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Nord Stream 2

# NORD STREAM 2 ATTACK AGAINST EUROPEAN ENERGY SECURITY

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# INTRODUCTION

The Nord Stream 2 gas pipeline is chiefly a political project whose importance goes far beyond economic issues. Moscow will emerge as a top beneficiary of the new gas infrastructure connecting Russia with Germany, first and foremost gaining some political advantages. Furthermore, Berlin's profit is believed to be of an economic nature. Nonetheless, Nord Stream 2 cannot be perceived in a two-sided category as it has recently emerged as a grave international matter, affecting both European countries and the United States. Once launched, Nord Stream 2 is bound to alter the existing balance of power in Europe, meaning both energy security and geopolitics. A stronger direct link between Russia and Germany will make the latter

a gas hub being able to impose energetic domination on the countries of the Three Sea Initiative. Given Russian-sourced "blue fuel" that Germany intends to introduce to neighboring countries, the Nord Stream 2 construction may transform all countries located between Germany and Russia into their gas condominium. Such a move may be yet prevented by rapid diversification of both sources and gas supply routes, which is best exemplified by Poland's recent activities that include an LNG terminal and the Baltic Pipe endeavor.

Nord Stream 2 should be primarily perceived as a Russian tool for expansion accepted by both Berlin and other EU countries (mainly Austria) that participate in the project in the name of their own



national interests. The gas pipeline project intends therefore to fracture the European Union from the inside, which is chiefly due to a strong anti-Nord Stream 2 coalition that could be observed amidst some EU Member States. Naturally, such a strategy remains in line with Moscow's long-identified plan to weaken the European community, similar to the Kremlin's intention to spread disagreement between Europe and the United States. Additionally, Nord Stream 2 has led to yet another clash between the Trump administration and top players of so-called old Europe, including Germany, though former U.S. President Barack Obama also voiced concern over the project's implementation. Last but not least, the endeavor is aimed at becoming an integral element of Moscow's policy targeted against Ukraine; its long-time strategic goal is to eliminate Kiev from the European gas transit network while weakening the state and severely hitting its budget.

Most importantly, Nord Stream 2 is not all about Russia's intentions as they have been long known. Surprisingly, the key to the problem lies in Berlin. The venture would have never started but for Germany's substantial aid while the project's implementation means that Berlin is in hope for a political rapprochement with Moscow. Unlike Nord Stream, a new undertaking began to be put into action after Russia's annexation of Crimea from Ukraine, restoring control over part of the Donbas region and Moscow's military expedition to Syria. In addition to introducing further sanctions, a step explicitly approved by German Chancellor Angela Merkel, Berlin has pursued a long-term policy that consists in relying on Russian-sourced energy, thus making itself and all Europe vulnerable to Putin's regime. Support for Nord Stream strongly indicates Berlin's tilt towards a geopolitical game under Moscow's authority, which would completely undermine the idea of European solidarity.

It seems that last year's accomplishments were of crucial importance for the venture. Fortunately for Moscow and Berlin, the EU presidencies were held by Bulgaria and Austria, which prevented the November 2017 directive, which sought to bring the Nord Stream 2 project to a halt, from being passed. Nonetheless, this may still happen, which will result in Gazprom's restrained exemptions to utilize the new gas pipeline. The directive may hit future shareholders' profits

while Denmark's decision could significantly delay the deadline for putting the pipeline into service. In early January 2019, the government in Copenhagen did not grant its consent for the Nord Stream 2 pipeline going through Danish territorial waters. Russia is therefore keen to apply for an alternative route through Denmark's exclusive economic zone, yet it is known that Copenhagen's late decision will prompt no delay to the Nord Stream 2's implementation process. If there remains any possibility of bringing the project to a halt, even despite all invested funds, it may depend on a decision of U.S. President Donald Trump. Under the Countering America's Adversaries Through Sanctions Act (CAATSA), signed by President Donald Trump in August 2017, sanctions may be levied on all firms that finance the Nord Stream 2 project. Although Moscow has already announced its plans to bankroll the gas pipeline itself if all European partners were forced to pull out. Yet the danger seems to lie elsewhere: it affects the use of modern technologies while paying little attention to the project's financial aspect. Pipelaying operations are being carried out by West European companies as their Russian peers do not dispose of sufficient technologies to perform similar tasks. If the U.S. administration seeks to hit all businesses concerned, the pipeline construction is likely to come to a standstill.

On September 5, 2018, Nord Stream 2 AG began first pipelaying works in the Gulf of Finland, thereby starting construction of the pipeline's offshore section<sup>1</sup>. Naturally, the construction of the on-land part of the pipeline has begun much earlier while it is not enough to set up a direct link between Russian and German coasts with underwater infrastructure and it is necessary to ship proper gas amounts from the Yamal Peninsula. Similarly, it is vital to expanding an on-land part of gas distribution pipelines on the German side. This must be taken into account while discussing Nord Stream 2, a venture that fractured both Europe and the West. On October 8, 2018, so almost exactly one month later, Nord Stream 2 AG informed that it laid over 100 kilometers of the pipeline in German and Finnish territorial waters<sup>2</sup>. This is not equivalent to completing almost one-tenth of the project whose two strings of the gas pipeline are set to have a total length of 1,230 kilometers of the overall cost of 9.5 billion euro.

1 <https://www.osw.waw.pl/pl/publikacje/analizy/2018-09-12/poczatek-budowy-nord-stream-2>

2 <https://www.zfk.de/energie/gas/artikel/nord-stream-2-bereits-100-kilometer-pipeline-verlegt-2018-10-08/>

## RUSSIAN TOOL

**N**ord Stream 2 is one of many Russian gas export projects, but unquestionably the most important one. The idea behind the construction, followed by its formal launch, allowed Moscow to reach some political and financial goals. When completed, Nord Stream 2 will translate into Russia's major geopolitical victory in a clash against the West.

The Kremlin's striving to put the plan into action seems best illustrated by the fast pace of its hitherto execution. In June 2015, a memorandum stipulating the cooperation among the companies was signed while in September 2015 a consortium was established to build and operate the pipeline. A month later, the said companies launched the construction of a gas pipeline linking gas fields in

the Komi Republic and the Tver Oblast, located in western Russia. This is to become a key on-land section to provide necessary supplies to the pipeline. Suffice it to say that 45 billion cubic meters (bcm) of gas will be pumped through the Ukhta-Torzhok 2 pipeline while Nord Stream 2's total capacity is scheduled to attain 55 bcm. New European Pipeline AG, which is to build the Nord Stream 2 gas pipeline, was set up on September 4, 2015. Among its shareholders were such businesses as Russian Gazprom (51 percent), German E.ON and BASF/Wintershall (both of which account for 10 percent), Austrian ÖMV (10 percent), British-Dutch Shell (10 percent) and French Engie (9 percent). Nonetheless, steps initiated by Poland's antimonopoly regulator Office of Competition and Consumer Protection forced supporters of Nord



Source: KREMLIN.RU

Stream 2 to opt for a different implementation model, which led to establishing Nord Stream 2 AG, a company whose sole shareholder is Russia's Gazprom. Some Western firms hope to financially back the endeavor, committing themselves to cover half of all building costs. In April 2017, Uniper, Wintershall, Shell, ÖMV, and Engie agreed to each loan 10 percent of the cost of the venture, or 950 million euros each. Also, Swiss-based Allseas Group and Italian Saipem are involved in developing an underwater part of the pipeline.

