

Europe's *Sputnik*

BY KLAUS C. ENGELEN

With the spying scandal, Europe—and particularly Germany—discover “mindboggling vulnerabilities.” Will the spotlight now move to financial espionage?

As Germany's major parties, the conservatives under election winner Angela Merkel and the Social Democrats under party leader Sigmar Gabriel, negotiate a “grand coalition” agreement for the next four years, the spy scandal and the still-smoldering eurozone crisis highlight Europe's—and in particular Germany's—mindboggling vulnerabilities.

The spy scandal should be taken as a wake-up call to build up Germany's technological defenses in the cyber age. Germany as the world's biggest exporter has been massively criticized in a U.S. Treasury study and also by the International Monetary Fund. Germany has to protect its patents and technological competitiveness. As the euro area's largest economy, Germany also faces financial exploitation by powerful Club Med debtor interests. They dominate the EU institutions where Germany is increasingly marginalized. Currently, the Eurogroup of finance ministers are pushing for what the *Wall Street Journal* calls an “EU bank bailout union” where “public backstops” are another way of saying ‘Germany pays.’”

“ONE WOMAN TO RULE THEM ALL”

A few days before Merkel faced the voters on September 22, 2013, the British magazine *The Economist* came out with its

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One of the Darkest Days In Transatlantic Relations

The victorious “woman to rule them all” finds herself humiliated and abused by U.S. spymasters and their political leaders.

So far, Germany’s deeply embarrassed Chancellor Angela Merkel has refrained from openly criticizing the Obama Administration and also from putting negotiations for the Trans-Atlantic Trade and Investment Partnership into question. According to some projections, this mega-project of trade and investment liberalization could be worth about \$750 for the average European household.

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German Chancellor **Angela Merkel**



cover story and an impressive headline: “One woman to rule them all.”

Standing on a tall pillar above falling and sinking symbols of Europe’s landscape, Merkel was praised as “the world’s most politically gifted democrat and a far safer bet than her leftist opponents.” And the accolades went on. “It is also partly because of what we believe she could still become—the great leader Germany and Europe so desperately needs.”

As expected, the fifty-nine-year-old Merkel won an historic third term, and she won big. She is now the only European leader not to have become a casualty of Europe’s financial crisis, beginning with the banking crisis in 2007 and continuing with the eurozone sovereign debt crisis that erupted in Greece in the spring of 2010.

With an electorate that felt “sticking with Mutti” might be their safest bet, her conservative bloc got 41.5 percent of the vote with 311 seats, just five seats short of an absolute majority. Her coalition partners, the pro-business Free Democrats, with only 4.8 percent, suffered a political disaster. They missed the 5 percent hurdle, and for the first time in sixty-four years had to exit the lower house, the 630-member Bundestag. For traditional FDP voters, it was a sad day for post-war German liberalism and democracy.

Merkel’s Social Democratic challenger, Peer Steinbrück, had no real chance. Steinbrück finished with 25.7 percent. The SPD’s Green allies with 8.4 percent and the Left Party with 8.6 percent saw a loss of votes.

After futile preliminary discussions with the Greens, the Merkel camp now is moving towards a second joint venture with the Social Democrats. Both great “people’s

parties”—on the one side the CDU and its Bavarian sister party CSU, and on the other side the Social Democratic Party—have entered negotiations for a grand coalition headed by Merkel as chancellor with Sigmar Gabriel as vice chancellor.

The negotiating team totals seventy-five—thirty from the SPD and forty-five from the CDU/CSU—and twelve working groups for different areas. The convoluted process involves about three hundred people. Haunted by the disastrous deal they made during the previous “grand coalition” in 2005–2009 under Merkel, the Social Democrats, who won only 193 member seats, want to make sure they push through important planks of their political agenda. They want to get this in writing in a hundred-page coalition agreement full of key demands such as a statutory minimum wage. And since Gabriel, the SPD party leader and chief negotiator, will have to put the coalition agreement to the vote of the whole SPD membership, the Merkel camp cannot play hardball with its future coalition partner. A major bone of contention in the emerging “grand coalition” is whether the SPD will get the finance ministry, or will Merkel succeed in leaving Wolfgang Schäuble, the trusted seventy-one-old CDU veteran, in his job.

