
ESSENTIAL PARTNERSHIP

THE UNITED STATES AND EUROPE CONFRONT NEW ENERGY CHALLENGES

Paul J. Saunders

THE NIXON CENTER
October 2009

ESSENTIAL PARTNERSHIP

THE UNITED STATES AND EUROPE
CONFRONT NEW ENERGY CHALLENGES

Paul J. Saunders

THE NIXON CENTER
October 2009

THE NIXON CENTER

The Nixon Center is a non-partisan public policy institution established by former President Richard Nixon shortly before his death in 1994. The Center is affiliated with The Nixon Foundation, based in Yorba Linda California. Its major programs focus on energy security and climate, immigration and national security, and regional strategy in the greater Middle East, as well as U.S. relations with China, Europe and Russia. The Nixon Center also publishes the bimonthly foreign affairs magazine *The National Interest*. The Center is supported by foundation, corporate and individual donors as well as by an endowment.

Copyright 2009 The Nixon Center. All Rights Reserved.

Essential Partnership: The United States and Europe Confront New Energy Challenges

By Paul J. Saunders

The Nixon Center
1615 L Street, NW, Suite 1250
Washington, DC 20036
Phone: (202) 887-1000
Fax: (202) 887-5222
E-mail: mail@nixoncenter.org
Website: www.nixoncenter.org

FOREWORD

Energy has been a growing challenge for American foreign policy in the twenty-first century, including rising assertiveness by energy exporters like Russia and Venezuela, the expanding presence of Asian energy importers in the Middle East, the global resurgence of nuclear power and new proliferation dangers, and climate change. Although many of these issues are global problems, they strongly affect U.S. national interests because of America's dependence on foreign oil and role as the principal guarantor of the contemporary international system. They have a similar impact on Europe, which is also a major energy consumer and leading contributor to the existing order and its institutions.

Through this report, Paul Saunders provides important insights into changing global dynamics, their consequences for the United States and Europe, and the continuing importance of close transatlantic cooperation to American interests. He views the current economic crisis as providing an important window of opportunity for Washington and key European capitals to work together to reshape global institutions dealing with proliferation and climate change, and to build new institutions, including a Middle East security architecture that could both improve energy security and help to manage Iran. He argues powerfully that if the U.S. and Europe fail now, they may not have the same opportunity in

the coming decades as rising powers take a greater role in defining the international system. The paper makes a significant contribution to understanding the relationships between energy, the global order, and U.S. interests and offers thoughtful recommendations for policy-makers.

Dimitri K. Simes
President
The Nixon Center

INTRODUCTION AND ACKNOWLEDGEMENTS

In 2008 and 2009, The Nixon Center organized two U.S.-European dialogue meetings to discuss a broad range of issues related to energy, energy security, and climate change. The project was conceived as a means to assess the impact on American and European interests of important global trends resulting from or expressed through changes in global energy markets, including the growing roles of China and India as major economies and major energy consumers, the rising political prominence of top energy suppliers, new interest in nuclear power and its implications for proliferation, and concerns over climate change. The effort was also built around the clear recognition that success in addressing these many challenges would depend heavily on close cooperation between the United States and Europe.

Though originally conceptualized when energy prices were high and increasing, the project's discussions took place as prices fell sharply at the end of 2008 and in early 2009. This considerably enriched the conversation by forcing participants to think about both high-price and low-price scenarios. The discussions also took place before and after the presidential elections in the United States.

Participants in the sessions included American and European experts on a diverse range of issues including global energy

markets, energy geopolitics, climate change, regional politics in Eurasia and the Middle East, nuclear power and nuclear proliferation, transatlantic relations, and other topics. Their diverse backgrounds spanned academia, government, private business, the media, and non-governmental organizations. European participants were drawn predominantly from Germany and the United Kingdom.

The first session took place at The Nixon Center in September 2008; the second at the German Council on Foreign Relations (DGAP) in Berlin in January 2009. I am grateful to Marcel Vietor and Jan Techau of the DGAP for their essential help in organizing the session in Berlin and to David Lebhar for his note-taking there. In Washington, Kathryn Hartzell of The Nixon Center's staff provided important help arranging the fall session as well as with research, proofreading, and preparing this document for publication. Center interns Mark Kogan, Dennis Shiraev, Veronica Lenzi and Will Fisher also helped with research. Sarah Ladislaw of the Center for Strategic and International Studies reviewed a draft of this paper and offered many helpful comments.

Finally, and most important, the German Marshall Fund of the United States provided financial support for this project and organized an April 2009 discussion of its key conclusions in Berlin. I would like to thank John Glenn in Washington for his patient tolerance of frequent inquiries and updates and Constanze Stelzenmueller in Berlin for generous cooperation and assistance she and the rest of the Berlin staff offered over the course of the project.

Needless to say, while this paper is based on the two dialogue sessions and benefited from others' insights and points-of-view, it reflects strictly the perspectives and conclusions of the author.

EXECUTIVE SUMMARY

International institutions dealing with energy and related issues, such as climate change and nuclear non-proliferation, have been increasingly overtaken by changing global realities that threaten their long-term effectiveness. These changes result from many factors, including the growing influence of major developing nations, especially China and India, and concerns about future energy security and energy prices.

Some institutions, like the International Energy Agency, will doubtless continue to perform useful functions, though less effectively as they represent a declining share of global markets. Institutions to combat climate change are challenged more fundamentally, in that they simply cannot achieve their goals without including all of the key players in meaningful ways. The Nonproliferation Treaty—a key institution of the global non-proliferation regime to facilitate nuclear energy—may effectively collapse.

Today, only the United States and Europe—working together—have the ability to design and win broad acceptance for complex new global institutions to supplement or replace those that currently exist, though their agreement alone is insufficient to address many global energy challenges. Thus it will be virtually impossible to develop essential new global institutions in the near term without unified transatlantic leadership. However, despite a U.S. presidential

election eagerly anticipated in much of Europe, transatlantic differences have not vanished and are unlikely to disappear anytime soon. This makes intense U.S.-European discussion of global energy issues all the more important.

Fortunately, despite its many harmful effects, the current global economic crisis has opened a narrow window of opportunity in which adapting some existing institutions or creating new ones may be easier.

