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Research Report

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“Silence for Gas”?

Germany's Dependence on Russian Energy

Roland Götz

Germany's relations with Russia have recently earned the epithet “silence for gas,” echoing the “blood for oil” often used to characterize American policy in Iraq. But is this justified? Must Germany make political concessions to Russia to avoid a Russian gas boycott? How important are Russian oil and natural gas supplies for Germany and Europe, now and in the future?

Many commentators have implied that German foreign policy makes particular allowances for Russia due to Germany's dependence on Russian energy supplies. Chancellor Gerhard Schröder's restrained comments on the dubious presidential elections in Chechnya and his emphatic declaration of solidarity with Vladimir Putin's fight against international terrorism—without clearly distancing himself from Russia's actions in Chechnya—provoked a particularly intense barrage of media criticism. The Chancellor's silence leaves room for speculation and misapprehension.

It is often claimed that Germany will only receive its supposedly crucial Russian oil and gas as long as controversial issues are kept out of talks with Russian officials (e.g. *Frankfurter Allgemeine Sonntagszeitung*, September 12, 2004, p. 11). Russia correspondent Michael Thumann said that the

“close friendship” between Putin and Schröder rested on a mutual “passion for gas”—that German reserve on Chechnya was traded for reliable supplies of this Russian resource (*Die Zeit*, September 9, 2004, p. 2). Thumann also said that Germany's growing dependence on Russian natural gas would make it completely dependent on Russia. Will the “silence for gas” deal soon be followed by subservient fulfillment of Russian demands? How great is Germany's “dependence” on Russian oil and gas really?

Germany's Dependence on Russian Oil and Natural Gas

Russia's share of Germany's total imports of the two most important fossil fuels has undeniably risen above the mark of 30% defined by the EU several years ago as a critical (albeit non-binding) measure of

import dependence. In 2003 Germany received around 34 million metric tons or around 31% of its total crude oil imports from Russia. Adding the imports from Kazakhstan, which are carried through Russian pipelines, gives the states of the former USSR a stake of 37%.

Table 1
German Crude Oil Imports 2003

	<i>Million metric tons</i>	<i>Share (%)</i>
Russia	34	31
Norway	22	21
UK	12	11
Libya	9	8
Kazakhstan	7	6
Syria	6	6
Saudi Arabia	4	4
Algeria	4	3
Nigeria	3	3
Others	7	6
Total	106	100

Source: *Wochenbericht des Deutschen Instituts für Wirtschaftsforschung (DIW)*, 7/2004, Table 4, <www.diw.de/deutsch/produkte/publikationen/wochenberichte/docs/04-07-1.html>.

With oil imports we cannot generally speak of critical dependence on any one country anyway, because oil is not only carried by pipeline but is also shipped all over the world in tankers and is thus available to anyone who can pay the market price. Natural gas could be a different matter, because for the foreseeable future pipelines will still be needed to carry it. This ties together producers and buyers much more closely than is the case with oil, coal, or regional markets. But liquefied natural gas (LNG) transported by sea is gaining an increasing share of the market and there are signs of an emerging world market in natural gas.

In 2003, around 38% of Germany's natural gas imports came from Russia. Norway, however, was close behind with 30% and could make further headway in years to come when large offshore fields

are opened up and its production and exports increase substantially. The Netherlands are in third place, while Africa and the Middle East scarcely figure (yet) in current German natural gas supplies.

Table 2
German Natural Gas Imports 2003

	<i>Billion m³</i>	<i>Share (%)</i>
Russia	33	38
Norway	26	30
Netherlands	21	24
UK	4	5
Denmark	3	3
Total	87	100

Source: BP, *Statistical Review of World Energy 2004*, <www.bp.com/subsection.do?categoryId=95&contentId=2006480>. NB: These are contracted quantities, which may deviate from those actually delivered.

No Scenario for Coercion

Could Russia exploit its market position to “turn off the gas” or even just threaten to do so? Does Germany have leverage here to enforce changes in Russian policy? The answer to both questions is negative, because conveyance by pipeline makes suppliers and buyers fundamentally dependent on one another as long as both have limited access to alternative markets.

Germany is well integrated in a European network of gas pipelines, but switching to alternatives to Russian gas and oil would still be very difficult and costly. Conversely, Germany is Russia's single most important buyer, far ahead of Italy, Turkey, and France. As long as Russian natural gas is carried by pipeline, eastern and western Europe and the western states of the CIS will continue to be the main markets for Russian natural gas for decades to come.

As a result, neither country really has much leeway for “turning off the gas.” Politically motivated trade sanctions would prove expensive for both sides—especially with natural gas—and to date neither the

Russians nor the Germans have even as much as toyed with the idea.

Table 3
Russian Natural Gas Sales 2003

	<i>Billion m³</i>	<i>Share (%)</i>
Germany	33.2	25.2
Italy	19.7	15.0
Turkey	12.7	9.6
France	9.7	7.4
Hungary	8.8	6.7
others	47.7	36.1
Total	131.8	100.0

Source: BP, *Statistical Review of World Energy 2004*, <www.bp.com/subsection.do?categoryId=95&contentId=2006480>.

