

European Energy Security and the Role of Russia

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The Baltic Sea pipeline

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Introduction

JOANNE MYERS: I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I'd like to thank you all for coming out on this cold afternoon and to welcome Gernot Erler to our program today. He will be discussing European energy security and the role of Russia.

For Europeans today, Russia is the key to their energy security. It's not just that Europe has a growing dependency on Russian gas and oil, but it is known that Russia also keeps a powerful hand in

influencing and controlling some of the major pipeline supply options, in particular those in the Caspian and the Caucasus Region. So in January of this year, when [Vladimir Putin](#) made clear his decision to disrupt oil flowing through the pipelines across Belarus, Europeans began to complain vociferously about interruptions to their suppliers.

But this was not the first time Russia had tried to interfere with the flow of energy supplies in the states of the former Soviet Union. In fact, last year it was Putin's control of natural gas flowing through the Ukraine which, combined with this latest maneuver, caused German Chancellor [Angela Merkel](#) to remark that "It is actions like these which hurt trust and make it difficult to build a cooperative relationship."

Russia is the world's second-largest oil exporter and supplier of approximately one-fifth of Germany's needs, and it has been known to use energy as a political weapon to influence geopolitics in the past.

This time, inasmuch as energy security is the number one issue for consumer countries, the European Union has woken up to the seriousness of the situation. Yet, there appear to be some stumbling blocks as some European nations strive to negotiate their own bilateral agreements with Russia, especially with [Gazprom](#), the dominant gas company, rather than suppressing their own needs and developing a common European energy policy.

However, now, with Germany holding the twin presidencies of both [the European Union](#) and [the G8](#), many are optimistic that Germany, because of its close relationship with Russia, can be instrumental in preparing Europe for its future energy needs by negotiating a new partnership and cooperation agreement with Russia.

Given this, the question that I would like to raise for the discussion this afternoon is the following: Whether Germany, with its presidency, can lead Europe towards a common energy policy and the foreign policy elements that accompany it; or whether energy will remain an issue for each country to individually resolve, thus allowing Europe to drift into greater dependency without the necessary safeguards.

Please join me in welcoming Minister Gernot Erler, who has had vast experience in working on these issues. I am confident he will provide us some valuable insights. Thank you for joining us.

Remarks

GERNOT ERLER: Thank you very much, Joanne, for your very interesting and kind remarks. I am very grateful for the invitation to the Carnegie Council. It is a great pleasure for me to share with you some considerations about European energy security and the role of Russia.

Ladies and gentlemen, you have asked me to speak to you today about Europe's energy security and the role of Russia. If you had invited me to talk on this subject five years ago, I would certainly have been very surprised. In

those days, the lights on the Christmas tree in front of the Russian embassy in Berlin had to be sponsored by a local radio station. Five years is clearly a very long time. Today Russia is an energy giant, and in Europe reports about Gazprom's and [Rosneft](#)'s expanding business empire are more or less daily news.

For Germany and Europe as a whole, Russia is now one of our leading oil and gas suppliers. I would point out, however, that Europe has been importing pipeline gas from Russia for over thirty years, well before the collapse of the Berlin Wall. Like most Central and Eastern European countries, Germany also imports oil by pipeline, and by tanker as well, from Russia.

Europe has had a good experience with the reliability of the Russian supplier for almost four decades. The relations have been reliable and secure through the many political changes, from the Brezhnev time, to the [perestroika](#) of [Gorbachev](#), to the political shift to the presidencies of [Yeltsin](#) and Putin.

But the situation today is very different from what it was in the past. In January 2006, the dispute between Russia and Ukraine over higher gas prices culminated in the temporary suspension of Russian gas supplies to the country. The pipeline shutoff was actually broadcast live on Russian TV. In my personal opinion, it was an excellent idea to use these pictures to damage the reliability of the Russian supplier.

The suspension also affected a number of Central and Eastern European countries, as well as Germany, Austria, and Poland, which all relied on the same pipeline.

For Germany, this was sort of a wake-up call. At the Munich Conference on Security Policy in February of 2006, last year, Foreign Minister [Steinmeier](#) coined the term "foreign energy policy," a pretty novel concept in Germany at the time, and urged the importance of enhancing energy security through greater cooperation between producer, consumer, and transit countries as well as with the private sector.