The U.S. should consider:

- Extensive dialogue with China and India focused on defining energy consumers' common interests, sharing information, and increasing their participation in existing institutions.
- Energized efforts at joint engagement with top energy-producing nations to define accepted "rules of the game" for investment, transportation, and dispute resolution. With respect to Russia, the U.S. should support its allies in European-Russian dialogue rather than trilateral talks.
- A joint look beyond the Copenhagen climate talks focusing on coordinated practical steps to reduce emissions rather than exclusively pursuing a new binding international treaty. This could include a new international research and development fund.
- Building on counter-piracy efforts, talks with Europe—and ultimately Japan, India, and China—to discuss working with Middle East governments to build new security architecture for the region.
- Further outreach to Europe's two nuclear weapons states—the United Kingdom and France—and to Russia and China, to strengthen the nonproliferation regime at and after the NPT's 2010 review conference. A U.S.-Russian arms control agreement could contribute

importantly to this process, though Washington should not sacrifice important interests strictly to get a deal.

- Integrate regional security and non-proliferation efforts to intensify pressure on Iran and prepare for next steps.
- Work with Europe and others, under the umbrella of either nonproliferation or climate change, to accelerate the development of new nuclear power technologies more resistant to proliferation.

ENERGY AND THE ECONOMIC CRISIS

The global economic crisis has had a profound impact on energy markets worldwide, dramatically slowing growth in demand and slashing prices. Much of this rapid change took place between this project's two dialogue sessions in September 2008 and January 2009. Nevertheless, American and European participants generally agreed that the crisis would likely not last more than two years and that in a fundamental sense, the era of cheap energy is probably over. In fact, the rebound in oil prices since January 2009 suggests that prices could increase considerably when the U.S. and global economies recover fully.

Broadly speaking, participants viewed the implications of the collapse in energy prices as mixed. For leading energy consumers like the United States and most European countries, significantly lower prices could take some of the sting out of a period of economic distress. However, some expressed concern that it could also substantially weaken incentives for investment in low-carbon sources of energy that is essential to slowing and hopefully eventually reversing climate change. This could result from both decreased cost competitiveness for alternative energy in a low-price environment and increased uncertainty about price trends that would complicate investment decisions.

Participants saw the energy-related effects of the crisis as generally more severe for major energy exporters, whose economies have been damaged by not only the economic crisis, but also the steep fall in prices. In Russia, for example, the stock market had fallen 75% by January 2009, though it has since recovered somewhat. Countries like Iran and Venezuela have been particularly hard-hit due to heavily subsidized domestic energy consumption and economic policies largely predicated on high prices. In addition to their domestic problems, one American participant pointed out, Arab Persian Gulf exporters have sharply restricted their investment in other parts of the world—investment that had earlier contributed importantly both to the expansion of U.S. financial markets and to initial efforts to bail out American firms as the country's mortgage crisis expanded.

A number of U.S. and European participants agreed that the economic crisis provides a useful window of opportunity for dialogue both among consumers and between consumers and producers. In the case of consumers, the drop in demand and prices resulting from the crisis has attenuated the sense of competition for scarce resources that existed when prices were higher. This could somewhat ease efforts at dialogue between the key consumers that belong to the Organization for Economic Cooperation and Development (OECD)—and share information and coordinate policy through the International Energy Agency (IEA)—and those that do not, such as China and India. American and European participants had already agreed during an earlier dialogue project, in 2005-2006, that the integration of these two countries into the IEA, or at least a close association, should be a priority goal for the United States and Europe because of its importance in predicting global energy trends and averting or managing crises.

Finally, a number of American and European participants agreed that the economic crisis may also facilitate closer

engagement with producers, whose illusions of economic invulnerability have been punctured. Some expressed skepticism that such any understandings could endure if oil prices again exceed \$100 per barrel, however, and noted the relative ease with which producer governments abandon contracts and other understandings when prices rise.

EVOLVING GLOBAL MARKETS— AND NEW REGIONAL POLITICS

American and European participants agreed that changing global patterns of supply and demand in energy markets increase the importance of dialogue both internationally and regionally, especially in the Middle East. Of course, as a European participant pointed out, differing circumstances and needs make joint U.S.-European engagement with other major energy-consuming nations or with leading producers somewhat challenging. Oil is at the center of the U.S. concept of energy security and, because oil is traded in a (generally) functional global market, America's main concern is with price (especially with politically sensitive gasoline prices) rather than supply, though supply clearly affects prices. The United States imports considerably less natural gas than oil and, according to some projections, may actually reduce rather than increase its natural gas imports—most of which come from reliable neighbor Canada anyway—as new domestic production of unconventional gas comes online.

Europe is much more focused on long-term natural gas contracts with regional suppliers. Thus, while Europe's imports of liquefied natural gas (LNG) from North Africa and the Middle East are increasing, and Norway, the Netherlands, and the United Kingdom still have considerable reserves, the European Union depended on

Russia for some 41% of its imports and 27% of its total demand in 2007. Moreover, notwithstanding the economic crisis, Europe is already the world's largest gas importer by far, and its demand for gas will likely grow significantly in the next two decades. As a result, a number of European participants expressed concern about where Europe would obtain the natural gas it expects to need.

The United States and Europe are also increasingly focused on internal policies that could contribute to their international energy goals. In America, this is reflected in a growing preoccupation under both the Bush and Obama administrations with developing alternatives—especially alternative fuels and technologies for vehicles that could lessen oil imports, such as ethanol, electric vehicles, hybrids, and even hydrogen fuel cells. Some also infuse such efforts with a national-security justification, arguing that they limit the funds available to hostile regimes or non-state actors supported directly or indirectly by those governments. Europe, for its part, is giving growing attention to its internal regulations and infrastructure.

From a global perspective, however, dialogue participants recognized the continuing importance of fossil fuels and the growth in Middle East energy suppliers' global economic role as energy prices increased prior to the economic crisis. One American noted the emergence of the Gulf Cooperation Council (GCC) countries (Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates) as global investors, arguing that they may have been on a trajectory to become the world's largest investor if not for the economic crisis. However, a European expressed some skepticism about the long-term economic prospects for major energy producers in the Gulf and beyond; the OPEC countries plus Russia have 80% of the world's oil and gas, he said, but account for

only 6.5% of global GDP. The United States, European Union, China, and India have only 10% of the world's oil and gas, but represent a combined 75% of the global economy.

One American argued that major global energy exporters could be divided into two categories: those more satisfied with the existing U.S.-led international order, including major Persian Gulf producers who benefit from American security guarantees and U.S. efforts to promote regional and global stability and trade, and those less satisfied, such as Russia, Iran, and Venezuela. The great wealth amassed by the former group has created new challenges, he said, citing political concerns over large investments by sovereign wealth funds like those that emerged in America's Dubai Ports fiasco. Nevertheless, he continued, problems like Dubai Ports are less dangerous than those resulting from efforts to use energy wealth to change the structure of the international system.

Americans and Europeans both noted the expanding role of national energy companies, which one European explained now control 85% of global oil reserves. An American outlined how these companies' incentives differed from private firms, especially in the priority they assign to predictable revenue from long-term contracts—though of course not all national energy companies are created equal. Private companies are considerably more focused on short-term profits and the dynamics of their stock prices, this participant added.