THE SPY SCANDAL MOVES CENTER STAGE

But new revelations by Edward Snowden, the former employee and contractor of the National Security Agency and the Central Intelligence Agency, are moving to center stage. The victorious “woman to rule them all” finds herself humiliated and abused by U.S. spymasters and their

What Does the Bank of England Know and When Did They Know It?

What a coincidence! As the British ambassador in Berlin is called in to the German foreign ministry to respond to spying allegations, the Bank of England in London is making news with strengthening its defenses on the cyber front.

After a public outcry caused by the U.S. intelligence agencies tapping the mobile phones of German Chancellor Angela Merkel for many years, the British ambassador in Berlin, John B. Emerson, was queried by German foreign minister Guido Westerwelle. According



political leaders. Like other leaders on the European continent and in other parts of the world, such as Brazilian President Dilma Rousseff, Merkel has to adjust to the nasty reality that for years she was a target of U.S. spymasters as she was dealing in good faith with their political bosses.

John C. Kornblum, a former American ambassador to Germany who works as a business consultant in Berlin, commented on German television that “the phone taps came at the end of a long period of low-level friction.”

“Merkel is now terribly embarrassed,” concludes the veteran insider of German-American relations, “and she, like most of us, wonders if anyone is minding the store in Washington.” Kornblum argues that German media coverage of the NSA’s surveillance is comparable to when Germany under Chancellor Gerhard Schröder refused to be drawn into the Iraq war. And he reminds the German public that, after all, the Americans and their government consider Snowden to be a “fugitive criminal.”

to leaked classified documents from former NSA contractor Edward Snowden, the British GCHQ agency is conducting a spy operation on top of the British Embassy in Berlin next to the historic Hotel Adlon, similar to that of the U.S. embassy nearby.

The Bank of England has appointed Don Randall as its chief information security officer, a position newly created to beef up the central bank’s information security including cyber threats. Randall, who began his career as a London police officer specializing in fraud and counterterrorism, joined the Bank of England some years ago from JPMorgan Chase where he was international security manager.

This raises politically sensitive questions. Will future Snowden revelations reveal how the U.S. and British intelligence agencies have been monitoring the Frankfurt banking center, including the European Central Bank and the Deutsche Bundesbank? And how much was the Bank of England’s top management able to share such information in the conduct of their central bank operations? At the minimum, they might have gotten deeper insights about the cyber threats of their own and from other intelligence agencies.

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OUTSIDE THE “FIVE EYES” COUNTRIES IS RISKY

As more and more revelations of the spy scandal explode, the scary and mindboggling dimensions of Europe’s—and at its core Germany’s—exposure to U.S. (and British) spymasters are sinking in. For Walter Steinmeier, SPD parliamentary leader and former German foreign minister, “Relations with America are in the deepest crisis since the Iraq war.” Being spied on at the highest level is shattering longstanding trust in a transatlantic alliance that brought about historic achievements such as winning the Cold War and reuniting Germany.

Spymasters under the direction of their governments are not only conducting mass surveillance to fight terrorism, but also to advance national commercial and financial interests in a competitive global marketplace.

According to some credible reports, Merkel’s mobile phone has been tapped by U.S. agencies since 2002 when she was the conservative opposition leader. She came to

power in the 2005–2009 “grand coalition” with the Social Democrats. This means that the top levels of the U.S. and the British governments (as members of the “Five Eyes” countries) may have been listening into the German chancellor’s daily crisis management decisions when she had to respond to the banking crisis (2007–2008) and make the crucial support decisions when the euro crisis began in Greece in 2010.

From a German angle, October 23, 2013, the day Merkel grabbed the phone to call U.S. President Barack Obama to discuss suspicions that she may have been targeted by U.S. intelligence agencies for years, may turn out to be one of the darkest days in post-war transatlantic relations.

As Merkel and other important leaders are confronted with compelling evidence that their phones and other communication devices are and have been tapped by U.S. intelligence agencies, something like a *Sputnik* shock is seizing Europe.

