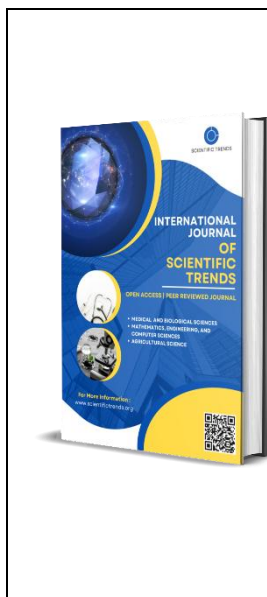


Energy Issues in Germany Kazakhstan Relations

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Abstract

Due to the long-term economic sanctions between the European Union and Russia, the issue of the formation of a promising German-Russian energy policy has entered the crisis street, and the hope for its revival is diminishing. The conflicting Russian-German relations in the period leading up to Russia's invasion of Ukraine in 2022, violating its territorial integrity, were heavily influenced by the idea of what is known in the literature as “change through rapprochement.” This way of thinking not only survived communism, but also continued in Germany's reunification policy towards post-communist Russia. The idea that geopolitical rapprochement and the development of economic relations can lead to positive change has persisted since the 1970s.

Keywords:

Introduction

Germany's policy for the creation of a secure energy system in the Union.

The European Union sees natural gas as the main energy carrier to build a low-carbon energy system in an efficient and cost-effective way. Given the current situation, gas seems to be the only fossil fuel that will increase its market share in the future energy mix of the European Union. The European Union obtains the majority of its natural gas from external sources and is therefore classified as an energy consuming region.

One third of the available natural gas for the European Union is imported from Russia. This connection was particularly relevant for Germany, which, due to its geographical location, received most of its natural gas from Russia, and was therefore very vulnerable to various shocks. In 2015, the establishment of the European Energy Union¹, within the framework of the European Union, Germany has been the initiator of efforts aimed at harmonizing the energy policy and preventing the use of the energy issue as a political instrument. At the same time, Germany has sometimes resisted the general goal of creating a decent market. As a leading energy country, Germany has faced and continues to face the issue of how to deal with long-term energy contracts between domestic companies and Gazprom in particular. The decision on the common market is

¹ See: Energy union //The Council of the EU - <https://www.consilium.europa.eu/en/policies/energy-union/> - 11 January 2024

a motivating factor for Germany. There is an opportunity to expand energy production and secure energy supplies.

This is especially important for Germany, given the shocks caused by the gas supply disruptions. In addition, Germany can participate in planning and regulatory bodies that have a positive impact on the energy industry. The Energy Union is based on a reliable gas supply. The stable energy situation raises the question of how to deal with Russia.

European values and energy security opposition

Germany's interests in energy relations lie in ensuring the attractiveness of the European Union as an energy trading partner. If Germany sees the energy union as a fertile ground for its interests, it could seek more rules-based interdependence using international institutions. At the same time, there is a growing mismatch between the need for international regulation and formal institutional constraints on action. As noted earlier, the implications of competing notions of order also raise the question of the extent to which Western democracies can participate without compromising their own value systems. From Germany's point of view, Russia is now the epitome of an autocratic superpower in the European environment, and the participants must find new foreign policy instruments to deal with it. In addition to Germany's role in the European sphere, it is now important to create synergies from the trade relations with Russia that are intertwined, while preserving the normative structure of the European set of values. Germany acts as a participant in the institutional framework of the European Union. Thus, although strategic differentiation is carried out below, the solutions will be in the international arena. Its relations with the "distant neighbors" of Central Asia, like those with Russia, are also creating the need to create synergies within the framework of the more important security issue, although they do not fit into the normative structure of the European set of values.

The importance of Kazakhstan. Kazakhstan is undoubtedly the most important partner country in Central Asia from the point of view of German economic policy. The raw material resources of the world's ninth largest country, its high demand for foreign investment and the relatively high purchasing power of the Kazakh population make Kazakhstan one of the most important trading partners of the Federal Republic of the former Soviet Union. First of all, as one of the world's largest consumers of raw materials, it is in Germany's most important interest to obtain and exploit raw materials by German companies within the framework of bilateral raw materials cooperation. However, the active participation of large countries such as Russia and China, which are trying to involve Kazakhstan in their integration projects, does not leave much opportunity for the Federal Republic to formulate its policy more actively and express its interests in the region more firmly. In this part of the article, the main focus is on an analytical assessment of the complex structure of foreign policy interests and on the identification of potential security and economic policy issues that should be taken into account in the formation of German foreign policy.