At the same time, one American said, energy demand has been increasing sharply in recent years in major energy-producing nations. For example, this participant continued, the Middle East's oil demand has been rising about six times faster in recent years than that of India, which is often cited as a rapidly growing economy, and

could potentially limit exports in the future. Simultaneous increases in electricity demand have, of course, been described by many major natural gas producers seeking to maintain and increase export levels as a key motive for recent decisions to develop nuclear power. Alternatively, in Russia increasing electricity demand led to greater coal consumption—as Moscow sought to maximize gas exports—and higher levels of greenhouse gas emissions. One European described the EU-Russia energy relationship as importing Russian gas to Europe and exporting European emissions to Russia.

One American participant expressed hope that intensified dialogue between energy producers and consumers could help to stabilize energy markets and avoid possible conflicts. Another American suggested that such dialogue has already been successful in promoting information exchanges and a European criticized the Bush Administration for refusing to support an expanded role for the International Energy Forum, a dialogue on oil involving OPEC, the IEA, China, and India.

Other Americans and Europeans were considerably more skeptical. A European participant argued that years of discussions have not resulted in significantly greater transparency by energy producers; an American said that producer-consumer dialogues are reaching the limit of what they can achieve due to declining interest among most producers in further energy-market liberalization, growing resource nationalism, and the differing economic incentives facing the parties.

Nevertheless, one American participant claimed, many leading exporters have backed away somewhat from previously firm positions calling for “demand security” in the Jeddah Process, convened by Saudi Arabia. In his view, this is partially motivated by renewed confidence

that the global economy will remain heavily dependent on fossil fuels for some time to come.

Separately, U.S. and European participants alike were quite interested in the growing role of Asian countries, especially China and India, in the energy markets and regional politics and security of the Middle East.

One American participant discussed the growing links between Asia and the Middle East at length, noting that the increasing ties between the two regions were not limited to the energy sector and—despite the obvious impact of the global economic crisis—also include rising reciprocal investment, rising trade in manufactured goods, and expanding travel and tourism. However, one European noted, the impact in energy markets will be especially significant: according to the IEA, China's and India's combined oil imports will increase by a factor of three during the next two decades. Moreover, he continued, even as this process is underway, the concentration of oil production in the Middle East is likely to continue due to an unsustainable ratio between production and reserves in other key regions.

Assuming that the global economy recovers and resumes growth patterns broadly similar to those underway before the current economic crisis, this could soon lead to increased competition for Middle East oil exports. In fact, one European said, mid-sized German firms that were once active in the region have already discovered that they are no longer able to compete with Chinese state-owned firms in the Middle East and North Africa. Another European participant called for dialogue between “old” and “new” consumers to avoid tension in the region; however, he acknowledged that dialogue will do little to resolve differences if demand exceeds supply. In his view, this is another reason for Europe to seek to curb its

energy demand. A third European urged an alternative approach, such as abandoning conditionality on development assistance, which in his view sharply limits the attractiveness of European firms as partners in comparison with their Chinese competitors.

A U.S. participant raised a similar concern, noting that if pre-crisis energy trends continue, China's imports of Saudi Arabian oil might eventually exceed those of the United States. Given the already limited U.S. leverage over Saudi decisions on production and price, he said, this raises the prospect that China could gain new influence at America's expense, particularly because of Beijing's "business is business" approach to its trading partners, in contrast to more demanding U.S. policies—and that the process will only accelerate if Washington is successful in reducing its imports as many hope. (And, as a European participant suggested, Saudi Arabia's importance would simultaneously be growing rather than declining.) At the same time, another American pointed out, China will derive considerable benefits from regional stability provided by the United States military and ultimately by American taxpayers. Two Americans questioned how long this situation could last.

One American also wondered how long China would be satisfied relying on the United States for the security of its energy supplies from the Middle East. Beijing's principal alternative is to build pipelines, he said, since the region is geographically contiguous with East Asia. But regional factors could undermine the security of land routes. Thus, he argued, Beijing is also likely to expand its maritime presence—a process hinted at by China's participation in the multilateral anti-piracy operation off Africa's eastern coastline. Another U.S. participant expressed hope that the anti-piracy effort could be a building block for a new regional security architecture incorporating China, India,

and other key players. He noted that in addition to reducing costs for the United States, such an approach could provide political cover for a continuing significant American presence in a region where it is not always warmly received.

Still, one American pointed out, U.S. security is not the only “outside service” upon which the Persian Gulf relies—and America, Europe, Japan, and China are not the only interested outside parties. The region has also been quite dependent on Asian labor, he said, with approximately 5 million Indians alone there before the economic crisis in addition to many more workers from Pakistan, Sri Lanka, Bangladesh, the Philippines, and elsewhere. Beyond its role as a labor pool, he continued, India may well ultimately play a more significant role in the region than China due to its much greater proximity and geographically dominant position vis-à-vis shipping lanes to East Asia. Indians remember that the British Empire ruled the Middle East from India, he concluded.

COMBATING CLIMATE CHANGE

Several European participants expressed optimism that the election of President Barack Obama and gains by the Democratic Party in the United States Senate and House of Representatives would lead to considerable progress in trans-Atlantic discussions of climate change, including American willingness to make significant commitments to reduce U.S. greenhouse gas emissions in discussions of a new international agreement to follow the Kyoto Protocol to take place later this year in Copenhagen, Denmark. However, a number of Americans expressed skepticism that Washington would commit internationally to deep reductions—and expressed concern that unrealistic European expectations could lead to unnecessary frustration and disillusionment.

First, one American explained, the Obama Administration has learned from the mistakes of the Clinton Administration and would not commit to an international agreement without first building public support for and winning Congressional approval of domestic climate legislation. This will be difficult during the economic crisis because the legislation will inherently increase energy costs, this American argued, making a point now stressed by Republicans in the ongoing U.S. domestic debate.

Advocates of a tight cap on U.S. emissions will face two other political challenges, another American added. First, a tight

cap would disproportionately affect the states that are more heavily dependent on coal—many of which are key battleground states in U.S. presidential elections, such as Ohio and Pennsylvania. A number of Congressional Democrats representing these states have already expressed reservations about a stringent climate bill, and this had a clear impact on Democratic support in the House of Representatives' June 26 vote to approve the American Clean Energy and Security Act. Second, this American continued, the administration's overall domestic agenda is very ambitious. President Obama has attempted to get around this problem by linking his agenda to the country's economic recovery—but taking on climate change in addition to health care and other complex issues could quickly erode his initially high stock of political capital. Subsequent polling on the President's job performance bears out this observation.

