or not that direction is consistent with what is best for the EU is debatable.

Yet the collective structure of the EU is set for member states to take the lead, since there is no clear-cut mandate for individual states to act in unison on all matters. The Common Foreign and Security Policy (CFSP) of the EU does shape certain initiatives, but is limited in its scope and reach. Regarding the collective, “the EU suffers from a specific form of institutional disaggregation in which there is a risk that Member

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76 Szabo, “Germany,” 38-54.  
77 Ibid, 43.
State governments will pursue policies that undermine the EU’s common policies.” 78 This opens the door to individual state actors. Germany, as the leading state economy within the EU, sits in a prime position. German economic interests may possibly diverge from EU economic interests. The EU is focused on the collective, and remains at bay as far as trade relations with Russia. Germany would have to act either unilaterally, undermining the EU, and try to reshape EU direction. When interests overlap, but are not fully consistent, Germany’s economic leadership holds significant gravity across the EU, even though there is dissension over various social issues such as immigration.

Scholarship continues to focus heavily on Brexit as a UK-centric topic, but there are numerous implications that extend beyond the immediate acting state. Scholars point to instances where Germany is in an opportunistic position within the EU, especially since the Brexit decision was announced. The EU and Germany have divergent interests regarding Russia. While Germany continues to deepen trade with Russia, especially in the energy sector, the EU remains out of the energy trade picture with regards to Russia. The EU willingly has sanctioned Russia over the Ukrainian invasion, while Germany did so reluctantly. The EU Has stood at opposed ends with Russia, while Germany has focused on positive economic engagement with Russia, through trade and investment.

**Hypothesis**

Current scholarship points to increased trade relations between Germany and Russia. As this relationship continues to develop, the UK continues to distance itself from the EU. This means that Germany is an opportunistic position to affect the direction

78 Orenstein and Kelemen, “Trojan Horses in EU Foreign Policy,” 88.
of the EU. The research question challenges this developing relationship. Given Germany’s increased trade partnership with Russia in recent years, how has Germany’s relationship with Russia influenced the direction of the EU regarding EU-Russian relations? The hypothesis is that Germany has affected the direction of the EU for a number of reasons, and in a number of ways. Because of Germany’s prominence at the top of the EU economic pecking order, Germany has clout by which to steer the EU.

Since Germany is considered by scholars as a shaping power, and to at least some extent a regional hegemon, Germany has the ability to influence the region. In the context of the EU, Germany acts a leader and influencer within the regional organization, but also has national interests that at times contest EU interests. The history of World War II and the continental reluctance of Europe to see Germany rise as a great power pervades the region to this day. So Germany as an economic power seems acceptable, while Germany as a military power is mostly not welcomed (but is accepted as an internally focused civilian power). This dichotomy of national interests and multinational EU leadership highlights Germany’s challenge in pursuing economic ties to Russia.

**Methodology**

Qualitative research method will be utilized to study the geopolitical and economic relations within Europe, specifically focused upon the EU, Germany, and Russia. Current scholarship surrounding the discussion is contemporary, and a continuously developing conversation. Economic ties between Germany and Russia will be examined. Further efforts will be to understand German influence on the EU. Some figures are pulled from sources. This numerical data generally revolves around trade and
energy. They are utilized in a qualitative way, in order to understand the context of the information.

Data

German-Russian trade is a staple of Russia’s economy. Russia relies heavily on Germany as a trading partner. According to the Federal State Statistics Service of Russia, trade with Germany has more than doubled in the period from 2000 to 2016. Exports from Russia to Germany in 2000 accounted for $9.2 billion; for 2016, that trade volume was $21.3 billion. The increase in Russian exports to Germany grew 132 percent over the measured time period. German imports to Russia in 2000 accounted for $3.9 billion; for 2016, that trade volume was $19.5 billion. Germany also increased trade with other countries, but Russia highlights a specific avenue of opportunity for Germany. The increase in German imports to Russia accounts for a 400 percent increase over the measured time period. The differences in the export versus import growth points to an increased reliance by Russia on Germany, while Germany is increasing its economic partnership with Russia as a viable customer. The Federal State Statistics Service of Russia notes that Germany constitutes the third largest percent of volume for Russian export, while Germany is the second largest importer for Russia. This growth in trade increases the economic interdependence of the two countries.