In the light of the events in Ukraine, some people even began to talk of a "new Cold War." [The European Commission](#) responded with a so-called Green Paper in March, entitled "[A European Strategy for Sustainable Competitive and Secure Energy](#)," which made the case for a cooperative approach based on energy partnership.

Almost at the same time, a fresh debate arose over Russia's motives for not ratifying the [European Energy Charter Treaty](#). Although Russia signed the treaty some time ago, it has refused to ratify it to date. That is up to the Russian [Duma](#) to do, and we know that the Duma will not decide that without the support of the Russian President. The Treaty not only lays down rules for the protection of international investments in the energy sector, but also contains excellent mechanisms for the settlement of disputes, and arbitration in particular. At the G8 Summit in St. Petersburg last summer, Russia did in fact endorse many of these principles and rules set out in the Treaty.

We Europeans want to see that the planned Successor Agreement to the EU's existing [Partnership and Cooperation Agreement](#) (PCA) with Russia includes an ambitious section on energy. At the moment, however, the negotiations on the new agreement are being held up by Poland's refusal to give the go-ahead until Russia lifts its ban on imports of Polish meat. But we are optimistic to overcome the problems between Russia and Poland, I hope in the next few days, so that we can start the planned negotiations of the new PCA.

As for the so-called Baltic Sea pipeline, here opinions differ. We view this new pipeline through the Baltic, a direct link between us and Russia, as a sensible diversification of our supply routes. The pipeline is, by the way, one of the European Union's Trans-European Transport Network projects. Poland, however, has considerable reservations about the pipeline, which it fears may jeopardize its national interests. The Baltic states, too, are somewhat suspicious of the idea. And the Scandinavian countries are worried about the environmental impact of the pipeline.

The most recent dispute of oil and gas supplies, this time between Russia and Belarus at the beginning of this year, happened just a few weeks ago. Very simply, Russia's aim in this dispute was to agree to substantially reduce the subsidy it has been providing for the Belarusian economy in the form of cheap oil and gas. Obviously, the [Lukashenko](#) regime saw this as a highly threatening move. At the end of last year, the two sides finally reached agreement over gas supplies, although Belarus was forced to accept steep price rises.

But on the matter of oil supplies, the new year began with nothing resolved. During the ensuing negotiations, Russia at one point stopped pumping oil through the co-called [Friendship pipeline](#), a shutoff which affected also Germany, Poland, Hungary, and the Czech and Slovak republics. Finally, a new deal was reached that gave Russia most of what it wanted.

In this situation, I think it is important to emphasize that this Russian-Belarusian dispute did not have any adverse consequences for end consumers in Europe. Although in the case of oil some 20 percent of Germany's oil imports were affected by the temporary shutoff, this caused no shock waves in the markets. The price of oil continued to fall, in fact.

This levelheaded response was a clear demonstration that the instruments created during [the oil crisis in the 1970s](#) have become a real factor for stability in this area. Today we are very glad about these very exciting events of the 1970s because that was the starting point for our policy of reserves in Europe.

In the same vein, [IEA](#) [International Energy Agency] Executive Director [Mandil](#) noted that if Russian oil stopped flowing, global strategic reserves were sufficient to last 4,000 days. To my mind, that was a statement of great political significance.

In the media, however, the response to the Russian shutoff was very different. In Europe, there are currently three schools of thought concerning Russia's energy policy, especially vis-à-vis those [CIS](#) countries [Commonwealth of Independent States] whose economies Russia once subsidized by charging artificially low prices for its oil and gas.

- Firstly, the market economy school, which hopes that Russia is merely cutting its subsidies to these countries. This is necessary so that in the medium term it can stop subsidizing gas and oil for the Russian population too and drastically reduce the country's energy consumption. Gazprom's and Rosneft's profits will, of course, soar if they are no longer forced to subsidize prices in other CIS countries as well as Russia itself. That is the market economy school.
- The second school I would call the geopolitics school. The basic assumption here is that Russia is intent on gaining maximum leverage from its oil and gas reserves and will miss no opportunity to make transit countries cede control of the pipeline network. As evidence, proponents of this view cite Russia's attempts to force Central Asian countries to export their oil and gas to the West via Russia.
- Then there is a third school, which is the dialectical school, a combination of both market economy and geostrategic perspectives. Vis-à-vis CIS countries whose energy imports it subsidizes, the Kremlin cut subsidies both to ensure good behavior and to punish what it deems errant behavior. Russia's dealings with Georgia and its insistence on a higher gas price are a typical example of such tactics, it is argued.