Moving to the international level, an American continued, the administration and Congressional Democrats will face an additional problem: namely, whether China will be willing to make any commitments in an international agreement on reducing emissions. If supporters of a U.S. commitment to deep reductions cannot demonstrate that China is also accepting binding a commitment of one kind or another, something that seems unlikely based on both Chinese statements and U.S.-China talks so far, Senate ratification of any treaty will be far from assured.

Americans and Europeans broadly agreed that bringing China and India into an international climate change regime would be essential to its success both politically and practically, though European participants tended to stress more heavily China's "differentiated responsibility" (that is, lesser responsibility) as a developing country under the United Nations Framework Convention on Climate Change (UNFCCC), the overarching agreement that subsumes the Kyoto Protocol. Both also tended to agree that technology

would be a central question, particularly how to pay for China's adoption of cleaner energy technologies and how to protect the rights of U.S. and European patent-holders in the process.

An American participant argued that one problem with the climate negotiations so far has been their format. The UNFCCC and its annual Conference of the Parties include over 190 countries, most of which do not contribute significantly to the problem and cannot help significantly with the solution. The G-8, on the other hand, is too exclusive, though it has tried to include China, India, and other major emitters. Thus, while some Europeans may have been skeptical of the Bush Administration's motives in establishing the Major Economies Meeting (now the Major Economies Forum) process—which includes China, India, and other leading economies, this participant argued that it may be the best venue in which to reach an agreement. Though the G-20 has a somewhat different composition, its newly dominant role in the global economy, at the expense of the G-8, seems to support this.

Participants also expressed concern about one minor but important difference in the American and European approaches to climate change negotiations, namely, who does the talking. The U.S. Department of State handles international negotiations on climate change for Washington, while environment ministries often have this responsibility in European capitals. As a result, U.S. negotiators are typically serving an integrating function and representing a coordinated interagency position. However, European environment ministries generally do not have the authority or the capacity to play an analogous role.

Several European participants emphasized the importance of the UNFCCC meeting in Copenhagen in December 2009, expressing their hope that the United States would come with

a new emissions-trading system that could be linked to Europe's existing system and also support a binding agreement on deep reductions in emissions. One European participant stressed the role of the UNFCCC as the only truly global format for talks, arguing that other fora were appropriate to coordinate positions but not to make binding commitments.

A number of Americans expressed concern that the U.S. administration may not be in a position to agree to significant binding limits in Copenhagen due to domestic political constraints and stressed the importance of preparing a well-defined fall-back position in the event that the United States is not able to deliver. A European expressed concern that excessive effort in readying a fall-back position would undermine efforts to reach the ambitious agreement needed for effective action. In his view, this would risk creating a self-fulfilling prophecy leading to a weak agreement.

A few American participants asserted that it is probably already too late to stop climate change from occurring and pressed for more intense trans-Atlantic discussions of "adaptation" to manage the consequences of climate change in their own nations and in more vulnerable regions alongside continued efforts at mitigation.

NUCLEAR POWER AND PROLIFERATION

American and European participants generally agreed that there is indeed a global “nuclear renaissance” underway as a result of growing interest in nuclear power generation. Most saw this as a result of the high energy prices that preceded the global economic crisis and acknowledged that activity had ebbed somewhat as prices fell. Nevertheless, both Americans and Europeans expected a longer-term global expansion of nuclear power driven both by the gradual return of higher energy prices as well as efforts to expand “low carbon” sources of electricity. In the Middle East, concern over Iran’s pursuit of nuclear weapons might also encourage some governments to develop nuclear power as a type of “soft deterrence”.

According to the IEA, one American noted, global nuclear power generating capacity could increase substantially by 2030. In fact, he said there are now 36 nuclear plants under construction in 14 countries. The United States will face particular pressure to build new nuclear plants to maintain nuclear power’s current 16% share of U.S. electricity generation in 2050 as overall electricity demand grows and existing plants are decommissioned. Yet, he added, because of America’s long nuclear pause, he did not believe that any currently serving U.S. utility executive has overseen the construction of a nuclear power plant.

European participants expressed doubt about the future of nuclear power in Europe as a result of the lack of a common European Union policy—stemming in turn from deep differences between key EU member states, most notably France (where nuclear power provides almost 80% of total electricity generation) and Germany (where an effort to shut down all of the country’s reactors had been underway). One European complained that while some European countries may be building a few nuclear power stations, their individual decisions did not amount to a strategy either to reduce carbon emissions or to limit energy dependence. Another urged greater emphasis on nuclear power in Europe for both of these reasons and stressed the considerable improvements in nuclear safety in recent decades. Still, he said, the presence nearby of less safe Soviet RBMK reactors in Russia, Ukraine, and at Ignalina in EU-member Lithuania colors European debates on nuclear power, as do persistent questions about nuclear waste disposal.

Unlike the United States and Europe, China is adding substantial nuclear capacity. However, the share of nuclear generation in China’s electricity sector is still relatively small; as an American explained, China will likely add 60,000 or more MW in nuclear capacity over the next 15-20 years, but is building about 1,000 MW of coal-fired plants per week. At this rate, China will need just over one year to build coal plants potentially equivalent in output to the nuclear capacity it could add over two decades.

In the Middle East, another American added, several countries have announced plans to develop nuclear power in recent years, including the United Arab Emirates, Kuwait, Saudi Arabia, Egypt, Jordan, Algeria, and Morocco. Though their governments deny it, most seem in part to be responding to Iran’s progress in developing an indigenous nuclear capability and to be seeking “a symbolic rejoinder” as Arabs vis-à-vis Iran’s Persians. Developing nuclear power

also allows them to build the human and technical resource base necessary for nuclear weapons if they later feel threatened.

One American asserted that this global expansion of nuclear power could bring about a “proliferation tipping point” that fundamentally changes the scale of the nonproliferation problem due to the widespread availability of knowledge, technology, skilled workers, and nuclear material. A European participant agreed that the Nonproliferation Treaty (NPT) is in “serious trouble” because nuclear reactors are becoming increasingly attractive and new entrants into the nuclear field are uninterested in accepting obligations beyond those already in the NPT—which, as Iran has demonstrated, cannot prevent a determined regime from acquiring the technology and materials necessary to develop a nuclear weapon. As one American pointed out, during the Cold War, the United States and the Soviet Union were able to impose tight conditions on the countries to which they transferred nuclear technology because of the political environment at the time. In the absence of Cold War-style global competition, and with technology more widely available, governments now interested in nuclear power do not see this as necessary. Ironically, a European participant said, after this success over decades, the existing nonproliferation regime can go nowhere but backwards if it is not strengthened: the NPT has simply reached its limits.