Frank Schirmmacher, a publisher of the *Frankfurter Allgemeine Zeitung* and bestselling author, in a November 1 editorial, uses the reference to the *Sputnik*

shock of distant Cold War days to give Americans an idea of how Europeans are taken aback by the incomprehensible dimensions of the United States’ worldwide spying operations.

When the Soviet Union sent the first-ever satellite *Sputnik* into space on October 4, 1957, Americans feared that the satellite might be capable of delivering nuclear weapons thousands of miles. The fact that *Sputnik* flew over the United States seven times a day shocked America’s military and political establishment and led to a major national battle to close the technological gap at a critical juncture of the Cold War.

“Whoever monitors terrorists, will prevent losses,” writes Schirmmacher. “Whoever spies on the chancellor and whole societies wants to make profit. This is the simple formula, on which the morale of spying boils down. It is hard to find out what is for fending off risks and how much the aim is to gain competitive advantage.”

Pointing to serious indications that U.S. intelligence agencies have declared her private mobile phone to be a target in their operations, Merkel made clear that, should these indications turn out to be true, she finds them “totally



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—Der Spiegel



Left, the U.S. Embassy in Berlin faces the Pariser Platz, and the Brandenburg Gate sits to the west of the square. Above left, a structure on the roof of the embassy at the upper right of the photo is believed to contain surveillance equipment.

unacceptable.” Her press spokesman Steffen Seibert said, “This would be a grave breach of trust—such practices must immediately be put to a stop.” Seibert continued, “As a close ally of the United States of America, the German government expects a clear contractual agreement on the activities of the agencies and their cooperation.”

On October 28, 2013, the magazine *Der Spiegel* came out with its cover story and the headline: “United States intelligence agencies have not only targeted Chancellor Angela Merkel’s cell phone, but they have also used the American Embassy in Berlin as a listening station. The revelations now pose a serious threat to German-American relations.”

The magazine continued: “Research by *Spiegel* reporters in Berlin and Washington, talks with intelligence officials, and the evaluation of internal documents of the U.S. National Security Agency and other information, most of which comes from the archive of former NSA contractor Edward Snowden, lead to the conclusion that the U.S. diplomatic mission in the German capital has not merely been promoting German-American friendship. On the contrary, it is a nest of espionage. From the roof of the embassy, a special unit of the CIA and NSA can apparently monitor a large part of the cell phone communication in the government quarter. And there is evidence that agents based at Pariser Platz recently targeted the cell phone that Merkel uses the most.”

Documents leaked by Snowden also show that Britain’s surveillance agency is operating a network of “electronic spy posts” from within a stone’s throw of the Bundestag and the German chancellor’s office, the newspaper *Independent* reported.

NSA documents, in conjunction with aerial photographs and information about past spying activities in Germany, suggest that Britain is operating its own covert listening station close to the German parliament and Merkel’s offices in the Chancellery, using high-tech equipment housed on the embassy roof, the British newspaper reported.

The spying operation, conducted by GCHQ at diplomatic buildings around the world to intercept data in host nations, is being carried out together with the United States and other key partners, says a Reuters report. And the *Guardian* added that British intelligence is working on mass surveillance of internet and phone traffic comparable to programs run by their U.S. counterpart and denounced by European governments. Media requests at the British Embassy in Berlin were met with the statement that the British foreign service as a matter of policy does not respond to inquiries on intelligence matters.

A few days later, the newsmagazine *Stern* came out with a cover on the spy story with an unflattering illustra-

tion of Obama headlined “The Spy,” including an alarming documentation of a network of firms and locations that are working for U.S. intelligence agencies all over Germany.

In a first official reaction to the allegations surrounding the U.S. NSA intelligence activities, Germany and France in particular have pushed for new “rules” in the spy game. German diplomats were sent to Washington to express anger and obtain more information. Speaking after summit talks with EU leaders, Merkel said she “wanted actions from President Barack Obama, not just apologetic words.” Germany and France seek a “mutual understanding” with the United States on cooperation between their intelligence agencies. Other EU member states could eventually take part.