In 2017, Russian gas flows to the European Union rose by 8.4 percent year on year, reaching 194.4 bcm while Gazprom's share in the EU marked increased from 33.1 to 34.7 percent. In 2017, Germany purchases 53.4 bcm of gas, or 7.2 percent more than compared to 2016, setting an all-time record. Turkey came in second as its imports amounted to 29.9 bcm, up 17.3 percent. Speaking of significant gas recipients, only four countries (Italy, the United Kingdom, Finland, and Poland) managed to slightly reduce their gas imports from Russia while other states intensified such volumes. For instance, the Czech Republic purchased 5.8 bcm of gas (increase by 27.8 percent), Hungary – 5.8 bcm (4.7 percent), Slovakia – 4.6 bcm (24.4 percent) while Bulgaria – 3.3 bcm (4.7 percent). Interestingly, even the Baltic states contracted more “blue fuel.” Lithuania hit 59.5 percent, despite having its own LNG terminal in Klaipėda, and Estonia and Latvia recorded a one-third boost, compared to 2016. In 2017, Poland's gas imports declined by 5.4 percent, to 10.5 bcm. Russia is the largest single external supplier of gas, accounting for 43 percent of Europe's total imports. At the same time, Russia's average use of export capabilities to the European Union, estimated at some 253 bcm, did not exceed 61 percent in 2017. The country would be capable of doubling its gas exportation to the European Union using already-existing infrastructure. So why does Moscow push for constructing Nord Stream 2? In fact, the venture provides the Kremlin with a number of financial and political benefits, also strengthening the country's position as a top gas supplier to Europe. Gazprom will be granted full control over gas supply route that will transport up to 70 percent of Russian gas exports to Germany, which is in line with the 2017 level. While building subsequent pipelines, Moscow seeks to demonstrate other alternatives to Gazprom's “blue fuel” as highly profitless for European recipients. Besides, the project is aimed at diminishing the

position of transit countries, with Ukraine and Belarus at the forefront, but also that of Poland and Slovakia. Nord Stream 2, whose maximum capacity is estimated at some 55 bcm per year, corresponds the overall potential of the Yamal-Europe natural gas pipeline that runs across Belarus. Not incidentally, this shipping route remains under Gazprom's full control. However, the company is no longer able to shut the export route until there appears another option to transmit gas supplies to Germany via an alternative shipment corridor. Belarus is in a worse situation than Ukraine, though; with the Moscow-controlled gas pipeline infrastructure, Minsk is unable to follow Kiev's example and to launch reverse gas shipment. And yet Kiev is bound to be most targeted by all consequences of Nord Stream 2. Once launched, the new pipeline will divert gas transit capacity to the EU away from Ukraine. In 2017, it amounted to 94 bcm per year while total gas flows may drop up to 15 bcm after 2020. This will mean that Kiev will be deprived of transit fees amounting to more than 2 billion dollars per year. Ukraine's geopolitical importance is expected to decline in the eyes of Europe. Shutting off supplies transiting the country will enable Moscow to better calculate the possibility of a military attack against its western neighbor. Nord Stream 2 breaches all principles of the European energy community; if the project is to be executed jointly with European partners, this will undermine the EU's energy policy and ruin a myth of European solidarity while unveiling fictional character of the EU's common foreign policy. The Russian-German venture intends to deepen economic and political divisions within the European community. For instance, the pipeline will cut off the diversification in gas supplies to Europe and highlight discrepancies between Western European states and their Central and Eastern European peers, referred to as more sensible to Russian pressure and less prone to diversify their energy source, both of which emerge from their past history. This is explained by the former's advanced gas pipeline infrastructure able to receive gas imports from elsewhere. By bypassing Germany's EU and NATO allies in Central and Eastern Europe, Nord Stream 2 will be conducive to weaken their security while negatively affecting multilateral relations with Berlin. Given the U.S. objection and Washington's aim to promote LNG export, the Russian-backed endeavor is likely to intensify already-existing chasms between Western Europe, represented mostly by Germany and

the United States. This may weaken the West and its key institutions, which are the European Union and the North Atlantic Alliance. From Moscow's point of view, close ties between Russia and Germany are of crucial strategic and long-term importance while doubling direct gas supplies will translate into Russia's largest shares in the German market, or Moscow's greater political influence in Berlin. Like any other gas initiatives that included Russia's participation, Nord Stream 2 may boost corrupt practices in Europe. In addition, if Western states allow Russia to increase its revenues from direct gas purchases, this will indirectly mean financing the Russian army. If launched, the Nord Stream 2 pipeline will assume major military importance, as exemplified by Moscow's seizure of Ukrainian drilling platform in the Black Sea, a step that served as a convenient excuse to menace with potential military intervention. Bearing in mind the scheduled routes of two strings of Nord Stream pipelines, it can be assumed that they pose a serious threat to the security of the Baltic region. The necessity to safeguard the offshore gas infrastructure may offer a handy excuse to expand Moscow's military presence in the area and to deploy its forces along the Baltic coasts. Such a peril has been denoted by the U.S. administration whose representatives consistently warned against employing Nord Stream 2 for solely security reasons.

Naturally, Russian officials, including Kremlin decision-makers and Gazprom representatives, tried their utmost to reassure their Western partners that Nord Stream should be perceived in terms of a business venture exclusively. Interestingly, such an approach has been adopted since the idea to build two strings of the pipeline was born. Moscow's firm stance has not changed ever since, even after intensified legal and informational activities conducted by opponents of the project. Moreover, Russia claims that any attempts to impede the project implementation stand in stark contrast to the principles of free competition. "The Nord Stream 2 gas pipeline project is purely commercial and has no political background," Kremlin spokesman Dmitry Peskov said on June 18, 2018. A month later, this issue was broached among other key topics in a discussion held between the U.S. and Russian leaders during the Helsinki summit. "Mr. President [Trump] voiced his concerns about

the possibility of disappearance of transit through Ukraine. I reassured him that Russia stands ready to maintain this transit", Putin said, speaking alongside with his American counterpart. The Russian leader declared Moscow's readiness to extend transit through Ukraine "if the dispute between the economic entities is to be settled in Stockholm arbitration court." Donald Trump announced in his turn that the United States will continue to compete with Russia's Nord Stream 2 pipeline project to get a convenient place on Europe's gas market. During his August visit to Germany, Vladimir Putin argued that pumping Russian gas to European countries via pipelines is an optimal solution while permitting gas prices to remain at the competitive level. In addition, he did not rule out that Russian-based companies might provide financial support to the project if the U.S. administration imposed sanctions on commercial entities involved in the construction. On October 3, 2018, Putin declared that the Nord Stream 2 pipeline will be built on time even if new punitive measures are administered, guaranteeing that his country is able to secure all required permits and complete the construction "by its own means"<sup>3</sup>.