Kazakhstan has the second-largest economic power among other post-Soviet states after Russia. In 2023, the per capita GDP was 13,232.8 US dollars². However, the Kazakh economy is not well diversified and is largely dependent on raw material exports. Thus, the Kazakh economic system is not protected from crises caused by a decline in the prices of traditional energy sources.

² See: The World Bank // Overview. Kazakhstan -2023 // <https://www.worldbank.org/en/country/kazakhstan/> 2023

According to World Bank reports, since the 2000s, Kazakhstan has experienced significant economic growth due to market-oriented reforms, the extraction of mineral resources and strong foreign direct investment, which has transformed it into an upper-middle-income economy with improved living standards and reduced poverty. However, growth has slowed from 10 percent (2000-2007) to 4 percent in the last decade, exposing the vulnerabilities of an economy that relies on hydrocarbons and is experiencing stagnant production³. The sharp depreciation of the ruble has had a negative impact on the Kazakh economy due to its close ties with Russia. As a result of the free floating of the exchange rate at the initiative of the National Bank, the national currency of Kazakhstan, the tenge, has significantly depreciated. This measure has led to a significant increase in inflation, which in turn has had a negative impact on the purchasing power of the Kazakh population.

Democratic Germany and "not free" Kazakhstan energy cooperation

We have already mentioned that it is necessary for each member state of the European Union to conduct foreign policy in accordance with the principles of the European set of values, but in recent years, a number of European countries, in particular Germany, have begun to see the set of values as less important than “security” in their relations with new partners. The Economist magazine's index for measuring the level of democracy also reaches a similar conclusion. It distinguishes four types of political regimes: full democracy, partial democracy, hybrid regimes, and authoritarian regimes. According to Transparency International's Corruption Perceptions Index, resource-rich Kazakhstan is among the countries with the highest levels of corruption in the world, ranking 122nd out of 180 countries assessed in 2017. Inefficient and non-transparent governance models, as well as economic factors, are the result of Kazakhstan's kleptocratic rent economy, leading to the exclusion of large segments of the population and affecting the country's economic development.

The factor of Russia and China in the development of cooperation with Kazakhstan.

Compared to its larger neighbors, Russia and China, the European Union's influence and involvement in Central Asia can be considered low. The European Union's political involvement began shortly after the collapse of the Soviet Union. In the 1990s, multilateral projects such as TRACECA (Transport Corridor Europe-Caucasus-Asia (1993)) and INOGATE (Transportation of Oil and Gas to Europe (1996)) were implemented, which served as transport corridors connecting European countries with ASEAN countries through the Caucasus, the Caspian Sea, Central Asia and China. However, the results of these initiatives were modest. European regional cooperation has remained cautious since the start of NATO's mission in Afghanistan, in which Germany also participates. A cautious reassessment only occurred after the gas conflicts between Russia and Ukraine in 2005-2006, 2014 and 2019 and 2022, when Europe's energy security became a major issue for European economic policy. The main focus was on diversifying energy sources, especially natural gas imports from Russia. The resource-rich Central Asian region has attracted the interest of European policymakers from the perspective of diversifying import sources.

³ In the same place

In 2007, during the German Presidency of the Council of the European Union, a strategic document for the Central Asian region was developed. Its purpose was to coordinate and consolidate the commitments of individual European states. This document, called the “Central Asia Strategy,” covered the period from 2007 to 2013 and embodied a comprehensive economic and, above all, political approach. The document directly addressed not only energy supply, but also areas such as the rule of law, human rights, education, and environmental policy. The innovation in the European approach was the integration approach, which considered the respective countries as part of a single region of Central Asia and sought to promote integration and cooperation between the countries.

This factor was in sharp contrast to the previous commitments of Russia and China, which sought to develop cooperation with individual countries. However, this initiative of the European Union has not yet yielded tangible results. In addition to the already limited scope and impact in the region, managed financial costs have also contributed to the modest achievements of the European Union in the region. The total development budget of the Central Asia Strategy amounted to 719 million euros. Although this was a doubling of spending, it did not reach the billions in investment projects and loans from China and Russia. However, the normative requirements for the promotion of human rights, democracy and civil society, which were enshrined in the strategy, were also met with skepticism by authoritarian countries. This led to an unexpected result among the rulers of Central Asia. Instead of the large-scale investments expected from the European Union, what they saw was mainly politically motivated advice and criticism of the government's dominant practices. At the end of 2014, the European Union signed an enhanced partnership agreement with Kazakhstan, focusing on cooperation in the energy sector. This document turned out to be more successful than the strategy for Central Asia. The Federal Republic of Germany, which is the leading country of the European Union, has a special importance in the formation of policy in Central Asia. The political visits of the German Chancellor in 2016 and the German Foreign Minister in 2017 underline the importance that German politicians attach to the region. Relations with Kazakhstan are at the heart of the country's economic activities in the region, as trade turnover with this Central Asian country in 2017 amounted to 4.8 billion euros. This is almost three times more than the combined figure of Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan. The main interest of Germany in Kazakhstan is to have raw materials. Although the demand for foreign investment in Kazakhstan is very high, it has not always been easy for German companies to enter the market. Expanding companies are facing difficulties in doing business. First of all, the lack of legal certainty and non-compliance with contractual obligations, as well as non-transparent decision-making processes when concluding contracts, hinder the successful development of business.