In addition to the NPT’s lack of an implementation mechanism and its inability to draw a bright line between nuclear power and nuclear weapons, a European identified several other immediate threats to the existing nonproliferation regime. First, he said, is the problem of outliers: India, Pakistan, Israel, Taiwan, and North Korea are all outside the NPT and raise different proliferation concerns. Clandestine networks are another danger, illustrated most recently by A. Q. Khan’s proliferation network that provided

technology to Libya, Iran, North Korea, and possibly others. At the same time, some countries are pursuing secret programs—Iran’s was first exposed in 2003 and a new clandestine site was revealed in September 2009—and others are not adequately securing their nuclear materials. Finally, he said, nuclear programs in one country can produce “regional proliferation chains”, something that may already be underway in the Middle East.

Some U.S. and European participants questioned the impact of U.S.-India nuclear cooperation on the global nonproliferation regime, suggesting that commercial nuclear cooperation with a major nation outside the NPT regime undermines wider efforts at nonproliferation. Others—both Americans and Europeans—were prepared to acknowledge that the U.S.-India deal did weaken the existing regime but argued that its impact has been quite limited in comparison with other developments, such as continuing nuclear weapons programs in North Korea and Iran.

One European participant was critical of America’s role, pointing out that the United States and Russia pursued nuclear disarmament only very timidly in recent years and that this weakened the fundamental bargain of the NPT, that non-nuclear weapon states would pledge not to pursue nuclear weapons if the nuclear weapons states work steadily to disarm. Since America and Russia together possess 95% of the world’s nuclear warheads, this burden falls predominantly on Washington and Moscow. Moreover, this participant said, Europe’s non-nuclear weapons states must under IAEA safeguards report every movement of nuclear material within their countries and report inventories twice per year. The United States and Russia could set a very good example, he said, by announcing a willingness to accept these same safeguards themselves.

Looking ahead, an American participant argued that current institutions are inadequate to manage the nonproliferation challenge and urged those governments most concerned about proliferation to develop a new approach to the nuclear fuel cycle based on “cradle-to-grave” commercial supply contracts. To secure broad acceptance, this would likely require the International Atomic Energy Agency (IAEA) to act as both a fuel supplier of last resort and as an international arbiter of compliance with nonproliferation rules. Another American suggested the similar idea of an international “fuel bank” either under the IAEA or as a separate entity to ensure that any country that lost access to nuclear fuel through commercial suppliers could secure fuel without developing domestic enrichment. Alternatively, he said, countries using nuclear power could agree to internationalize nuclear fuel enrichment and reprocessing, removing it entirely from the control of national governments. Needless to say, some governments would likely be quite reluctant to accept this approach. Of more immediate importance for the future of the NPT, one European said, is a major effort to develop greater unity among the P-5, the five permanent members of the United Nations Security Council who are also the five nuclear weapons states under the NPT, in advance of the May 2010 treaty review conference in New York.

THINKING ABOUT IRAN

Iran was a major issue for Americans and Europeans, both in the context of its nuclear program and due to its role as a potential major natural gas supplier for Europe. Generally speaking, American and European participants saw preventing Iran from obtaining nuclear weapons as a major priority in order to maintain stability in the Middle East and Persian Gulf and to preserve the NPT as an effective international regime. Several European participants welcomed the Obama Administration's willingness to engage with Iran, though many expressed skepticism about the likely outcome of the effort. (The discussions took place prior to Iran's controversial June 2009 presidential election and new pressure on Tehran from the U.S. and others in September due to the exposure of another secret enrichment facility.

American and European participants differed sharply over whether or not to seek additional sanctions against Iran. One American argued that the need "to intensify sanctions on Iran to the maximum" was the highest global nonproliferation priority and complained that Europe (particularly Austria) has not been sufficiently cooperative in this area. This participant expressed particular concern that if the Obama Administration pursues dialogue with Iran without a visible stiffening of sanctions, there would be no reason for Iran to change its behavior.

A European participant countered this line of argument by suggesting that sanctions would be ineffective because Iran is determined to have nuclear weapons technology. He reminded the group that a former Pakistani leader had once said that his people would “eat grass” if it was necessary to get the atomic bomb and that sanctions did not deter Pakistan from performing a nuclear test. Instead of sanctions, he said, Europeans and Americans should try through the process of dialogue and “osmosis” to help Iran to understand that pursuing nuclear weapons technology will not make Iran more secure. However, as one American explained, it is clear that European perspectives on sanctions are divergent.

Another American expressed frustration with this perspective, stating that no one can know whether or not stronger sanctions might work without trying to impose them. Further, he suggested, the collapse in energy prices could make sanctions more effective. The problem, he said is that “there is no stomach” for stronger sanctions in certain European capitals. A European acknowledged the reluctance to impose sanctions, explaining that they would likely affect Iran’s people more than its elite. No one saw military action as likely to prevent Iran from obtaining nuclear weapons.

One European argued that Europe’s energy demand and efforts to diversify its energy supplies could force a reconsideration of policy toward Iran. China is already aggressively pursuing Iran as a source of natural gas because of its relatively convenient location and the fact that Iran is the world’s second largest holder of natural gas reserves after Russia. What makes Iran ideal for China—and Europe—is that it is close enough to both to make gas pipelines economically viable. Yet China’s interest in Iran places greater pressure on Europe, which is the world’s largest natural gas market and which because of continuing consumption growth is projected to face a “demand gap” that

could force additional gas purchases from Russia if Europe cannot find alternative suppliers. In fact, he said, the Nabucco gas pipeline currently under consideration is unlikely to succeed without Iranian gas to fill it. Moreover, another European said, Iran has expressed interest in gas contracts with EU countries. Though one European participant questioned whether Europeans would want to supplement dependence on Russia with dependence on Iran, another asserted that it is only a matter of time before a pipeline from Iran to Europe is built. An American suggested that Moscow has an interest in maintaining the status quo in Iran—no Iranian nuclear weapon, no rapprochement with the West—as long as possible precisely to prevent this.

Though Qatar is also a possible alternative for Europe, its natural gas exports are thus far almost entirely via liquefied natural gas (LNG) tankers, a mode of transportation that is even more infrastructure-intensive and expensive than pipelines due to the high cost of liquefaction and re-gasification plants (re-gasification plants also raise environmental concerns in some European countries). This also turns European attention toward Iran.

While some Americans expressed optimism that the United States and Europe might ultimately reach some sort of nuclear understanding with Iran, others suggested that even the resolution of this very complex issue would not in itself clear the path to Iran's energy resources. One U.S. participant explained that for many if not most Americans, the nuclear issue is not the only problem in Iran's conduct: Iran's attitude toward the Israeli-Palestinian peace process and its support for Hamas and Hezbollah are also deeply troubling.