Will Nord Stream 2 confer any substantial financial benefits to Russia? A report from Russian state bank Sberbank showed that Moscow's all major projects, including the Power of Siberia pipeline, Nord Stream 2 and Turkish Stream, will cost a total of 93.4 billion dollars. They all make little economic sense for Gazprom yet providing Putin's friends with lucrative contracts<sup>4</sup>. Not surprisingly, the project essentially aims at donating money to oligarchs who belong to the president's inner circle. It is both about receiving billions of dollars from the state budget and granting political importance to Putin's regime. Not incidentally, pumping large amounts of money into companies owned by Kremlin's friends and allies with funds emerges as one of the core "values" of Putin's rule. Nord Stream 2 pipeline is one among many ventures that aim to accord a number of political privileges to the country's authorities while enabling the regime-associated businessmen to enjoy financial profits. The venture appears most beneficial for subcontractors, especially those who account for pipelaying works. The main goal was to generate gigantic profits in these businesses: a decision to

3 <https://www.voanews.com/a/putin-hopes-europe-will-resist-us-pressure-on-germany-pipeline/4598564.html>

4 <https://www.bloomberg.com/opinion/articles/2018-05-23/sberbank-analyst-got-too-close-to-gazprom-s-truth>

build a new corridor was abandoned to the benefit of a former gas pipeline network that just needed to be furnished with connectors between existing transmission lines. It should be noted that the venture does not embrace only an offshore gas pipeline linking Russia with Germany. In order to be able to ensure further gas flows to Russia, Moscow was obliged to build a new shipping corridor from the Yamal Peninsula. Back in 2002, the total expense of such eight strings was estimated to reach an amount of 44 billion dollars. A firm called Stroytransneftegaz won a contract to expand two

on-land sections of the pipeline of a length of 538 kilometers. The company is owned by Gennady Timchenko, a billionaire friend of President Vladimir Putin. According to the Sberbank analysis on Russian oil and gas sector published in May 2018, Nord Stream 2 will bring most advantages for Timchenko's firm and those owned by Arkady Rotenberg, with Stroygazmontazh at the forefront. Sberbank analysts, who were fired from job after the report was published, claimed that Nord Stream 2 will not be profitable for 20 years even if its capacity is utilized in 60 percent.

# OSTPOLITIK VERSION 2.0

When West German Chancellor Willy Brandt inked the first gas deal with the Soviets, he seemed convinced that an increase in both countries' mutual economic dependence will favor reducing Cold War-era tensions while facilitating to renew bilateral relations with the German Democratic Republic. Gas diplomacy was a crucial factor in Brandt's policy of normalizing mutual ties, known as "Ostpolitik." At that time, West Germany's openness towards Eastern gas caused major concern in Washington. In 1982, the U.S. administration made an unsuccessful attempt to block the sale of equipment needed for building the Yamal pipeline. It turned out that increased imports of Soviet gas fostered Moscow's development while the fate of the Cold War was sealed by the hard policy pursued

by the then U.S. President Ronald Reagan. Berlin failed to draw any conclusions, as illustrated by a statement from Dirk Wiese, Germany's federal coordinator for relations with Russia, Central Asia and the countries of the Eastern Partnership. In April 2018, he stated that his country would continue to perceive Nord Stream 2 and the Iranian nuclear deal in terms of "islands of cooperation" with Russia, coming amid the period of serious disparities between Moscow and the West, mainly over the Ukrainian issue but also many others. Germany seeks to emphasize that business, or the Nord Stream 2 venture, and politics should be viewed separately. A similar approach could be remarked back in 2018 when the German authorities expelled four Russian diplomats in response to the attempted murder of the Skripals. A day later, Germany's Federal



Source: KREMLIN.RU

Maritime and Hydrographic Agency issued the permit for the construction and operation of the Nord Stream 2 pipeline system in the country's exclusive economic zone in the Baltic Sea. German Foreign Minister Heiko Maas said during his visit to Warsaw that Berlin does not link the Nord Stream 2 issue with the Skripals' poisoning. In late November 2018, the official delivered a similar statement, commenting on a purported relationship between the pipeline and the so-called Kerch Strait incident or Russia's seizure of Ukrainian naval vessels on November 25, 2018.

Members of Germany's ruling coalition seem to mutually agree that Nord Stream 2 and its on-land branches remain in full compliance with the interest of German firms and the intention to establish a gas hub while increasing impact on the European gas market. Berlin's decision-makers and representatives of business milieu claim all benefits that stem from the Nord Stream 2 pipeline to be so significant that the venture is worthwhile to risk worst bilateral relations with the Central and Eastern European countries that criticize the project. In addition, Germany is against transferring all competences in this regard to the European Commission while disagreeing to amend the gas directive as such a step could hamper the venture's implementation and reduce its profitability. Germany's policy has been accurately described by Poland's Foreign Minister Jacek Czaputowicz who said in an interview for Germany's *Handelsblatt* on January 3, 2019, that "Poland, the United States and the European Commission represent a pro-European position in this respect while Germany adopted an anti-European approach." Czaputowicz added that "Germans often tend to identify a European stance with a Germany one, which is not the case for Nord Stream 2, though."<sup>5</sup>

Speaking of Germany's previous government, a similar role was assumed by former Vice Chancellor and Economy Minister Sigmar Gabriel (Social Democratic Party of Germany). On October 15, thus shortly after establishing the consortium tasked with building the Nord Stream 2 pipeline, he paid a visit to Moscow where he assured President Vladimir Putin that the investment was "of strategic importance for Germany." As Germany's Vice-Chancellor, Gabriel announced a tough fight with the European Commission. "The project implementation

is not only our national interest but also that of other countries. As a result, the most important thing is to leave the legal issues related to it at the discretion of the German authorities. If we follow such a path, we will be able to limit interventions from outside", he added. Germany's Finance Minister Wolfgang Schaeuble suggested transferring the Commission's antimonopoly competences to other institutions located in individual countries. Bearing in mind both earlier and later decisions on Gazprom's investments made by various Germany-based offices, this would also accelerate the Nord Stream 2's construction. Germany's Federal Network Agency (Bundesnetzagentur) had nothing against Gazprom's monopolistic use of OPAL and NEL pipelines, or two gas transmission lines running through the country's territory. A similar cross-party agreement was underpinned by a visit that a delegation of Germany's parliamentary economy and energy commission paid to Moscow in November 2015, during which the deputies held talks on the new gas pipeline with their peers from State Duma. Of course, among those who lobby for Nord Stream 2 are some German business circles whose members gain profits from cooperation with Russia. Two months after establishing the consortium aimed at implementing the gas pipeline on the Baltic seabed, Eckhard Cordes, who was at that time the head of Germany's Committee on Eastern European Economic Relations, a group that represents over 200 firms involved in trading with Russia and other Eastern European countries, spoke in favor of putting an end to economic sanctions against Russia, claiming that "business needs peace". Deputy Chief Executive Officer of Association of German Chambers of Industry and Commerce Volker Treier said German and Russian firms will seek partnership and cooperation regardless of sanctions imposed by politicians.