The outgoing and the new “grand coalition” German governments, when dealing with the exiled whistleblower Snowden, have to move carefully. Public opinion pressure is building to let the “whistleblower hero” come to Germany as a witness in parliamentary and judicial pro-

Britain could use its large spying capacity to support London financial center interests from outside the euro area in ever stronger-competition with the eurozone banking centers.

ceedings. After a surprise visit by Hans-Christian Ströbele, a prominent Green parliamentarian, with Snowden in Moscow, interviewing the former intelligence contractor as a witness is being discussed by the coalition parties.

At the same time, there are ongoing discussions with the U.S. government and the U.S. intelligence agencies to sort out an anti-spy agreement. And there are indications that the Americans might be ready to stop spying on top leaders and withdraw from spying on Germany’s industry. The question remains of what the German and other European intelligence services, for instance the French spymasters, have been or are doing and how much they were aware of and possibly profiting from sharing U.S. intelligence activities and technology.

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**WERE TRICHET, DRAGHI,
AND WEIDMANN MONITORED?**

There was an important revelation from the Congressional hearings with the U.S. spy chiefs that—for example during the recent euro crisis—the U.S. government wanted to learn whether the euro area member countries would save Greece from insolvency or not. Tapping the German chancellor's mobile telephone might have been helpful. But whoever had access to the communications of the European Central Bank and the Deutsche Bundesbank might have gotten an even better picture of what was going on.

Thanks to the allegations brought about by Snowden's leaks of classified documents, more and more is known about how U.S. intelligence agencies have been spying on major leaders from the European continent, the offices of the European Commission and its missions, and other supranational institutions such as the United Nations and the International Monetary Fund. As James Clapper, head of U.S. intelligence, told lawmakers in the U.S. Congress, discerning foreign leaders' intentions is a "top tenet" of U.S. intelligence policy, adding that "foreign allies spy on U.S. officials and intelligence agencies as a matter of routine."

What about spying on Frankfurt, Europe's most important financial and central banking center? Were ECB Presidents Jean-Claude Trichet and Mario Draghi, along

with Deutsche Bundesbank Presidents Axel Weber and Jens Weidmann, monitored by Uncle Sam because of their positions as top European decision makers? Here, the U.S. Consulate General helicopter episode in Frankfurt may give some clues.

On August 28, 2013, a helicopter belonging to Germany's Federal Police Force, the Bundespolizei, hovered extremely low over the U.S. Consulate General in Frankfurt and made photos with special camera equipment. As it turned out, the German Domestic Intelligence Service, the Bundesamt für Verfassungsschutz, had commissioned the helicopter mission to follow up on indications that (as in the case of the U.S. embassy close to the Brandenburg Gate in Berlin) the U.S. Consulate General in Frankfurt is used as a major strategic hub for the global spy operations of American agencies such as the NSA and the CIA.

As BfV head Hans-Georg Maassen told the daily *Welt* at the time: "The [federal] intelligence service has to keep eyes and ears open to find out whether there are activities on German soil against national interests."

This monitoring action by German intelligence officers may have come many years too late. The helicopter episode, however, alerted not only key segments of the German banking industry but other important financial institutions such as the German Bundesbank and the European Central Bank. "We have to assume that the U.S. spy agencies have been tapping the European continent's most important banking and central banking center, with the European Central Bank a specially valuable target," ventures a Frankfurt insider who is especially worried about the British using their "Five Eyes" advantage during the banking and euro crisis.

This insider points out that Britain in particular as a member of the "Five Eyes" countries—Australia, Canada, New Zealand, the United Kingdom, and the United States—that are not spying on each other could use its large spying capacity to support London financial center interests from outside the euro area in ever-stronger competition with the eurozone banking centers.

At the time, the Frankfurt helicopter episode didn't make headline news, but may have been a harbinger of future Snowden revelations of how the U.S. intelligence agencies have been discerning "top tenet" insider information from Frankfurt's central banking and commercial banking world during recent tumultuous crisis years. After all—with the Club Med-run European Central Bank and the Deutsche Bundesbank in reach of the NSA and CIA specialists atop the U.S. Consulate in Frankfurt, the White House and the U.S. Treasury probably got a better inside track on Europe's bank and euro rescue operations than Brussel's top bureaucrats. ◆