80 Ibid.
81 Ibid.
82 Ibid.
The Central Bank of Russia provides data that further highlights the economic investment of Germany in Russia. According to foreign investment spending, Germany has invested $1.1 billion during the first quarter of 2019.\textsuperscript{83} This figure more than doubles the investments by Germany for 2018.\textsuperscript{84} More notably, the level of investment matches numbers previous to the round of sanctions levied by the West against Russia, which had curtailed foreign investments. This growth in investment further highlights the quickly mending economic relationship between Germany and Russia since the levying of sanctions. It further demonstrates the understandable interest of Germany to relieve Russia of sanctions in order to bolster relations.

Germany’s economic losses after the round of sanctions against Russia is significantly more than other Western countries. Economists Julian Hinz and Mathieu Crozet point to a 40 percent share of the West’s losses in Russian trade.\textsuperscript{85} This evidence points to a direct justification for Germany to support the lifting of sanctions, due to the impact on Germany. “While accepting the imposition of sanctions as a necessary evil, the associations of German industry remained skeptical of their effectiveness and appeared keen to see them lifted as soon as tensions with Russia started to de-escalate.”\textsuperscript{86} Other member states impacted by the sanctions would also want to cooperate in easing or lifting sanctions, in order to ease individual state efforts in trade.

Instances of Germany diverging from the international community regarding Russian policy includes contest over the Skripal murders. “Former Soviet spy, Sergei

\begin{footnotes}
\textsuperscript{84} Ibid.
\textsuperscript{85} Noack, “U.S. Sanctions Against Russia are Also Hurting Germany – A Lot.”
\textsuperscript{86} Siddi, “German Foreign Policy towards Russia in the Aftermath of the Ukraine Crisis,” 669.
\end{footnotes}
Skripal, and his daughter in Salisbury, UK in March 2018” were poisoned by Russian operatives.\textsuperscript{87} Russia’s use of covert operations to conduct such an attack within a Western country demonstrated audacity, and disregard for sovereignty. The attacks were met by the UK and much of the Western world with repudiation. The international community rebuked the attacks, but Germany’s response was extremely limited. While the US and UK responding strongly, “Germany displayed a symbolic condemnation by asking four diplomats to leave, but aside from this, its government tried to maintain business as usual.”\textsuperscript{88} Germany’s lackluster and tepid response underscores the German focus on economic relations with Russia, their modern-day Ostpolitik. Germany failed to stand alongside its European ally with much more than a mild gesture, favoring Russia.

There is evidence of Germany supporting its position of trade with Russia, and opposing sanctions. As the US has threatened a spate of sanctions over the development of the Nord Stream 2 pipeline, Germany has offered support to Russia. The Reuters article reported Germany enthusiasm in defending its interest with Russia, quoting German Foreign Minister Heiko Maas in January, 2019, that “our aim is to reach agreement (with the U.S. on sanctions) and protect German and European companies from the in some cases massive collateral damage.”\textsuperscript{89} The report further points to continued commitment by US and EU sanctions, which extend from the Russian invasion of Ukraine.\textsuperscript{90}

\textsuperscript{87} Wood and Henke, “The Salisbury Poisoning Case and German– Russian Relations,” 702.
\textsuperscript{88} Ibid.
\textsuperscript{90} Ibid.
German leadership has played a prominent role in the pursuit of continued trade relations with Russia. Former German Chancellor Gerhard Schröder was the chairman of Russian oil company Rosneft.\textsuperscript{91} He currently is a managing partner at Gazprom.\textsuperscript{92} The evidence points to pro-Russian trade relations. Both Rosneft and Gazprom are Russian owned oil companies, yet chose to hire the former German Chancellor, underscoring Russia’s interest in economic ties to Germany. Schröder’s influence over German policies and directions can’t be discounted, considering his long service to Germany and continued popularity. German businesses have also lobbied to ease sanctions and the financial impact.\textsuperscript{93}

Russia is also committed to continued economic developments with Germany. According to the St. Petersburg International Economic Forum (SPIEF), “German business stands for lifting sanctions against Russia.”\textsuperscript{94} The forum, established in 1997, focuses on business developments within the Russian Federation, and falls under supervision of the president.\textsuperscript{95} Both countries continue their shared economic interdependence. SPIEF further demonstrates the contemporary interest of both Russia and Germany in economic partnership.