As for Nord Stream 2, Germany seems driven by a desire to get substantial profits. Berlin is the largest buyer of Russian natural gas; in 2017, it imported 52.2 bcm worth a total of 10.015 billion dollars. German firms are among Nord Stream 2's shareholders and financial investors, accounting for 31 percent of all stakes. The principal goal is to increase direct gas flows from Russia to satisfy the needs of Germany's economy while re-exporting volumes to other European markets. In 2006, President Vladimir

5 <https://www.handelsblatt.com/politik/international/jacek-czaputowicz-nord-stream-2-killt-die-ukraine-polens-aussenminister-im-interview/23820652.html?ticket=ST-2424040-qIhyccEIEAcVXKqsh9dq-ap5>

Putin had publicly offered to select Germany as the distribution center for Russian gas in Western Europe. Today Berlin intends to become a top gas hub for Western and Central Europe, using Nord Stream 2 as a handy tool to accomplish such a goal. Increased gas imports from Russia will provide extra money both for private companies and Germany's federal budget as the latter will make a profit from transit fees and taxes. Earlier appropriate infrastructure had been prepared whose large elements primarily consisted of the OPAL and NEL gas pipelines and the Rehden and Jemgum natural gas storage facilities. Moreover, European gas pipeline link (EUGAL) is now under construction. Russian firms aim at entering the European market through joint ventures with German partners.

Once expanded, the Baltic gas route will allow doubling direct gas supplies to Germany. Back in 2017, Germany's gas imports rose by 11.5 percent. The German corporate circle will strive for maintaining the Nord Stream 2 project as they fear that otherwise, Moscow will pump gas through the southern corridor, thus stripping Berlin of its tangible profits. Most of the gas that will flow to Germany via the new pipeline will be further exported instead of being sold in the country. Berlin's assumption that such an adopted energy policy requires more gas for the national economy does not have any backing, though. Instead, it is more about Germany's desire to profit from re-exporting Russian raw material, a step undertaken by the country due to its plan to abandon coal and nuclear energy. The role of gas will be growing stemming from the implementation of energy transformation policy in both short and medium terms. Germany has so far no alternative to Russian gas, which is caused by the decreasing production level in the Netherlands as one of the top gas suppliers intends to limit extraction from

the Groningen field while planning to terminate exploration by 2030. Moreover, scheduled LNG terminals are to be characterized by lower capacity than the Nord Stream 2 pipeline. And yet the idea of expanding Russia's importance in the German gas sector will trigger some costs in Berlin. The German Green Party, whose representatives have expressed strong protest over the Nord Stream 2 project, indicate high costs of gas connectors that are necessary to receive Russian gas. Such a venture may amount to 3 billion euro, part of which will be possibly paid by gas consumers. As indicated in the German government's response to the interpellation of the Green Party, the fees borne by the recipients for gas supplies could rise by more than 8 percent in 2020-2021.

If combined, Russian natural gas exports and LNG imports to be shipped through planned terminals should make Germany a considerable European gas hub. However, Germany's presumptions may bring about two-sided consequences for the rest of Europe, on the one hand, it will foster the development of EU's largest economy, bringing a couple of benefits to the other EU Member States, with particular regard to those having close economic ties to Germany. On the other hand, such an initiative seems to strike the Community's gas diversification plans, which is equivalent to an abundance of Russian gas volumes on the European market. By filling German pipelines and storage facilities with Russian gas, Moscow will seriously impede access to the market for other suppliers. Plans to choose Germany as a transit country for Russian supplies on their way to Central and Eastern European states will curb the possibilities to transport raw material from outside Russia, thus Western markets, meaning a solution that is likely to hit non-Russian firms.

## 4

# DIPLOMACY AMID GAS PIPELINES

In 2018, two new elements were added to Germany's consistent policy of supporting Nord Stream 2. Facing the ever-increasing pressure from the opponents of Nord Stream 2 and the U.S. involvement in the game, Angela Merkel's government seemed to have noticed the political aspect of the project, which prompted German officials to advocate for maintaining transit of Russian gas through Ukraine. Nevertheless, both of these elements are only part of Berlin's political game aimed at defending the venture. Interestingly enough, a new argument has emerged in the meantime as the United States is against the gas pipeline, with Washington having intention to enter the gas market in this part of Europe. Berlin seems to have waived aside bitter opposition from Poland and the

Baltic States, though. In the aftermath of the meeting between Polish President Andrzej Duda and German Chancellor Angela Merkel held on March 19 in Warsaw, Krzysztof Szczerski, a senior aide to the Polish head of state, said that both leaders "have discussed Nord Stream 2 and upheld their positions." He added that "Germany has one argument, which it repeats constantly, that this is a commercial project while Poland will not agree with such an interpretation." Szczerski reiterated that even if "private companies are involved in the project it will still have geopolitical consequences," arguing that "the issue is highly unfavorable for this part of Europe."

In early April, U.S. President Donald Trump launched a vocal attack on Germany for its support



Source: KPRP

to the Nord Stream 2 gas pipeline. The U.S. leader moved into tirade mode, saying that Germany is “giving billions and billions to Russia,” thus accusing Berlin of relying too hard on Moscow while not fulfilling its obligations towards NATO. A few days later, Angela Merkel made the statement after meeting Ukrainian president Petro Poroshenko in Berlin, claiming that “Germany does not recognize the Nord Stream 2 as a purely economic venture.” She added that “political factors must also be taken into account while Ukraine’s role as a shipping country should be maintained even upon the pipeline’s completion.” Merkel stressed out that “this is of crucial importance while Germany stands ready to play an active role and show its support.” Back in April 2018, German Chancellor made a trip to Washington. Ahead of a meeting with Donald Trump, the German government conducted a kind of information operation. According to Berlin’s analyses, Nord Stream 2 will not make Germany dependent on Russia, perceived as a “very reliable supplier,” Reuters quoted an anonymous German official as saying. As indicated by Dow Jones sources in Washington, Berlin and Brussels, U.S. President Donald Trump would warn Angela Merkel against a trans-Atlantic trade war if Berlin still opted for implementing the Nord Stream 2 project. Speaking during the April meeting, Trump pressed Merkel to pull the brakes on the major gas venture while the United States would in exchange start talks with the European Union on a new trade deal. German Chancellor had no intention to make concessions, though; not surprisingly, Berlin stiffened its stance with Merkel returning to her previous rhetoric of a “purely economic character” of the project. At the ceremony awarding the International Charlemagne Prize to French President Emmanuel Macron in Aachen on May 10, 2018, she declared that “it is not the case that the United States of America will simply protect us while Europe must take its destiny in its own hands.”