Germany's growing need for Kazakhstan's oil. Kazakhstan's oil will be sent to the PCK oil refinery in Schwedt, Germany. The plant is located 120 kilometers north-east of Berlin and will receive oil from Russia until 2023⁴.

⁴ See: Hardy Graupner. German oil refinery fears EU embargo // <https://www.dw.com/en/will-an-eu-oil-embargo-put-the-lights-out-at-schwedts-refinery/a-61668807> - May 3, 2022

The Schwedt refinery, which supplies 90 percent of Berlin's fuel and is a major employer in the economically backward region, has been hit hard since Germany decided to halt oil imports via pipeline from Russia.

Germany, which got more than a third of its oil needs from Russia before the war in Ukraine - importing 687,000 barrels of crude oil per day in November 2021, mainly through the “Drujba (Friendship)” pipeline - has managed to replace most of its Russian supply in a short time. However, Schwedt, which is not connected to West German pipelines and supply routes, has struggled to find alternative sources⁵. This has led to the plant operating at only 60% capacity.

The supply from Kazakhstan will allow the refinery to increase capacity utilization to remain economically viable. The refinery, which was partly owned by Russia's Rosneft until the German government took control in 2022, currently receives crude oil mainly from global markets, including the United States, via a pipeline from the Baltic Sea port of Rostock⁶.

In 2023, Kazakhstan exported 8.5 million tons of oil to Germany, which was 11.7 percent of Germany's total oil imports, up from 6.5 million tons before the Ukrainian war. According to the German Federal Statistical Office, Kazakhstan has become Germany's third largest supplier after Norway and the United States.

According to the information of the state agency "Kazakh Invest", German investment in Kazakhstan increased by 64% compared to 2022 last year. "Because of the regimes and the political system, Central Asia was not in the first place for Germany," says Stephan Meister, an expert on Central Asia at the German Foreign Relations Council. “But the war has radically changed this dynamic.” According to the German Eastern Business Association, trade turnover between Kazakhstan and Germany has almost doubled since Russia’s invasion of Ukraine in February 2022⁷.

Conclusion

Kazakhstan remains an attractive partner for the European Union and Germany in the Central Asian region. Politically, Kazakhstan, which is governed in a semi-autocratic manner but is relatively economically stable, remains a source of stability in the crisis-ridden post-Soviet region. However, despite their growing interests, Europe and Germany have relatively limited opportunities to implement their projects in the country. The reason is the dominance of Russia and China in the region, which are outstripping each other in projects and initiatives. At the same time, neither Germany nor the European Union has enough influence to compete with Russian or Chinese actors.

The reluctance of European states to engage more economically, coupled with a democratization agenda, does not make the European Union an indispensable partner for Kazakhstan. However, European policy could take advantage of the competition between China and Russia and offer Kazakhstan, first and foremost, rapprochement with Europe as another option for its multi-vector foreign policy. However, it should be noted that the high concentration of power in the hands of

⁵ See: <https://www.dw.com/en/energy-crisis/t-63055322>

⁶ See: Germany takes control of Rosneft subsidiary // <https://www.dw.com/en/germany-takes-control-of-russias-rosneft-subsidiary/a-63145437> - September 16, 2022

⁷ See: Riham Alkousaa. Germany's Scholz seeks Central Asian energy ties in shadow of Ukraine war // <https://www.reuters.com/business/energy/germanys-scholz-seeks-central-asian-energy-ties-shadow-ukraine-war-2024-09-13/> - September 13, 2024

the president and the unresolved issue of succession may make Kazakhstan vulnerable to ongoing political crises and elite struggles in the medium term. Corruption based on a rentier economy not only paralyzes the country's economic development, but also affects the prospects for cooperation with the Federal Republic of Germany.