The Security of Europe's Energy Supplies: Diversifying Sources

A serious discussion of the security of Germany's energy supplies and the associated political ramifications must cover Europe as a whole and also take account of medium- and long-term trends. The discussion below assumes a 35-member European Union (maximum expansion), including Turkey and Norway, but without the CIS states.

All predictions agree that the exhaustion of Europe's fossil fuel reserves will cause its own production to decline, and that demand will increase significantly in line with economic growth. The replacement of coal and oil by natural gas (in the effort to reduce emissions of greenhouse gases) only reinforces this trend. Even if Europe's economic growth is low, its requirements of imported natural gas will increase by 150% between 2000 and 2020, whereas crude oil imports will only increase by 40%.

European import demand will thus increase by around 300 billion cubic meters, but even if gas exports to Europe grow by approximately 30 billion cubic meters—as called for by Russian energy strategy—Russian supplies will only be able to cover a small part of this growing demand. Large quantities of Russian natural gas, on the

other hand, are to be conveyed to China, Southeast Asia and the United States via newly-built pipelines, harbors, and LNG terminals. This reorientation flows from Russian planners' assumption that there will be a liberalized European natural gas market where Russia's natural gas from distant Siberia will be hard placed to compete with gas from the closer North African and Middle Eastern fields.

Table 4
Total European Natural Gas Imports (EU-35) 2000 and 2020

	<i>2000</i>	<i>2020</i>	<i>Increase 2000–2020</i>
Net EU-35 imports (billion m ³)	200	c. 500	c. 300
Of which from Russia	134	165	c. 30
Russia's share	67%	33%	

Source: Roland Götz, "Rußlands Energiestrategie und die Energieversorgung Europas," Berlin: Stiftung Wissenschaft und Politik, March 2004 (S 6/2004), <http://www.swp-berlin.org/common/get_document.php?id=782>.

Russia's share in Europe's natural gas market as a whole will drop from two thirds to one third. In view of the increasing regional diversification of Europe's gas sources, it will be even harder for an individual producer to use gas supplies as a political lever.

In the Long Term: Not without OPEC

The few available post-2020 forecasts diverge markedly. There is agreement that Europe's output of natural gas will decline further and demand for gas will continue to rise given continued economic growth and intensified efforts to substitute oil and coal. Europe's total import requirements of natural gas could amount to around 600 billion cubic meters by 2030. This demand would increasingly have to be covered by the Middle East, where relatively large reserves will still exist. Opinions on Russia's

export capacities, on the other hand, diverge widely. Alexei Miller, chief executive of Gazprom, says that Russian gas exports to Europe could double to 280 billion cubic meters in the coming 30 years (*Der Spiegel*, 27/2004, p. 95), but he does not say how this is to be achieved in view of declining production in the Western Siberian gasfields that currently serve Europe. Jean Laherrère, a renowned expert on oil and gas reserves, predicts that gas output in the CIS as a whole will peak in 2015, whereas gas production in the OPEC countries is expected to continue rising until at least 2030 or 2040 (www.peakoil.net/j1/BerlinMay20.pdf).

Even on the more optimistic assumption that Russian gas exports can be held at the level of 2020 through until 2030, it is evi-

dent that, in the long term, Europe will increasingly need to cover its additional gas requirements from the Middle East (including Iran). If Germany and Europe wanted to reduce their dependence on gas imports from the Middle East and therefore obtain more natural gas from Russia, they would have to support Russia in implementing energy-saving technologies to lower its extremely high domestic consumption and thus free up additional quantities of gas for export. This opens up a broad field for cooperation and business dealings. The EU-Russia Energy Dialog, the Energy Charter Treaty, and the Kyoto Protocol offer forums where this could be discussed in greater depth. "Silence for gas," on the other hand, would be detrimental to Germany's interests.

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Table 5
European Gas Imports 2000 and 2020

	2000		2020	
	(Billion m ³)	Share (%)	(Billion m ³)	Share (%)
Russia	134	67	165	35
Algeria	60	30	115	24
Libya	1	0.5	35	7
Azerbaijan	0	0	30	6
Iran	0	0	30	6
Egypt	0	0	25	5
Iraq	0	0	20	4
Nigeria	1	0.5	20	4
Qatar/UAE/Yemen	2	1	16	3
Turkmenistan	0	0	10	2
Trinidad	1	0.5	10	2
Total	199	100	476	100

Source: Manfred Hafner, *Future Natural Gas Supply Options and Supply Costs for Europe*, <europa.eu.int/comm/energy/en/gas_single_market/workshop_2002_11/external_commission/10.pdf>; Figures for Russia: Russian Energy Strategy in 2003 <www.mte.gov.ru/files/103/1354.strategy.pdf>.