A week later, German Economy Minister Peter Altmaier said U.S. opposition to the project was driven by a desire to increase its own shale gas exports. “Europe will respond firmly if the United States places its own economic interests above those of American partners,”<sup>6</sup> he reiterated. His

statement coincided with Merkel’s trip to the Black Sea resort of Sochi. The Nord Stream 2 gas pipeline was one of the topics of her discussion with Vladimir Putin. While she emphasized the necessity to keep gas flows through Ukraine, Russian President declared that the implementation of the Nord Stream 2 pipeline did not prevent Russian gas from flowing through Ukrainian territory. More importantly, he claimed that Russia “will continue gas shipments as long as they are economically justified.” German Foreign Minister kept emphasizing during the Helsinki meeting on May 25, 2018, that Berlin considers the Nord Stream 2 pipeline a commercial project, adding that Germany is “making intensive efforts to allow the transit of gas through Ukraine in the future while considering setting up a consortium to ensure that such is the case.”<sup>7</sup> Berlin sought to reveal its stance to all countries of the region<sup>8</sup>. Nonetheless, during her trip to Georgia on August 24, 2018, Angela Merkel announced that in her opinion the planned Nord Stream 2 pipeline would not make her country dependent on Russia. Following a Vilnius meeting with Lithuanian President Dalia Grybauskaitė and heads of Lithuanian, Latvian and Estonian governments, held on September 14, 2018, German Chancellor voiced her understanding for the Nord Stream 2 criticism from the Baltic States. Nonetheless, she maintained the economic nature of the project, ensuring that Ukraine will keep its status of a transit country. Merkel upheld her stance while addressing the European Parliament in November 2018, saying that Germany intends to abandon coal and nuclear energy. Nonetheless, in order to achieve such a goal, Berlin will need more gas, allowing a smooth transition to renewable energy sources. On November 7, 2018, several dozen MEPs from different European countries have appealed to German Chancellor to halt the Nord Stream 2 gas pipeline project. In a joint open letter, its authors said that Nord Stream 2 “gives Russia additional strategic leverage over the EU because it increases the EU’s energy dependency.” They stressed out that Germany’s approach to the project acts against basic principles of the EU’s energy community, claiming that the issue seeks to introduce internal rifts between the EU Member States. MEPs warned in their letter that “heavy political cost for completing Nord Stream

6 <https://www.bloomberg.com/news/articles/2018-05-18/german-envoy-sees-u-s-sanctions-likely-over-russia-gas-pipeline>

7 German Foreign Minister: Nord Stream 2 is a political project, Polish Press Agency, May 25, 2018

8 Merkel: nie sądzę, by gazociąg Nord Stream 2 uzależnił Niemcy od Rosji [Merkel: I don’t think Nord Stream will make Germany dependent on Russia], Polish Press Agency, August 24, 2018

2 would fall on Germany's shoulders," while urging Berlin to "support the course set by the European Commission and the European Parliament."<sup>9</sup>

Such a favorable opportunity occurred in late November when Russian boats opened fire on and seized three of Ukrainian naval vessels near the Kerch Strait. As a response, Ukraine's ambassador to Germany said that the project implementation should be halted as part of the world's reaction to Moscow's further provocative military activities. "I have taken note of the criticism over the Nord Stream 2 pipeline but nothing has changed in the basic view of the economic project which is what Nord Stream is," German government spokesman

Steffen Seibert stated on November 28, 2018<sup>10</sup>.

The following day, Germany's Economy Minister Peter Altmaier stated that the Nord Stream 2 issue should be no longer discussed within the context of Russian military activities in occupied Crimea<sup>11</sup>. Germany will not withdraw its political support for the Nord Stream 2 gas pipeline with Russia, German Foreign Minister Heiko Maas declared on December 3, 2018<sup>12</sup>. Last December, European Commissioner Guenther Oettinger was interviewed with the German weekly Der Spiegel, claiming that The German politician claimed that it will be difficult to bring the venture to a halt due to its advanced stage. "The truth is the pipeline has long been under construction and can no longer so



9 <https://reinhardbuetikofer.eu/2018/11/06/gemeinsamer-offener-brief-zu-nord-stream-2/>

10 Niemcy nie zmieniają zdania w sprawie Nord Stream 2 [Germany does not change its stance towards Nord Stream 2], Polish Press Agency, November 28, 2018

11 Altmaier: Nord Stream 2 i konflikt wokół Krymu to różne sprawy [Altmaier: Nord Stream 2 and the Crimean conflict two separate issues], Polish Press Agency, November 29, 2018

12 <https://www.reuters.com/article/us-ukraine-crisis-russia-germany/germany-to-back-russian-gas-link-despite-ukraine-tensions-idUSKBN1O20VP>

easily be stopped,” he argued. Naturally, Oettinger’s statement fitted into the German narrative on Ukraine as the EU Commissioner urged Russia’s Gazprom to agree “a fair deal on the further use of the existing pipelines through Ukraine.<sup>13</sup>”

Germany was among five countries that issued all necessary permits to build Nord Stream 2. In November 2017, the investor was granted the first approval for the construction and operation of the Nord Stream 2 pipeline in the area of the German continental shelf. On January 31, 2018, Nord Stream 2 received the Stralsund Mining Authority’s approval of constructing and using a 55-kilometer-long section of the planned pipeline in German territorial waters and the landfall area in Lubmin. On March 27, 2018, the Federal Maritime and Hydrographic Agency of Germany issued the permit for the construction and operation of the 30-kilometers-long pipeline section in the German Exclusive Economic Zone (EEZ). In May 2018, Germany became the first EU country to start building its Nord Stream 2 section. Interestingly, construction works in the port of Lubmin had begun before Sweden and Finland gave consent to run the gas pipeline through their territorial waters.

If the Nord Stream 2 pipeline manages to reach the German shore, the route will be unlikely to become fully operational as it is necessary to launch and expand infrastructure that delivers gas to Germany and neighboring countries. Two branches of the EUGAL pipeline, which is of crucial importance for these plans, should be completed by 2022.

EUGAL is a 480 km long-distance gas pipeline that seems to reflect Nord Stream 2’s course in the sea<sup>14</sup>. It will be running in parallel to the already-operating gas infrastructure. Similarly to the OPAL natural gas pipeline, EUGAL is to account for gas shipment from Russia to the Czech Republic while

having an additional exit point to the German gas network in Brandenburg<sup>15</sup>. All landfall sections of both Nord Stream and Nord Stream 2, with the latter including OPAL, NEL and EUGAL, are administered by GASCADE, a subsidiary of Russian Gazprom and German BASF/Wintershall. Moreover, the European Commission has ruled that Nord Stream must allow other gas suppliers to share the capacities of both OPAL and NEL pipelines. Nonetheless, in October 2016, the EU institution granted Russia’s gas giant access to 80-100 percent of the OPAL’s maximum capacity, or 36 bcm per year. Poland’s authorities decided to appeal the ruling. However, in July 2017, the European Court of Justice (ECJ) along with German courts upheld the Commission’s previous decision. Once constructed, the EUGAL pipeline will contribute to further strengthening of GASCADE’s control over the Eastern German gas network. Its local gas infrastructure is likely to play an essential role in both gas hub operation, distributing Russian-imported gas to southern and Western Germany, the Netherlands and Italy and, most importantly, to Ukraine, the Balkans and Central Europe, including Poland (via the Kienbaum-Mallnow connection). If fully used in the future, OPAL and EUGAL will enable to send south up to 87 bcm of gas, accounting for 36 bcm and 55 bcm respectively. Nonetheless, EUGAL is to exert a crucial impact on the Nord Stream 2 pipeline, which is mostly due to the fact that through its infrastructure Russian gas volumes will flow to the Czech Republic and Slovakia along the Baltic Sea bed. Interestingly, the direction of gas supplies will be reversed, flowing from east to west. Russian gas shipment will be assured, though the price of raw material is likely to increase. This will not happen immediately, though. Nord Stream 2 is estimated to be launched by the end of 2019, which coincides with the deadline for the first of two EUGAL strings to be completed. The gas pipeline’s capacity is likely to be fully adopted in 2022.