According to this view, Russia is motivated both by commercial interests and considerations of power politics. This explains its attempts to gain control over gas pipelines in transit countries, such as Ukraine and Belarus. Such factors might also play a role in the current dispute between Poland and Russia over the Polish section of the so-called [Jamal pipeline](#), which pumps Russian gas through Poland to the West.

In my personal view, I am very close to this third school, the so-called dialectical school. In my talks with my Russian partners, I always pointed out that in my view the behavior of Russia in the two conflicts with Ukraine and Belarus was a wrong setting of priorities, because Russian prestige and Russian reliability are much more important than progress with the price policy.

So I was happy that during the recent Russian-Belarusian oil dispute, our Chancellor, Madame Merkel, the European Commission, and also our Foreign Minister, Mr. Steinmeier, sent Russia a clear message: We expect Russia to honor its contracts and show that it is a reliable supplier.

That is also an important issue in [the current visit of the so-called \[EU\] troika](#), which is in Russia right now. The energy issue is one of the major issues on their program.

Given Russia's enormous oil and gas reserves and its geographical proximity to Europe, it is clear, however, that Russia will remain Europe's number one energy partner.

To those U.S. experts who have warned us that we have a Russian problem, I would point out that in fact it is also true that Europe has also a Russian opportunity. Of course, in our dealings with Russia the legacy of European history will always make itself felt. Central and Eastern European countries, and Poland in particular, have considerable reservations vis-à-vis Russia. Nevertheless, it is important that we set our sights on the future.

Russia and Europe are both dependent on each other. Russia needs its income from the European Union and the European Union needs its energy supplies from Russia. In figures, Russia exports 70 percent of its energy production to the European Union and the European Union imports 30 percent of its energy demand from Russia. So in those figures it is an open question who is more dependent on the other side, and it doesn't really matter whether we describe this state of affairs as interdependence, interlinkage, complementarity, or even symbiosis.

As a consumer, the European Union carries considerable weight. When it talks to Russia, it needs to have a clear idea of what it wants.

One of its objectives must be to put its long-term cooperation on a sound contractual basis that provides also for mutual notification mechanisms and arbitration procedures. That means Germany, as the holder of the European

Union presidency, has a tough task on its hands over the next few months.

We need to make Russia understand, of course, that unilateral shutoffs are unacceptable and that contractual fidelity and security of supply are essential for any reliable, long-term partnership. The Kremlin received a clear message to this effect during the recent dispute with Belarus.

Yet, at the same time, we need to canvass support throughout the European Union for the European-Russian energy partnership. That, too, is no easy task.

If we get the EU mandate—at the moment blocked by Poland as I mentioned—to negotiate the PCA with Russia for the next decade, I think we have a good chance to make energy cooperation an important point in that binding document. And, of course, we will work for regulations very similar to those in the European Energy Charter Treaty.

When Madame Federal Chancellor recently met President Putin in Sochi, at the border of the Black Sea, Putin didn't reject the German announcement to do so and to try to bring the energy policy in the framework of the Partnership and Cooperation Council. I hope we can test the Russian position in the next few months.

Anyway, there are serious challenges in energy policy and exciting months ahead for our presidency.

Thank you very much for your attention.

Questions and Answers

QUESTION: I wonder if you could provide a larger context for the relations between the European Union and Russia economically. That is, what proportion of the trade does gas and oil comprise? Just talk about that a little bit. And also, if you would talk a little bit about the things other than the income from gas and oil, for which Russia is dependent upon Western Europe.

GERNOT ERLER: Yes, I can provide you with some figures. The figures are very similar for Germany and for the European Union. For example, Germany imports 35 percent of its gas and about 30 percent of its crude oil from Russia. Those are almost the same figures for the total European Union. So it is for about 30–33 percent of oil and gas we are dependent on the Russian suppliers.

But, of course, in addition to that, there are some other activities in economics between the European Union and the Russian Federation, and specifically between Germany and the Russian Federation. We have very old traditions of trade and exchange in economics. The interesting thing is that the Russian market is a growing one. The growth rate is about 8-to-9 percent yearly. So it is very interesting for our export industries to have this market in the east, and we are profiting from that very much.

