

# Weimar Summit Leaves Germany in Quandary

by Rainer Apel

The April 9-10, Weimar summit between German Chancellor Gerhard Schröder and Russian President Vladimir Putin was the eleventh meeting between the two leaders. Their relationship has grown so close—not least because Putin speaks German—that they say a “real friendship” has developed between them. Undoubtedly, a high degree of confidence has been built between Berlin and Moscow, which has mollified potential aggravations to German-Russian relations resulting from the Bush Administration’s war drive against the “axis of evil.” But, Germany is caught in a paradoxical situation: On the one hand, it practices solidarity with the United States in the “war on terrorism”; whereas, on the other hand, Germans are concerned that the advance of U.S. troops into Central Asia, which is not proceeding under a United Nations mandate, is being watched with deep mistrust in Moscow. Germany is interested in not seeing any new war front emerging, outside of Afghanistan.

One must acknowledge, that even the deep differences between Berlin and Washington on issues such as Iraq, do not imply that Germany would, at present, actively oppose the Bush Administration. Germany could gain leverage on the Americans from more in-depth cooperation with the Russians; but there, the Germans are most hesitant. The Weimar declaration of Schröder and Putin, for a non-military solution to the Iraq problem, and Germany’s support for Russia’s demand for more substantial consultations by NATO on vital issues of Eurasian and Russian security, are the farthest Berlin dares go. None of that poses a challenge to a Bush Administration that considers the UN irrelevant and does not pay much respect to either German or Russian views.

Germany’s incapability to pursue its own interests is most visible in the sphere of economic relations with Russia. A bit more than a year ago, the Russian government made two important proposals to the Germans. First, settle the years-long dispute over the old Soviet-era “t-ruble debt” of 6.4 billion transfer-rubles to the East German state, by a scheme that would relieve Russia of a share of that debt and transform the rest into new investments in Russian industry. Moscow recommended German investments into Russian machine-building, light industry, and food industrial sectors. Second, sign a long-term energy agreement under which Russia would supply Germany (which imports one-third of its crude oil and 40% of its natural gas from Russia) with secure oil and gas at

calculable prices for 10 or even 20 years. In the second design, the Germans were to invest massively into the Russian oil and gas sector. Both proposals were met with monetarism-minded rejection in Berlin: Debt relief and transformation into investments on the scale of several billion dollars would set a “bad example” for global debt settlements; and the proposed long-term energy agreement would interfere with the free market, the Germans said.

Berlin’s loyalty to free-market monetarism, and its stubborn insistence that the transfer-ruble be valued like a U.S. dollar, has not worked to its benefit. At the Weimar summit, Germany extracted only 8% of the nominal pre-1990 Soviet debt. Moscow will pay 500 million euros to Berlin, and be relieved from paying the remaining 7 billion euros of the “t-ruble debt.” The first installment of 350 million euros may help German Finance Minister Hans Eichel balance his budget a bit, but there is no benefit outside of that, not for Germany, nor for Russia. The Russians had originally come up with a new proposal to acknowledge up to 1 billion euros of t-ruble “debt,” if it were turned into investments in and exports to Russia, from industrial companies in eastern Germany. When the Germans opposed that, the Russians proposed to use at least a share of that debt payment to fund an intensification of youth exchange programs between Germany and Russia. This was not welcomed either.

On the positive side, the German government honored the Russians’ agreement to pay the 500 million euros, with a doubling of the Hermes facility for credit insurance for exports to Russia, to 1 billion euros. The facility insures German firms which produce and deliver goods to Russia, against unforeseen disruptions of trade relations, defaults, and other losses. An upgrading of the Hermes to 2 billion or more euros would have made a small but real difference. But as the Russian government agreed, at the same time, to compensate for endangered earlier import deals from Germany, in the range of 500 million euros, the net effect of the Hermes improvement for Russia is zero, for the time being.

There remain the private-sector industrial deals that were signed: contracts worth 1.5 billion euros, including delivery of medical technology to Russia and German corporate use of Russian communication satellites, were finalized. In particular, a new arrangement between the German Export Credit Bank and Russia’s Sberbank, to make loans to small and medium-sized firms of both countries, looks interesting. But, the potential for economic cooperation between Germany and Russia is still untapped.

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