13 <http://www.spiegel.de/plus/guenther-oettinger-die-ebb-hat-ih-pulver-verschossen-a-00000000-0002-0001-0000-000161577208>  
<https://ru.krymr.com/a/news-stroitelstvo-severnogo-potoka-2-uzhe-trudno-ostanovit/29681961.html>

14 <https://www.osw.waw.pl/pl/publikacje/analizy/2016-06-15/projekt-eugal-niemiecka-odnoga-nord-stream-2>

15 <https://www.eugal.de/en/>

# U.S.-UKRAINE RELATIONS

The German strategy aimed at defending Nord Stream 2 clearly focuses on three target areas. Berlin's claims on an allegedly commercial character of the project were additionally fuelled by efforts to maintain Russia's gas transit through Ukraine and the U.S.-Germany diplomatic game. The latter consisted of criticizing U.S. threats to impose further sanctions against Nord Stream 2 while depicting such a move as a fight for the LNG gas market. On the other hand, Berlin sought to assure Washington of its openness to the U.S. natural liquefied gas.

In an interview with Handelsblatt, published in April 2018, President Petro Poroshenko urged German

politicians and businessmen to revise their hitherto approach to Nord Stream 2, going as far as to say that the pipeline is a "bribe for loyalty" from Russia to Germany. And yet, during his trip to Berlin, he was again unable to persuade Chancellor to pull out of the venture, yet he was informed that Germany wants to save the gas transit through Ukraine after the launch of the Nord Stream 2 pipeline. Berlin is economically and politically too heavily invested in the project to completely pull out of it while underlining the venture's essentially economic character and ignoring its neighbors' fears. Germany did not shift its stance until April 2018 when Angela Merkel publicly admitted that one could understand some of these concerns and the



Source: THE WHITE HOUSE

venture was determined by a certain political factor. German Chancellor assured that her country would do its utmost to maintain transit through Ukrainian territory. Nothing has ever been done about it for almost a year, though. It seems that noticing the Ukrainian issue was supposed to act as a tool to defend against plausible U.S. repressive measures. The prospect of preventing Ukraine's security from further weakening was aimed at justifying Nord Stream 2 as a venture that reportedly did not exert any impact on the other countries. Such motivation is best explained by chronology as Merkel noticed the Ukrainian issue only when Washington addressed fierce criticism of the Nord Stream 2 pipeline, threatening to introduce concrete actions that might hit the project implementation.

Over the past year, German officials assured Kiev of their readiness to defend Ukraine's gas interests in Moscow. "Germany sees Ukraine as a reliable gas transit country and an important trading partner", Germany's Minister for Economic Affairs and Energy Peter Altmaier declared on May 14, 2018, at the meeting with Ukraine's Prime Minister Volodymyr Groysman. "We should respect the interests of Ukraine, including financial ones, as well as develop safeguards in order to continue gas transit through the country's territory," Altmaier said before flying to Moscow. Prior to visiting Russian and Ukrainian capitals, he claimed that his main intention is to hold talks on "some general concepts of energy policy." A comparable statement was made two weeks later by the German President during his trip to Kiev. "The construction of the Nord Stream 2 gas pipeline does not pose any threat to the Russian gas transit through Ukraine", Frank-Walter Steinmeier declared after talks with his Ukrainian counterpart Petro Poroshenko. As he stressed out, Kiev's concerns are ungrounded while high-level discussions on gas flows via Ukraine are currently underway. "Talks are being conducted between Germany and Ukrainian officials as well as the European Union and I hope they will soon prove fruitful", German President said<sup>16</sup>. Nonetheless, multilateral consultations held in Brussels in the summer and in September 2018 failed to bring any results. Director of the U.S. Department of

State's Bureau of Energy and Natural Resources Sandra Oudkirk seemed to be right while claiming in May last year that the United States does no longer believe whether Germany's efforts to obtain Russian guarantees for uninterrupted gas deliveries to Europe via Ukrainian territory eventually turn out to be successful.<sup>17</sup> Ukraine's case cannot be referred to as a knife-edge: Berlin calls on Moscow to take some steps yet Germany's participation is indispensable for the project to be completed. Unofficially, Germany was reported to provide Ukraine and the United States with a different solution to the problem. There has emerged an idea of separating one gas transmission line within the Ukrainian transmission pipelines for gas transit that links Russia with the European Union and to hand it over to an external consortium<sup>18</sup>. Berlin's concern over maintaining gas shipment through Ukraine's territory is not given without expecting anything in return, though. Germany will hope for 30 bcm of Russian gas to be annually shipped through Ukraine until the Nord Stream 2's full transportation capacity is ready to be used once the EUGAL pipeline is wholly operational. From Kiev's point of view, such amount is not enough as it accounts for one-third of all gas volumes transported in 2017 through a gas transmission system whose annual capacity traditionally reaches 150 bcm. If accepted, Germany's proposal would safeguard supplies while paving the way for all claims that Angela Merkel managed to fulfill her promise of an uninterrupted flow of Russian gas through Ukraine. Berlin finds it irrelevant that two or three years later Gazprom could use the new pipeline as a tool for political blackmail by threatening to turn off or limit the supplies. Remembering some events from the past, Kiev is already aware of all risks that are linked to Germany's opinions. In June 2018, Naftogaz Commercial Director Yuriy Vitrenko reminded that back in 2009, Germany was putting pressure on Kiev to extend a contract on gas transit through Ukraine for another 10 years, saying that "they did not want to go into details." He added that "for them, it was enough to be assured by Gazprom that the contract conformed to European standards. Later, it turned out that it had nothing to do with such regulations, constituting rather

16 <https://www.welt.de/newsticker/news2/article176795346/Gas-Steinmeier-will-Ukraine-Sorgen-wegen-Gaspipeline-Nord-Stream-2-nehmen.html>

17 <https://www.rferl.org/a/us-warns-russian-german-nord-stream-2-pipeline-risks-trigger-sanctions-security-concern-oudkirk/29233548.html>

18 [https://zn.ua/energy\\_market/tranzit-dva-goda-do-potoka-297040\\_.html](https://zn.ua/energy_market/tranzit-dva-goda-do-potoka-297040_.html)

a purely Russian approach to these rules. It was a real neo-colonial policy<sup>19</sup>.” The aforementioned agreement is set to expire at the end of 2019 while Gazprom has no longer kept to its provisions, which eventually led to an award issued by the Stockholm Arbitration Court in February 2018 that appeared more favorable for Kiev. Ukraine could no longer hope for Berlin’s help in late 2018 when it firmly stated that the so-called Kerch incident did not affect Germany’s attitude towards Nord Stream 2.