THE RUSSIA PROBLEM

Participants shared considerable concern about Russian foreign energy policy and its implications for Europe. Nevertheless, they tended to agree that Europe has few alternatives to significant energy dependence on Moscow and to see limited opportunities for transatlantic cooperation in dealing with Russia on energy issues. Most endorsed continued European efforts to diversify its energy supplies combined with calibrated efforts to engage with Russia.

The first dialogue session took place just weeks after the Russian-Georgian war in South Ossetia and Abkhazia. Many American and European participants were worried by the war and its possible implications for Russia's wider foreign policy and its relations with and role in Europe. By the second session—when oil prices had reached their nadir—these worries had receded somewhat, though one American asked rhetorically whether the United States and Europe should be more concerned about Russian assertiveness when oil was \$140 per barrel or Russian instability if oil remained at \$40 per barrel for an extended period. In the months since the war, he noted, Russia's economy had fallen into a deep recession, with Russian officials projecting a 2.2% contraction of the economy in 2009 and Russia already witnessing a 75% stock market decline and the loss of one-third of the country's currency reserves in an attempt to avoid a collapse of the ruble (which nevertheless fell to its lowest level against

the dollar since the 1998 financial crisis). At the same time, he said, Gazprom's profits were expected to decrease sharply as natural gas prices fell and the Russian federal budget would face significant pressure from falling energy-related revenue.

A European reacted to this by arguing that Russians are wrong in considering their country to be an "energy superpower" because of fundamental economic problems exposed by the collapse in oil prices. Further, this participant continued, Russian oil and gas production is falling due to lack of investment and the country's failure to diversify its economy despite years of official proclamations and ample government funds to stimulate investment. Without reducing domestic price subsidies and implementing policies to encourage investment in new production, another European said, Russia would need to import Central Asian gas to maintain its exports to Europe. An American added that whatever Europe's concerns, Russia was also quite un-diversified in its natural gas exports and therefore heavily dependent on the European market, especially because of domestic price controls that limit profits from gas sales inside Russia.

Internally, another American argued, Russia's weak economy puts political pressure on a government that has tended to rely on economic growth and international assertiveness for domestic legitimacy. As a result, he said, Russia might either seek greater dialogue with Europe on energy issues—to demonstrate to Russians its effort to do something about the economy—or, alternatively, be more assertive to make clear that an economic reversal would not lead to subservience to the West. More likely, he said, Moscow would pursue these apparently contradictory impulses at the same time. The Russian reaction to recent comments by Vice President Joe Biden regarding Russia's economic weakness illustrates Moscow's sensitivity to its international role.

Calling attention to the fact that Europe is the world's largest import market for natural gas by a considerable margin, a European participant argued that the continent is the world's most gas-dependent region and that Europeans should worry that EU countries would be those most affected by supply problems. Europe's total natural gas imports were 305 billion cubic meters (bcm) in 2006 and were expected to increase to approximately 582 bcm by 2030, compared to just 143 bcm for North America and 106 bcm for China by 2030. The participant saw Europe's relatively high demand as a particular problem because of its heavy dependence on pipeline gas as opposed to tanker-delivered liquefied natural gas.

In the second session, several Europeans raised concerns about the January 2009 Russian-Ukrainian gas dispute. One European participant asserted that depending on how one defines a dispute, Moscow and Kyiv have had 20-30 disputes over natural gas since 1992. Though one American participant suggested that no energy producer anywhere has had more problems with transit countries than Russia, another argued that Russia and Ukraine had each tried to use the transit issue as leverage over the other and that neither was likely to accept a situation in which the other would enjoy unchallenged leverage of this kind. A European saw the disputes, and Ukraine's ongoing domestic difficulties, partially as a consequence of the failure of the EU's "neighborhood policy" and urged Europe and the United States to work with both Ukraine and Russia to increase their energy efficiency. This, the participant said, would simultaneously increase the amount of gas available for export to Europe and reduce Ukraine's gas dependence on Russia. An American questioned whether European attempts to engage with Ukraine could ultimately succeed in the absence of substantial (and unlikely) European investment in the country.

Both American and European participants were deeply skeptical that the proposed Nabucco pipeline would significantly increase Europe's energy security—if it is built at all. An American noted that even at its full capacity, by the time it could be completed the pipeline would account for a very small share of Europe's gas demand. A European argued that it is a “law of energy security” that “energy security of a pipeline is inversely proportional to the number of transit countries” and, on this basis, that the Nabucco route would be too unreliable because it would cross so many borders en route from Turkey to Austria (setting aside how the gas would get to Turkey in the first place). Another European worried aloud that the route would give Turkey too much influence over the EU, suggesting that Ankara might hold up the pipeline to press Europe to accelerate its EU accession. And an American noted growing Russian investment in Turkey and speculated about the degree to which Turkey would be prepared to put its own interests at risk to assist European gas consumers. Others did not see where the gas for Nabucco would come from, which has become an increasingly problematic question in light of new Russian-Azerbaijani gas talks. New U.S. efforts to find gas for Nabucco in Iraq and Turkmenistan have uncertain prospects as well.

Notwithstanding these concerns, one European stated that the Nabucco pipeline was essential to diversifying gas supplies in Central Europe, the region most dependent on Moscow. This participant expressed hope that the war in Georgia would motivate Europeans to make the necessary commitments to build the pipeline. An American saw this as unlikely, however: Europeans have supported “energy solidarity” rhetorically but not financially, he said, and there is no evidence to suggest that Western Europe would effectively subsidize Eastern Europe's gas imports. Another European participant complained that the EU's growth has made its decision-making increasingly slow and complex on energy

and other issues, something that also tended to undermine the Nabucco plan.

Participants disagreed about the degree to which the German-Russian Nord Stream pipeline under development would contribute to Germany's or Europe's energy security. Some Europeans and Americans took the view that the pipeline undermined Germany's energy security by providing Moscow with the ability to shut off supplies to the country selectively and similarly weakened Ukraine's and Poland's energy security by allowing Russia to bypass their territory. However, others argued, the pipeline could actually increase Germany's energy security by creating a form of "economic nuclear deterrence" in which Moscow would not be able to avoid responsibility for a gas shutoff (as it has sought to do in its frequent disputes with Ukraine) and the stakes for Russia would be much higher (because it would risk not only the loss of revenue to Gazprom, but the possibility of retaliation by one of its largest trading partners and sources of foreign investment). In addition, one participant added, Germany's gas import demand was sufficient to support both Nord Stream and the existing Druzhba pipeline, meaning that gas supplies to Ukraine and Poland would be no more at risk than they are now.