If you put together the entire Eastern European markets regarding Germany, then it is more than the American market. About 10 percent of our total exports go to Eastern European countries, including Russia. That is a bit more— that passed the American share in the last few years.

So, indeed, there is interest on both sides. The important thing for Russia, specifically for Putin, is that he is convinced that he needs the cooperation with Europe and with the European Union, and especially with Germany, for the modernization of the Russian economy.

The situation of Russia is unbalanced because they use the profits from the oil and gas business for their budget. More than 40 percent of the Russian budget comes from gas and oil exports. It is an unbalanced economy because Russia is doing well in that export business but doesn't have really modern industry. It has problems with competitiveness in the other parts of industry.

So Putin decided to use the good relations with Germany and with the European Union to modernize the whole economy of the Russian Federation. And so, again, apart from the oil and gas business interrelation, we also have a win/win situation in the other fields of economics.

QUESTION: I was in Russia at the end of December and early January when the maneuvering was going on about the pipeline. The consensus there of, not Russians particularly, but foreign European and American journalists and diplomats, was that Putin is doing this because he feels that Russia is not appreciated as a major power and that this is his way of letting people know that they are a major power. It is sort of a personal vendetta, if you will, which is rather scary, if that is a major reason for it.

GERNOT ERLER: I totally agree with you. I think that we have to keep in mind that the losing of the empire was a huge challenge for the Russian political class, and they never have forgotten this. After the increasing significance of their energy resources, they have become more self-confident for the moment and they are looking for a new role for Russia in global politics and also in controlling the post-Soviet space.

They were confronted with the development of, for example, the new integration of the Baltic states and Poland to the European Union and to NATO, which they took as a provocation to Russian interests. And they are confronted with these color revolutions—the [Rose Revolution](#) in Georgia, [the Orange Revolution](#) in Ukraine, and the end of the presidency of [Mr. Akayev](#) in Kyrgyzstan. All that was of great concern to the Russian political class.

So they think a new chapter of history is opening for them, with a new role for Russia. But they have no clear idea about this role, in which way it should be constructive or not. But they are demanding from us the recognition of their new position, a stronger position now, after all that they have suffered in the last fifteen years.

I think that we have to take this into account if we work with Russia and if we have contacts with the Russian leaders. So I agree with you totally.

QUESTION: Since automobiles consume so much of the oil and gas that is used in total, I wonder if you think it is appropriate for the European Union to take a more active role in encouraging in any way research toward more efficient cars. Or do you see anyone else focusing on this issue? What potential do you think it might have to reduce reliance on outside energy?

GERNOT ERLER: I am very grateful for this question because it gives me the opportunity to tell you about a program of our presidency. We are of course, not only starting these negotiations with Russia on the new PCA. We decided also to make energy policy a program for our springtime summit in March this year. We always have two summits during a presidency, one in the first part of the presidency and one at the end of the presidency.

The first summit should work with energy policy. It is a continuation of the St. Petersburg Summit of the G8 in the last year, in July in St. Petersburg, where the G8 started a dialogue with Russia on energy security. We will continue this issue in our EU summit in March this year, with focus on energy efficiency, renewables, and research and development in the field of energy.

That should be organized in such a way that we have a chance to also address during this summit very acute questions of climate change and the global climate policy after the [Kyoto Protocol](#). That means after 2012. We think that the program of the summit could provide us with a bridge between energy policy and climate policy.

The background for that, indeed, is that Germany is also in the forefront of changing energy policy among the other European countries. For example, today we have renewables installed in Germany to the extent of 12.5 percent of our electricity production. Our plans are to enhance this share to 20 percent by 2020. We are optimistic that we can go ahead with this policy until the middle of the century and then have 50 percent from renewables. Of course, that is a very optimistic approach.

Maybe you know that we decided in the former government to go the way of a non-nuclear energy policy in Germany. Today we have nineteen nuclear power plants in our country, but it is our policy to discontinue this by the year 2019. So we need substitution for that. That is a pressure that we have organized by ourselves, to look for substitution for the nuclear power plants. We do that very much in the direction of using renewables and also economizing energy and energy efficiency.

QUESTIONER: When you say "economizing," do you mean conservation?

GERNOT ERLER: Conservation yes, of course conservation. But we have a great variety of political instruments for that—for example, new techniques of insulation of private housing. You can do a lot with such programs.