If Ukraine’s fears can be underestimated, the German government should act cautiously towards the United States. Washington’s decision could possibly act to the detriment to further works on the pipeline linking Russia with Germany. Angela Merkel government, which is backed by some business milieus that are overtly dissatisfied with Washington’s trade policy, has no intention to make any concessions, though. Similarly, Germany stands ready to respond to the main U.S. accusation against the pipeline, according to which Europe will become heavily dependent on one supplier being hostile to Western countries, offering to construct LNG terminals on German soil. At the G-7 summit in 2015, the United States and Japan called upon European countries to expand local LNG infrastructure. Germany was then keen to obstruct such an idea, claiming that there is no need to search for other sources, which is due to the existing pipelines that run through Norway and Russia and Nord Stream 2 as the latter was planned at that time. In 2017, imports of U.S. liquefied natural gas accounted for 5 percent of all LNG imports to Europe and less than 1 percent of all EU gas shipment, compared to 2016. Nonetheless, the decision on how many gas volumes should be exported from the United States to Europe will lie in the hands of private U.S. companies while depending on gas prices on the global market. Without expanding gas infrastructure, it will not come as competitive for Russian or Norwegian gas that is pumped through pipelines. In Germany,

90 percent of total gas demand is covered by Russian, Norwegian and Dutch supplies. Signed in February 2018, the coalition deal between the Christian Democratic Union (CDU), the Christian Social Union (CSU) and the Social Democratic Party (SPD) foresaw the building of the first LNG infrastructure in Germany to be located in the Baltic and the North Sea areas. The former was estimated to be launched in 2022. According to the United States, its gas will cost more than Russian one; nonetheless, Washington sought to emphasize that such an economic move will turn out profitable for Berlin as market competition, once established, will prevent Gazprom from setting high prices in the future. U.S. Ambassador to Germany Richard Grenell said that Chancellor Angela Merkel had assured Trump personally that Germany wanted to purchase U.S. LNG supplies. Announcing the construction of LNG facilities is yet another argument of the German government to defend the Nord Stream 2 project. Germany’s declared openness to LNG is expected to show the country’s eagerness to become independent of just one energy supplier, thus Russia. It comes as a signal sent to Washington; after all, Donald Trump tends to broach the topic of developing U.S. LNG exports to Europe. Once built, German LNG terminal and storage facilities are likely to boost Berlin’s position in gas price negotiations with Moscow.

For Germany, it is impossible to offer full support to Nord Stream 2 without sparking political turmoil. Even if some of CDU members stand against the project, as evidenced by their participation as signatories of various open letters calling on the government to withdraw from the venture, such an approach may be upheld by the SPD, which has been long known as an outspoken supporter of tightening energy and economic cooperation with Russia. Berlin could change its hitherto policy only if its authorities became aware of the high political risk of doing business with Vladimir Putin. However, this is highly unlikely to happen.

19 <https://www.golos-ameriki.ru/a/tb-nord-stream-threat-to-eu-gaz-market/4439264.html>

# STRUGGLE OVER UKRAINE'S GAS TRANSIT

There is no doubt that Ukraine may suffer greatest losses once Nord Stream 2 is finally completed, all of which depends on a simple calculation that the new gas infrastructure will allow Moscow to ship “blue fuel” to the European Union. This will make considerable profits for Russia whose companies are now forced to send gas through the Ukrainian gas transmission system<sup>20</sup>. Ukraine’s revenues from transit fees amount to between 2 and 3 billion dollars, which is equivalent to 2.5-3 percent of Ukrainian GDP. Further, the pipeline is likely to contribute to Kiev’s weakened security. In an interview with Germany’s Handelsblatt daily on January 3, 2019,

Poland’s Foreign Minister Jacek Czaputowicz said that “if Russian gas transit through Ukraine is over, the country will lose not only substantial revenues but above all the guarantee of protection against further acts of Russian aggression.” To make matters worse, the launch of Nord Stream 2 in the north and Turkish Stream in the south is to pose a threat to gas transit as well as to complicate security of gas imports through Ukraine. More gas volumes have been imported from the European Union since the country’s decision to halt gas imports from Russia. In terms of infrastructural solutions, such a plan seems both cheap and easy given that it is the Russian gas



Source: UTG.UA

20 <https://www.forbes.com/sites/arielcohen/2018/06/18/russias-nord-stream-ii-pipeline-is-ukraines-worst-nightmare/#64a71fda3524>

that flows into Europe through Ukraine while in this case intermediary companies almost immediately resell part of the contracted raw material to Ukraine. Redirecting most of Gazprom's exports to Nord Stream 2 will result in the Russian gas being sent to the Ukrainian market that does no longer come from supplies that had previously reached the Ukrainian-Slovak and Ukrainian-Polish borders; instead, such "blue fuel" volumes will be first pumped to Germany under the Baltic Sea, then through the Czech Republic and Slovakia, before reaching Ukraine. Not to mention that such an undertaking will be more costly while Russians might then cause greater problems to all intermediary companies that seek to re-export Gazprom's raw material.

Ukraine has already begun to prepare for the worst-case scenario, which would include limiting gas transit through the national gas transmission network or bringing it to a halt. In early November 2018, Naftogaz's managing director Yuriy Vitrenko admitted that "it is already impossible to stop the construction of the Nord Stream 2 pipeline" and called Gazprom to ensure gas transit through Ukraine after the new infrastructure is launched. The company has started an action plan aiming to compensate for all transit losses. In 2017, Ukraine's Energy and Coal Mining Ministry submitted an official recommendation for the government concerning preparations for reducing Russian gas transit. In addition, the discussion was held about the feasibility of Ukrainian underground gas storage for holding raw material from the EU. In June 2017, Ukrtransgaz launched a gas storage service at the request of foreign companies that could be granted some customs facilitation. Nonetheless, this will not compensate for all losses that resulted from cutting off or closing Russian gas transits. Following the failure of trilateral talks between Ukraine, Russia and the European Commission, Kiev decided to adopt a two-track strategy towards Gazprom. Ukraine has managed to significantly improve its gas storage capacity at the national level by pumping considerable amounts of blue fuel to underground storage tanks. Internationally, Ukraine's Naftogaz seeks to increase pressure on Russia's Gazprom, mostly through international arbitration, hoping to be compensated for all transit losses. The latter solution started to yield satisfactory results. A Swiss court banned Nord Stream AG and Nord Stream 2 AG companies from making payments to Gazprom, based on Stockholm Arbitration's final rulings on the delivery contract rendered in December 2017 and February 2018.

Ukraine is a key transit country for gas supplies from Russia to the European Union. Back in 2017, the transit amounted to about half of Russian gas exports to the EU and Turkey while 39 percent of Europe's supplies ran through Ukraine. The current transit contract between Ukraine and Russia is bound to expire in December 2019. Shortly thereafter, two new gas pipelines are estimated to be launched, including Nord Stream 2, whose total capacity is scheduled for 55 bcm of gas per year, and Turkish Stream, which is being able to annually ship 35 bcm of blue fuel through Turkey to Europe. Both of these pipelines hold a total capacity of 90 bcm, which seems to correspond to the gas volume shipped through Ukraine in 2017. According to Ukraine's state operator Ukrtransgaz, its total amounted to 93.46 bcm in 2017, of which 90.75 billion cubic meters were transported to the EU market while 2.71 to Moldova. Gas transit has systematically decreased between 2011 and 2014; after that period, it has begun to raise, a phenomenon that took place even despite an undeclared war between the two countries. Moscow was forced to make use of Ukrainian services to ship large amounts of gas to Europe as it needed a hard currency, which was due to Western sanctions that contributed to a drop in hydrocarbon prices and capital outflow from Russia. Kiev made considerable profits from transit fees.