U.S. and European participants were skeptical that gas imports from Africa could substantially affect European dependence on Russia. One European pointed to distrust of Russia in North Africa as an opportunity for the EU, but acknowledged that it could take 15-20 years for Europe to "outmaneuver" Russia in Africa. An American stated simply that "Africa is not a game-changer" for Europe due to its comparatively small export volumes.

In addition to supply diversification, one European participant asserted, the latest Russia-Ukraine gas crisis has also focused Europe's attention on reform of its natural gas

market. Many Europeans agreed that one key measure could be to develop a more extensive pipeline infrastructure within Europe, especially inter-connector pipelines that would link what are basically national gas markets and transform them into a regional market with greater capacity for internal balancing of supply and demand. However, as another participant noted, one problem with this approach is that pipeline owners—private companies—have only very limited commercial incentives to make the necessary investments and, as a result, extensive development of inter-connectors would likely require considerable public financing, something difficult to obtain even in better economic times.

European participants disagreed among themselves on the role of private companies in providing energy security. Some were critical of particular firms, which were described as resisting efforts to promote greater competition (another consequence of building new inter-connector pipelines) or, alternatively, as being connected more closely to their non-EU suppliers than to their European customers. Others defended the companies, arguing that with the exception of commercially feasible diversification and other efforts, energy security was by definition a public good and therefore a responsibility of the government rather than private enterprises.

CONCLUSIONS AND RECOMMENDATIONS*

Discussion during the dialogue sessions supports several broad conclusions that in turn require significant new U.S. and European policies in confronting global energy challenges. Some of these policies are well-suited to cooperative transatlantic approaches and others are not, but all will likely be more successful if accompanied by close consultation between the United States and Europe.

Perhaps the most significant conclusion from these discussions is that international institutions in the energy and climate area—and some outside it—have been increasingly overtaken by changing global realities that threaten their long-term effectiveness. These changes are predominantly a result of the growing influence of major developing nations, especially China and India, and the resulting evolution of the international system in not only economic, but also political and security terms. At the same time, notwithstanding the sharp fall in oil prices from their 2008 peak, leading energy exporters are poised to benefit from a global economic recovery and to regain at least some of the wealth and prominence they enjoyed in recent years. Moreover, the key

* The assessments and recommendations in this section are solely those of the author and do not necessarily reflect the views of dialogue participants.

role of fossil fuels in worldwide energy markets appears quite likely to endure for decades to come.

Some institutions, like the International Energy Agency or the Energy Charter Treaty, will doubtless continue to operate and perform useful functions as the international system moves onward around them. However, both will probably face growing challenges as key players remain outside them. Whatever agreement might follow the Kyoto Protocol likewise appears to suffer from this weakness before it has even been negotiated or signed (and may not even be negotiated successfully in the first place). Other institutions, like the Nonproliferation Treaty, face more fundamental threats and might effectively collapse.

The consequences of these institutional shortcomings will vary. In the case of the NPT, a true failure of the Treaty could ultimately have the direst of results. An inability to win China's substantial participation in a global greenhouse gas reduction effort virtually dooms attempts to stop and reverse climate change, which scientists believe could have considerable costs in both human and economic terms. Absent some other agreement, an Energy Charter Treaty without Russia means continued disputes between Moscow and transit countries like Ukraine without any agreed means to manage them. The IEA without China and India will have an increasingly difficult time predicting global energy market dynamics, limiting our ability to foresee and avert market failures and to manage them when they occur.

Only the United States and Europe currently have the ability to design and win broad acceptance for complex new global institutions to supplement or replace those that currently exist, though their agreement alone is insufficient to address many global energy challenges. The BRIC countries—Brazil, Russia, India, and China—thus far lack the capacity to design such institutions and transform them into reality and their

joint support for anything specific—as opposed to general statements—is still rare. Japan has the ability to develop sophisticated plans, but lacks the political power to win acceptance for them on its own—as is the case, in fact, for America and Europe when they seek to act independently of one another. Thus it will be impossible to develop essential new global institutions in the near to medium term without unified transatlantic leadership. In the medium to long term, others may build the capacity they now lack to design less attractive alternatives.

A second important conclusion is that the current global economic crisis has opened a narrow window of opportunity in which adapting some existing institutions or creating new ones may be easier. The core governments whose acquiescence would be necessary in many such arrangements—the G-20—are already reviewing a number of institutions may be open to new proposals. Some countries—like China and India—would likely welcome new arrangements that grant them greater international standing. (And it would be better for America and Europe to develop these arrangements sooner rather than later, when greater effort may be required to reach agreement with China in particular.) Others—like Russia and some other major energy exporters—have been at least partially humbled by the sharp fall in energy prices and have a new appreciation for their dependence on consumers' economic fortunes. This opportunity does not necessarily exist in every area; tightening the NPT, for example, might not be any easier than it would have been otherwise. But now is the best time to address key energy challenges.

Third, predictably, is the reality that despite a U.S. presidential election eagerly anticipated in Europe, transatlantic differences have not vanished and are unlikely to disappear anytime soon. This may be most painful for Europeans in the area of climate change, where expectations may have been

the highest, but the Obama Administration remains constrained in its action by concerns in Congress that considerably predate European frustrations with the Bush administration.

Policy Recommendations

Because individual European governments and the EU as a whole will set Europe's policies on energy and climate change, the recommendations that follow are intended strictly for consideration by American policymakers. They are based on the central conclusions of the dialogue effort as well as an assessment of U.S. national interests in energy and climate matters.

One key goal of U.S. foreign policy in dealing with energy and climate issues should be to seize the opportunity afforded by the global economic crisis to work with major energy producers and consumers to build new institutions and processes to better manage both their shared interests and their differences. This should begin with outreach to Europe, an essential partner without whose support Washington is unlikely to succeed in building or adapting international structures. Such an effort could include:

- Extensive joint dialogue with China and India focused on:
 - 1) defining the common interests of leading energy consumers and seeking means to advance them, 2) encouraging greater information-sharing as a key requirement of accurate forecasting and crisis management, and 3) exploring adaptation of the International Energy Agency to facilitate their greater integration into its activities, recognizing that neither is yet prepared to accept some of the obligations of membership. This dialogue should be framed as an effort to accelerate and sustain economic recovery and to assure

that renewed growth in Western economies or increased growth in China and India does not lead to sharp price spikes or other problems in international markets.