It is also a very interesting contribution to the labor markets. Today we have more than 30,000 jobs in the context of renewables in Germany. So it is not only a strategy for a better climate policy and for the environment; it is also very helpful for creating jobs.

That is the background. I only say that in the context that we have made this a program for our summit, our first European summit of our presidency, because we can offer some experience with that. So the other countries accepted the idea to make an energy policy an issue for this summit, but it is in the context that Germany has something to tell them about our experience.

QUESTION: This is a question you may not be able to answer, or may not want to. Maybe you can help me draw a distinction between energy policy in Russia as a matter of state and energy policy in Russia as a matter of domestic politics, particularly politics within the Kremlin and the tug-of-war between different clans, if you will, for control of state assets. On the one hand, I get the sense that Putin is very much in control of the pricing of gas through the pipeline networks through Eastern Europe. I wonder, though, to what degree he is in control of the seizures of other assets—for example, the efforts to push foreign companies out of development of fields in Siberia and elsewhere—because there are different clans that control different categories of assets, whether it is minerals or oil or gas, particular sectors of the petroleum industry. In their fight for money, where does policy get left? Do you have a sense of how this plays out?

GERNOT ERLER: Of course we are concerned about the development of the Russian policy in that field, and of course we have noticed the changes of the last few years. So there was a time when we had a privatization policy in Russia and we saw the development of huge companies, private companies. But then the official policy, especially of President Putin, turned around and now this policy is looking for huge state-controlled organizations, like Gazprom, Rosneft, and so on.

That is, indeed, a problem also for the European partners of Russia, because on our side we have private partners with the Russian state-owned companies. So very often critiques towards the policy between the private-owned companies and our side, of Germany, and with the state-owned companies on the Russian side, are addressed to the German government and not to the private companies, because people think that if the Russian side is state there should be also influence of the German government to all the activities of our private companies.

Of course, we have a framework of European policy in energy and we have a program of the European Union, but in fact we have to deal here often with private decisions and with privately made decisions. That is, for example, the case with the [North European gas pipeline](#). I address this very questionable issue. In that context, we face a lot of problems with that mixture between state-owned companies on one hand and private companies on the other hand.

What we need, I think—and that is the more concrete answer to your question—is we need a dialogue between the European Union and Russia about all kinds of politics in energy and environment on their side. We think that the work on the new PCA is a very good chance to organize this dialogue in a more concrete way than before.

We have different approaches and different instruments for our policy with Russia. We have European-Russian summits twice a year, and we have the so-called "four spaces"—the space of economy; the space of security and foreign policy; of domestic security; and of culture and education—which was elaborated in the last few years between the European Union and Russia. So we have different platforms for dialogue. But it is not binding in a way. It is a dialogue. Sometimes we have progress; sometimes not.

But if we speak about PCA, it is a different approach. It is the law or the regulation and the platform for all that we want to do with Russia for the next decade. Interestingly enough, the old PCA was not very public, but it was working, because that was a treaty since 1997 until today between the European Union and Russia. Normally, our experience is that Russia is indeed following such treaties.

So if we are successful with such a new program and with such a new Partnership and Association Agreement, then we have enough leverage to also influence Russian policy. That is the importance of this issue and that is the significance of our program to start these negotiations in our presidency.

The problem is that there is no other chance to start with such a work in the near future, because much always depends on the presidency. In the last few years we have had the presidencies of Austria and of Finland, and after the German presidency we will have the presidencies of Portugal and Slovenia. These two countries, for example, have no very intensive exchange and politics with Russia.

But the old PCA is phasing out in November this year. So it is very important that we got the chance to start these negotiations with Russia in order to be able to influence Russian policy.

Our political approach is sort of an approximation with economic interlocking. That is the model of the German-Russia approach: Interlocking of economies is the best way to have the chance to influence Russian policy. To give rules and principles for that, that is the philosophy of the PCA we want to bring forward.

QUESTION: When you speak about affecting Russia's policy, you don't mean energy policy; you mean all aspects of their policy, foreign policy and other areas? I'm confused, because it is certainly not in their best economic interest to focus on conservation and on alternate fuels and alternate forms of energy and climate change if they are searching for more power through their energy policy. So I'm a little confused. What policies of Russia would you like to affect?

