German Stance On Russian Energy Could Affect Future Of The Euro

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Since the execution of the Maastricht Treaty in 1992 that led to the establishment of the Euro single currency, different European Union countries have faced issues meeting the Treaty's requirements to maintain the currency, especially the obligation that no country may run a budget deficit greater than 3% of its GDP. An example is Greece, which in 1992 used large amounts of financial gimmickry to claim compliance originally, then often fell into clear violation.

In 2012, Greece hoped the EU would give it breathing space to work out its financial difficulties, including a potential default to the International Monetary Fund. Germany, as the strongest member of the European Central Bank, took a very hard line toward any Greek rescue. It insisted that Greece cut its federal budget, regardless of the economic pain that might cause to Greek taxpayers.

Germany was concerned that, should a bailout occur, Germany would pay the largest share for Greek fiscal irresponsibility, so it demanded that individual Greeks suffer a dramatic drop in their standard of living in order to approve an IMF bailout and continued Greek participation in the European Central Bank.

The same Greek situation repeated itself in 2015. The German position basically was that the vulnerable country must tighten its belt and suffer for the greater European good.

It has taken Ukraine to expose Germany's hypocrisy. Knowing that Russia generates most of its revenue through energy, the EU pondered placing an embargo on Russian oil and gas. One country held out the longest and loudest against any such measure: Germany.

Hugely reliant on Russian gas and oil, to the tune of approximately 50% of its natural gas consumption, Germany grudgingly approved some steps against Russian supply, yet continued to allow Russian energy to flow to Germany while the situation in Ukraine has gotten worse. Indeed, Germany relies on one Russian-owned refinery, the pCK Refinery in Schwedt, which is majority owned by the Russian oil company, Rosneft, for 90% of the fuel to Berlin. Payments for that energy and for its refining have, without question, helped keep Vladimir Putin's economy afloat.

As of last week, Russia still was earning almost $500M each day from energy, with Germany among the leading buyers. That money supplies the Russian army, which is still invading Ukraine, killing Ukrainians unmercifully, bombing Ukraine's cities and infrastructure into oblivion, risking a potential world war, and threatening the world's food supply. In short, because Germany would not do what it demanded of others when they faced potential financial difficulties of their own, Ukrainians are dead, the country is in ruins, and the rest of the world now faces the prospect of mass starvation, if not worse.

It's hard to see how Germany squares this circle in the future. How does it demand other countries to decrease their standard of living when facing future financial peril, when it has refused to decrease its own standard of living when a fellow European country has faced Russian military peril – EU membership or not? How do the other EU countries deal in the future with a German nation willing to accept and even indirectly fund the most aggressive war in Europe since World War II rather than accept a significant, yet ultimately manageable, level of its own economic pain to minimize the devastation of Ukraine and its people? Should Russia prevail in its attempted conquest of the Ukrainian east, including seizing control of so much of the fertile wheat fields that have historically fed much of the world, how will Germany deal with a future Russian state that now also controls a large percentage of the world's food supply, in addition to its semi-monopolistic oil and gas reserves? Perhaps more to the point, how will other countries deal with Germany in the future, after that country allowed itself to become so dependent on Russia that it, unintentionally but undeniably, helped finance the Russian invasion of Ukraine?

Predictions usually are a fool's errand, but it certainly does not take a crystal ball to imagine German's future influence substantially declining in the EU, both fiscally and morally, the longer that it remains tied at the hip to Russian energy. Indeed, when the next potential EU country default occurs, it is hard to imagine that country accepting any lecturing from Germany about the need to maintain economic discipline – especially when many observers (including this author) had long been critical of German dependence on Russian energy well before anyone predicted the present war in Ukraine.

While perhaps this situation will produce a more humane approach to future EU economic problems, it also is likely to weaken the underpinnings of the single currency. As with all money, the Euro is accepted because people willingly accept that it represents some standard of value that can be trusted. Once that underpinning starts to weaken, the reliability of the currency itself may come into question.

Watch carefully over the next months and years how the European Central Bank manages the Euro, especially now as we enter a worldwide period of inflationary pressure. It would be both ironic and sad if one of the casualties of the Russian war on Ukraine turns out to be the demise of the Euro single currency.

ATTORNEYS MENTIONED

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