\textbf{Analysis and Discussion}

Andrew Glencross looks at the differences of a hard and soft exit from the EU. In “This Time It’s Different: Legitimacy and the Limits of Differentiation After Brexit,” he

\begin{footnotesize}
\footnotesize\textsuperscript{91} Noack, “U.S. Sanctions Against Russia are Also Hurting Germany – A Lot.”
\footnotesuperscript{92} Ibid.
\footnotesuperscript{93} Ibid.
\footnotesuperscript{95} Ibid.
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further examines the challenge of EU legitimacy by the UK’s exit. The UK’s withdrawal from the EU possibly lessens the legitimacy of the Union as a governing body, placing more emphasis on the individual state. From an international relations theory perspective, the UK is migrating towards a nationalistic position, ascribing to realism. The EU, as an organization, is focused on the collective, ascribing to organizational neoliberalism. Shared economic goals, an increased focus on external and internal security action, and other issues, demonstrates this focus on collectiveness. The European Council, comprised of member state representation, has collective efforts while also balancing individual state interests.

The UK and Germany appear to repel each other, with Germany remaining to stay and stake claim to the leadership of the EU. The UK has always been somewhat of an outsider, even as a leader in the EU. Policy differences between the two countries, and political views, place the two at opposite ends of the spectrum. Their differences over the migration crisis and immigration may have been the breaking point for the British, whom voted subsequently for Brexit. The departure of the UK means a void in the EU. As discussed, 15% of the EU budget is from the UK. Additional gaps include significant security forces, nuclear capabilities, and other contributions by the UK. This means that Germany, the largest economy in the EU, will shoulder much of the burden moving forward. Ultimately, Germany has an opportunity to fill much of the void, increasing its leadership role in Europe, and further its claim to regional hegemony.

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96 Andrew Glencross, “This Time It’s Different: Legitimacy and the Limits of Differentiation After Brexit,” The Political Quarterly 89, no. 3 (July-September 2017): 490-6.
Germany is arguably falling under realism in some regards, and neoliberalism in other ways. The focus on economic growth and energy trade certainly places Germany’s focus on national interests, and a realist perspective. The efforts by Germany as a leader of the EU places focus on the collective, and a neoliberalist perspective. The challenge for Germany is its lead position within the EU. The sizable economy, population, and landmass, all contribute towards Germany’s prominence. According to Szabo, Germany “has been thrust into a larger leadership role both due to its economic growth and political stability but also due to the decline of alternative leading countries.” He further opines that while Germany continues to find itself in this leading position, the actual hegemonic label may not be appropriate considering the limitations of its power.

Germany and Russia have continued to bet on one another as long-term economic opportunities. From Ostpolitik to contemporary ties, the two countries remain connected. In addition to Nord Stream 2, there are many indicators of increased investment in the other. “In 2014 Germany had about euro 22 billion invested” in Russia. Russian companies invest in Germany and vice versa. The data points to this shared and continuously developing relationship. The fact that Germany invests as much as it does in Russia highlights a long-seeded interest by Germany in Russia, considering that there are numerous other countries that Germany could find as viable investment opportunities.

The overlapping connection extends to leadership. As already discovered, former German Chancellor Gerhard Schroeder currently is a managing partner of the Nord

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97 SZABO, “Germany,” 49.
98 Ibid.
Stream 2 project, and has connections to both Gazprom and Rosneft. His connections also extend back to Germany. Russia and the Russian oil companies utilize Schroeder as a connection from the Kremlin to Berlin. It is significant to consider that a former German politician, and one as popular as Schroeder, was pulled to the east.

The larger question is whether Germany will trend towards the East. The Nord Stream 2 pipeline is a major project; energy trade is a crucial point to consider. From this connection, Germany is increasingly focused on connecting to the East. Yet much of Germany’s interests fall within the boundaries of Europe and the West. And Germany has had a long history of Atlanticism, including the US. So Germany is pulled in a number of directions, with various interests.