GERNOT ERLER: Maybe I have put it in the wrong way. What I have told you about conservation and energy efficiency and so on, that is a pure European program. That is the program of our first summit in March this year. That was decided by the twenty-seven countries of the European Union. We offered them this program and they accepted this program for this first huge meeting of our presidency. That has nothing to do with Russia.

QUESTIONER: I understand that. But you said you want to affect Russia's policies by having economic interlocking. What policies do you think you can affect?

GERNOT ERLER: That is another part of our policy. That is the product of our economic relations with Russia, and of course also state programs in the context of our bilateral relations with Russia. The idea of interlocking procedures is that we have to accept that both of our economies, the Russian one and the European one, are dependent on each other, not only in the energy field but in many other fields. So this approach is to accept this

directly and explicitly, to accept this and to enhance this interdependence. So approximation by economic interlocking processes is the answer to some other ideas.

For example, to separate the politics between the European Union and Russia, to isolate maybe the Russian policy on the basis of their misbehavior—for example, in human rights or in democracy and so on—we think that we have the best chance to influence Russian policy on the basis of this interlocking process, so with more interdependence. That is the German and European approach.

QUESTION: I was interested in your comments on the divergence between the press coverage of the oil cutoff and the reality. In fact, you indicated that the temporary cutoff in Belarus and Ukraine had really no effect whatsoever on the European economy and that for many years ahead you are isolated from that pressure. The coverage, in the United States certainly, was that Europe was being threatened immediately by Russia. The United States, of course, paid for the color revolutions in Ukraine and the rest of it.

During the recent period, there has been much criticism and alarm from the Bush Administration that the process of integration, which you look forward to, will distance Europe from a more aggressive policy by the United States vis-à-vis Russia. How do you see the European position, an independent position, not just vis-à-vis Russia but vis-à-vis a more aggressive position from the United States?

GERNOT ERLER: A very good question.

First of all, we use the public criticism regarding the Russian energy policy as an instrument and leverage in our dialogue with Russia. Public debate is a matter of fact. It is a political reality.

We often get the argument from the Russian side that in fact nothing was wrong with their policy and there was no threat for the supplier rights and for the contracts and so on. But they have shut off the delivery of gas and oil, and that created this public discussion.

Immediately after the gas conflict with Ukraine last year, there was a huge discussion in the public about diversification strategies of the European Union. In fact, we have no real alternatives. But there was a discussion about that. So it was indeed confronting Russia with such ideas and attempts to look for alternatives and so on.

We use this public debate, indeed, as a very concrete argument with our Russian partners. So we are happy. It is better than the other way around, that we have real conflict and problems and no public debate. In this way we can use the public debate for our dialogue with Russia.

Of course, we have also something to explain to our American partners and friends. For example, my visit to your country is part of this game. I started in New York and I will go ahead with my program in Washington. I will meet with a lot of think-tank organizations to explain, not only our policy towards Russia, but that it is also part of our program and our policy regarding the growing significance of the Central Asian region. We have decided to elaborate a specific strategy of the European Union with Central Asia. That is also part of our program.

Of course, we have to discuss this with our friends and partners in your country because we know that there was also a shift in your understanding of Russian politics in the last few years. I remember the days immediately after 9/11, when Russia and Putin became the best partner of the Bush Administration in fighting terrorism. I have noticed the reduction of criticism regarding the [Chechnya](#) development and the human rights violations and so on. That was all in context with the common struggle against terrorism. Putin took the opportunity and presented himself as the best partner for America in fighting terrorism.

But now the picture has changed again. In a way, one can say that Russia is not so important for the United States in fighting terrorism. The Russian side changed, for example, their policy in the Central Asian region. For the first time since 9/11, they accepted also deployments of Russian armed forces in the Central Asian region. Now they support ideas to take them out by their old partners—old partners in the sense that they are very old presidents in, for example, Uzbekistan or some other places.

So I know the background, of course. But there was a change in the American attitudes towards Putin, towards the Russian policy, and exactly also about this growing self-confidence of Russian policy on the basis of their energy resources. They use the energy resources for political purposes and so on.

So the question is not the analysis. I think we have common pictures of the Russian development, we have a common understanding of that. And we are very realistic; we have no illusions of Russian politics at all. But the question is—and maybe here we have something to discuss—is: What is an effective answer to that recent development of Russian politics; how should we react?