- Energized efforts at joint engagement with top energy-producing nations to define accepted “rules of the game” for investment, transportation, and dispute resolution. Ideally, this would result in a multilateral agreement or at least a statement of principles. The EU and European governments will likely favor an attempt to win broader acceptance for the Energy Charter Treaty (ECT); the United States should encourage members of the Energy Charter Conference created by the Treaty to look for ways to amend it that could facilitate full participation by the United States and Russia. With appropriate modifications, the ECT might be usable as the basis of a global system. However, there are also a number of alternatives to the ECT. Accordingly, if Europe is unwilling to consider substantial changes to satisfy longstanding U.S. concerns, Washington should focus on launching a wider discussion of key principles with top energy producers and consumers in other fora.
- Strong support for a European energy dialogue with Russia, which should be conducted on a separate track from broader consumer-producer discussions because of the scale and complexity of European-Russian energy relations. A U.S.-European-Russian energy dialogue makes little sense as concrete American and European interests do not significantly overlap. However, Washington should offer diplomatic and political support to its European allies when requested and should be sufficiently engaged in the process to ensure that the interests of U.S. firms are protected. America should conduct its own energy dialogue with Moscow offering similar parallel consultations to key European partners and

the EU. Though U.S.-Russia energy discussions have not been especially successful in the past, they remain important and should be pursued vigorously through the Energy and Environment Working Group of the new U.S.-Russian Bilateral Presidential Commission. Top American goals would be to ensure market access, a level playing field, and adequate protections for investors; Europe would likely place greater emphasis on transit and dispute resolution as well.

- A joint look beyond the Copenhagen climate talks to take place later this year that would focus on practical steps to reduce greenhouse gas emissions rather than exclusively pursuing a new binding international treaty. UN climate negotiations may well produce an agreement, but are less and less likely to succeed in substantially slowing or reversing climate change and, in fact, may expend considerable time and effort that could be used more productively to address the problem. The United States should frame this as a search for approaches to complement UN processes—to avoid alienating Europeans committed to an international treaty—but should press for pragmatic and politically viable actions that governments can take outside a global treaty framework. This could include discussions of how best to employ existing international institutions, like the Major Economies Forum.
- One element of this approach could be to work with Europe to strengthen coordination of research and development of new energy technologies and to increase investment in research. As the political problems inherent in global collective action on climate change multiply and intensify, new technologies that can substantially weaken the link between energy consumption and greenhouse gas emissions will become only more important. A new large-

scale international technology fund dedicated to research and development—and to coordinating global R & D efforts more closely—could play an important role in accelerating innovation and bringing new technologies into global markets.

- Another key area for U.S.-European collaboration is in improving our scientific understanding of climate change impacts and developing adaptation strategies. Climate change probably cannot be prevented; many studies make clear that it has already had very real consequences, though not yet as serious as they may become in the future. With this in mind, the United States has an important interest in working with Europe to develop deeper knowledge of the processes underway, to assess the consequences of climate change in our own nations and in other regions of the globe, and to prepare for possible economic, social, and security threats.
- Because many aspects of energy policy and energy security are linked to global and regional security, the United States should also reach out to Europe on a variety of security issues, in the Middle East and beyond.
- The U.S. should approach Europe—and ultimately Japan, India, and China—to discuss working with Middle East governments to build new security architecture for the region. This has an energy security dimension, as Somali pirates have more than once captured oil tankers, but could be much broader. It might also be quite important in the wake of the U.S. withdrawal from Iraq and in the face of continuing Iranian progress toward a nuclear weapon. Existing anti-piracy cooperation forms a useful basis on which to launch this conversation, which could allow the United States to share the burden of Middle East regional security more widely.

- On nonproliferation, Washington should reach out to Europe's two nuclear weapons states—the United Kingdom and France—and to Russia and China, the other two nations allowed to possess nuclear weapons under the NPT, to solicit ideas to strengthen the nonproliferation regime at and after the NPT's 2010 review conference. Three goals should be paramount: sharpening the line between nuclear power and nuclear weapons, perhaps through one of many proposals to internationalize the fuel cycle; tightening the Proliferation Security Initiative and similar nuclear security measures; and strategic dialogue about “plan B”—what to do if and when the NPT fails to prevent new countries from obtaining nuclear weapons. In view of its role in talks with Iran, Germany should ideally also be a part of these discussions.
- Specifically with respect to Iran, the United States should focus discussions with Europe on not only tougher sanctions, but also new regional security cooperation in the Middle East (including talks on regional missile defense), and possible inspections of Iranian sea traffic to prevent the export of nuclear technology. In addition, the U.S. should state clearly that America would respond severely to the use of nuclear weapons, threats to use them, or transfer of weapons technology to states or groups hostile to the United States or its allies. Though it would not be easy, Washington may be able to win wide support for such an approach in Europe and elsewhere through patient and flexible diplomacy.
- In view of their combined 90% share of the world's nuclear weapons, the success or failure of U.S.-Russian arms control negotiations will also be important in shaping the environment in which global nonproliferation discussions take place. The United States should not accept a bad arms control agreement with Moscow simply

in the hope that it could produce a tighter global nonproliferation deal, which is far from certain in the best of circumstances, but the Obama Administration is right to consider the implications of U.S.-Russian arms control for global nonproliferation. Though this does not directly involve Europe, the United States should proceed in close consultation with its European allies as U.S.-Russian negotiations will contribute to shaping the overall political and security environment in Eurasia.

- Finally, the U.S. should also seek to work with Europe and others, under the umbrella of either nonproliferation or climate change, to accelerate the development of new nuclear power technologies more resistant to proliferation. The Obama team could benefit here from the Bush Administration's Global Nuclear Energy Partnership (GNEP) initiative, launched for precisely this purpose. Though many consider success to be far in the future, it is clear that the battles against proliferation and climate change are both likely to be long-term ones and there is every reason to pursue these technologies as expeditiously as possible.

ABOUT THE AUTHOR

Paul J. Saunders is Executive Director of The Nixon Center. In addition to being the Center's chief operating officer, he directs its U.S.-Russian Relations Program and works on other issues, including energy and climate change, U.S.-European relations, and the role of democracy in U.S. foreign policy. He is also Associate Publisher of the foreign policy magazine *The National Interest*, published bi-monthly by The Nixon Center. From 2003 to 2005, Mr. Saunders served as Senior Advisor to the Under Secretary of State for Global Affairs. In that capacity, he worked on a broad range of transnational issues, especially with respect to Russia, Ukraine, and the former Soviet Union as well as Iraq, China and India. From 1997 to 2003, Mr. Saunders served as Director of The Nixon Center; he was Assistant Director of the Center from its founding in 1994 until 1997. He has written extensively for major newspapers and journals and is a frequent commentator in national media, including CNN, Fox, and MSNBC. He is the author of *Russian Energy and European Security: A Transatlantic Dialogue*, and, with Geoffrey Kemp, *America, Russia and the Greater Middle East: Challenges and Opportunities*.