Since the EU acts collectively on some fronts, but not others, this creates a dilemma for some states. Germany has put forward policies towards Russia that are not necessarily aligned with the EU. The EU fails to have a coherent policy regarding Russia and energy trade. This lack of policy is in essence, its policy. Orenstein and Kelemen discuss the “disaggregated character” of the EU and the challenge of EU states acting independently and in direct conflict with EU policy or interests. The EU and Germany diverge on Russian policy, and Germany is not compelled to otherwise follow the EU’s interests. “But while the EU does have a fledgling Common Foreign and Security Policy, it does not prohibit individual Member States from maintaining their own contradictory foreign policies.”

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100 Orenstein and Kelemen, “Trojan Horses in EU Foreign Policy,” 88.
101 Ibid.
cooperation if individual state interests deviate. Germany’s developing ties with Russia is not necessarily what is best for the EU or want the EU even wants.

Germany is clearly focused on bilateral trade agreements with Russia. This focus means that Germany places its national interests as a priority, even though there is the EU leadership role at odds. Germany is pulled in conflicting directions. National efforts come at possible detriment to its EU lead. Yet the EU collective is demonstrably limited in trade agreements, especially in the energy sector, facilitating individual state efforts.

**Limitations and Bias**

There are numerous challenges in studying a topic as contemporary as Brexit and the implications of Brexit on the EU. The UK exit from the EU has been postponed several times, and continues to loom over the EU as a near-term event that overshadows the landscape. The actual event of Brexit has yet to happen, even since the referendum. While the separation hasn’t officially occurred yet, the UK has continued to distance itself from the EU. British leadership is absent responsibility now for the direction of the EU, and is unable to balance German influence in the EU.

Another challenge is finding appropriate literature for the conversation, since the literature surrounding Brexit, and Germany’s increased prominence in the EU, as well as German-Russian developing trade relations, is all ongoing. Yet it is the contemporary nature that makes this research important. There is no specific, singular dataset that points to how or if Germany influences the EU. Inferences are made based upon the evidence given. While the EU is an organization where all members are equal, there are members that contribute far more than others. This would suggest that Germany has
more clout and sway than some of the smaller countries that rely upon the organization heavily.

**Recommendations and Conclusion**

The UK departure from the EU will continue to increase the need for understanding security concerns arising from the schism. The British decision has in turn affected numerous other parties, including the EU, member states within the Union, and others. The ripple effect of implications extends in all directions. A major implication is the direction of the EU after Brexit. This is not to imply that the UK has a major influence on the EU, since the UK has historically been somewhat of an outsider, even while within the EU. But the British decision for Brexit has stirred the EU, and there are numerous subsequent effects from Brexit. Since Germany is the largest economy within the EU, the UK departure places Germany in a position atop the EU by itself. Brexit is a contributory factor, and a significant event, but Germany’s rise is due to a number of reasons. Regardless, the opportunity to fill the void from Brexit furthers Germany’s rise in EU leadership, and regional hegemony.

Future research should focus on the status of the EU as Brexit unfolds. The departure has been delayed several times and is now slated for 2020. While the EU awaits Brexit, EU and Russian relations should be monitored. Additionally, German-Russian relations should also continue to be assessed, including specific focus on projects like Nord Stream 2. Brexit is not the sole factor for Germany’s rise to prominence. Other factors that have contributed to Germany’s ascension should also be studied,
including Franco-German relations, US policies regarding NATO and the EU, and other topics.

Germany’s ties to Russia are established, and continue to grow, particularly when it comes to energy trade. The EU currently lacks an energy trade policy. EU decision-making, and the direction of the EU, seem stable, and maintain a status quo. There was limited evidence over German influence over the direction of the EU. Due to the environment, situation, and reasoning, the inference of German influence is still a reasonable one, even if there was no “smoking gun.” Germany did reluctantly support sanctions against Russia. And Russian aggression against another Western state was met with mild German condemnation. So Germany is playing the side of the West, but still vying for Russian favor. It turns out that German policy is nuanced and subtle, which is seemingly the broader case with European diplomacy.

Germany may continue to grow as a regional hegemon, and continue to affect the direction of the EU, likely in a limited manner. It certainly is possible that Germany will lead by example, and influence the EU subtly, especially should the EU develop energy trade relations with Russia. Germany is a major influence in the EU due to its economic size, contributions to the EU, and large civil force. After Brexit, it is likely that Germany will have an increased influence on the direction of the EU.
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