That is, indeed, one of my ideas to come here, to look for my partners and for my colleagues and to discuss these items with them, because in Europe we see that there is no alternative for what we call a strategic partnership with Russia. It is partly wishful thinking, I know. But what is the alternative for such a partnership if you look at the extent to which we are dependent on each other?

There are also some common interests in stability and prosperity in the whole environment, in the environment of the European Union but also in the former Soviet space, around the Russian Federation. So there is no alternative but to look for common politics in that very important region, and also in the Central Asian region with their growing importance for security and also for energy cooperation.

So I am here to discuss these issues.

QUESTION: You say that most of the Russian exports—I think you said 70 percent—go to the European Union.

GERNOT ERLER: Of energy.

QUESTIONER: How do the Chinese, the Indians, the United States—all the thirst for oil—what do you foresee happening when they have such demand? Will your percentage go down?

GERNOT ERLER: Thank you.

Of course, we know that the emerging economies—like China, India, Brazil, and other countries—have a growing demand for energy resources and they have different strategies to secure their suppliers. There are also intensive relations between China and Russia, between Japan and Russia, between India and other South Asian countries, that are searching for new suppliers. They look to Central Asia, they look to Russia, and they look also to the African continent.

Interestingly enough, we have made the motto "growth and responsibility" the motto of the G8 Summit in Heiligendamm—it's a little town in Germany, but it is a place for the Summit of the G8—"growth and responsibility."

The background of this motto is that we are concerned about the strategies provided by the emerging economies in the questions of energy supply and raw materials supply around the world. We are very much concerned about China's strategies in Africa, for example, that are provocations regarding our policies, which are always based on values and on principles. We do not cooperate much with dictatorships and regimes that are unreliable, undemocratic, and that do not regard human rights. But China has no conditions; the Chinese have no conditionality for their contacts and for their trade. That is the background for our decision to make this program, "growth and responsibility," an issue of G8 Summit. So, you see, we are really working with these problems and challenges.

But, of course, regarding Russia, Russia has some alternatives for their orientation towards the West. Sometimes President Putin tells us about these alternatives. But, in fact, it makes no sense to change the orientation in their export strategies, because if you have invested much money in pipelines, or if you have contracts like those that we have with the Northern European gas pipeline, where we speak about some \$50 billion or so, then you cannot change that in a very short time, to give up these investments.

We are sure that the decision of the Russian president to make the European Union the most important partner for the modernization of the Russian society and economy is a long-term decision. It is not one that can be changed immediately.

Of course, we look very carefully at the question of the successor of Putin. That is, indeed, the challenge also for European policy and strategies, because we are not sure who will be the successor. Obviously, Putin decided to make that an open game, an open election process. In the last few days, he told the very concerned public in Russia that he has no favorite and he will organize real elections. That is a surprise in a way, because that would be new for this society.

But there is also a problem and a challenge for all of us, also for the European Union, because of course we know the candidates, and we have our analysis about their politics and their orientations, and there is no major concern. But there could also come a surprise with a third or fourth candidate in the Russian elections. We don't know. It's possible. We cannot exclude this.

But we think that there is huge support for the general decision of President Putin regarding the relations with the European Union. So sometimes he makes the alternatives with China, with other Asian countries, an instrument and a leverage in pressing the European countries in the Russian interest. We feel that.

We answer that we think that we should have a strategic partnership, that there is continuity in the relations, that there is reliability. We tell him that he can lose also something with this, partly damaging the good relationship and the exchange with the European Union. So we feel, not dependent on that, but we feel that there is a political game with these alternatives.

In that context, of course, a decision made by Gazprom to come together with two of the major German companies with the buildup of this Northern European gas pipeline for us is sort of a guarantee for the future of

energy delivery to Europe. At the same time, there is also a process of diversification, because looking at the problems we see with a pipeline through countries like Belarus and Ukraine, the idea of having a pipeline on the ground of the Baltic Sea without any transit country is a very interesting diversification of supply. So it is both sided. There are several approaches that you can take to this project, but that is also a role of this project.

JOANNE MYERS: At this point, I think we will stop. Thank you very much for making the Carnegie Council a stop on your program to the United States.

GERNOT ERLER: It is a pleasure for me.

JOANNE MYERS: We thank you for sharing your time and energy with us.

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