Russia will not dispose of any new sources of raw material, which makes it redirect most of the gas shipped through Ukraine to the Baltic route. Back in April 2018, Gazprom CEO Alexei Miller said that transit of Russian gas through Ukraine would amount to between 10 and 15 bcm of gas per year. Ukraine does not seem to be satisfied with such volumes as it initially hoped to transport annually at least 40 bcm. Both sides discussed also the annual transit of 27.5 bcm, yet such a figure seemed not enough for Kiev. During a conference held as part of the Putin-Trump summit in Helsinki, Russian leader declared that his country stood ready to extend this transit contract, yet it depends on how the international arbitration court is going to handle the Gazprom-Naftogaz legal dispute. In fact, Russia will need to conclude a deal with Kiev after the current contract expires. Moscow is no longer capable of halting gas shipment due to the lack of fully developed gas pipelines that could be used to ensure uninterrupted supplies to the EU Member States while bypassing Ukraine. Even if Gazprom successfully manages to launch Nord Stream 2 and Turkish Stream, it will still

need to pump volumes of 16-17 bcm of gas through Ukraine. There still remains the question of Moldova to where Gazprom has no other option than to deliver gas through Ukrainian pipelines. In a report published in 2018, experts from Sberbank argue that Nord Stream 2 will not allow Russia to completely abandon supplies via Ukraine, which would save Gazprom and justify the construction of a new gas pipeline. This is likely to happen if Russia's delivery supplies to Europe dropped by 20 percent below 2017 levels. Following trilateral talks between Russia, Ukraine and the European Union, Maroš Šefčovič, the European Commission vice-president responsible for the Energy Union, stated that the existing obligations on gas transit and supplies to the European Union will remain in force. The European Commission has engaged the European Network of Transmission System Operators for Gas (ENTSO) in monitoring the situation and providing its solutions to the problem. Even if Moscow publicly declares its readiness to maintain gas shipment through Ukraine, this will not result with any major changes, especially bearing in mind that Russia tends to violate some of its international obligations.

It is not true that Nord Stream 2 will contribute to higher security of Russian gas supplies, which is all due to Ukraine's irresponsible behavior as a transit country. All previous instances of cutting off gas supplies to Ukraine have been motivated by political reasons. Moreover, Kiev stood ready to continue further transit to the European Union. Contrary to what the Kremlin has persistently claimed, Ukraine's gas transmission system proves to be in a good condition and it has several times shown that it posed to threat to the security of supplies to the European Union. For instance, when Nord Stream was undergoing scheduled service works in 2017, transit through Ukraine was subject to a significant increase to annual proportions of 120 bcm of gas, or 180 bcm per day. Available statistics indicate that the number of technical incidents in Ukraine's gas transmission system (GTS) has never exceeded 0.06 per 1000 kilometers over the past 20 years, which is four times less than in Russia's network. Furthermore, state operator UkrTransGaz, which is in charge of Ukraine's gas transmission system, has been granted observer status at European Network of Transmission System Operators for Gas (ENTSO). While visiting Brussels on May 25, 2018, Ukraine's Prime Minister Volodymyr Groysman reiterated that Ukrainian pipelines were

fully operational to secure gas supplies to European consumers while their joint use, along with EU and American partners, brings about additional guarantees, becoming an alternative to all political and economic threats posed by the Russian-German pipeline. Kiev is in hope for the U.S. support, including aid to establish an international consortium in which EU partners could also participate. Such an idea is by no means new; back in 2014, the Verkhovna Rada of Ukraine had given its consent to the creation of such an institution while in early October 2018 it was revived by Naftogaz CEO Andrey Kobolev. Once set up, the conglomerate should ideally consist of renowned European gas committed to introducing reforms to Ukraine's gas sector. There have been talks about competition for both an external operator and its partners who will be tasked with managing Ukrainian GTS. The consortium would include both gas companies and such financial institutions like the European Bank for Reconstruction and Development (EBRD) or the World Bank. The problem is how the idea is perceived by the authorities in Berlin and Moscow. While visiting Riga on May 11, 2018, German Foreign Minister Heiko Maas announced that Germany was ready to put forward an idea of establishing an international consortium in charge of managing Ukrainian transit pipelines once Nord Stream 2 becomes fully operational. No details were revealed, though. Nothing is known about potential shareholders and their involvement in managing the transit pipeline system. Russia may use such a consortium to secretly enter Ukrainian gas pipelines as Moscow has long dreamt of taking control over them. This can be prevented by awarding a long-term license to manage the gas transmission system, instead of selling it while the latter solution is illegal under the law regulation adopted back in 2007. Involving Western-based firms in Ukraine's national gas sector will emerge as the best option to minimize costs related to the launch of Nord Stream 2. If established, a similar consortium would automatically solve Ukraine's problems with Gazprom, which could be done at gas reception points located at the Russian-Ukrainian border. Facing the launch of Nord Stream 2, the newly created Ukrainian gas hub would equip the state with adequate tools for a market fight against the Russian gas pipeline along the Baltic Sea bed, including transit fees and gas storage capacity.

# BERLIN AND ITS ALLIES BLOCK THE DIRECTIVE

**E**U's central institutions, with the European Commission at the forefront, disposes of all tools necessary to bring harmful energy projects to a halt, as exemplified by the South Stream pipeline, whose construction was strongly advocated by the Kremlin. Interestingly, Hungary has noted that the EU proves highly inept to block similar ventures that run to Germany instead of Southern European countries. Such was the case of the Nord Stream pipeline, which is now reflected by the Nord Stream 2 project. It was mostly due to the influence of Berlin and other countries being favorable to Russia. A joint Russian-German lobby, which is consequently held in Brussels and Strasbourg as well as some European

capitals, has turned out to be more effective than legal mechanisms that are to take into account common interests of the European Union, especially if these tools serve to defend affairs of Member States from the former Eastern bloc. In March 2016, leaders of 9 EU Member States (the Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia, Romania, Croatia, and Lithuania) had sent a letter to the European Commission, in which they spoke out against Nord Stream while pointing out that the project “poses risks for energy security in the region of Central and Eastern Europe.” Though the core of the EU anti-Nord Stream 2 is composed of Poland and three Baltic States. Such partnership seemed best illustrated



Source: KREMLIN.RU

by a joint declaration, signed by the parliamentary speakers of Lithuania, Latvia and Poland in Vilnius on March 11, 2018, in which they warned other EU countries against backing the Nord Stream 2 venture. It was only later than Estonia's parliamentary speaker announced his decision to join the statement. Nonetheless, the attitude adopted by both Hungary and the Czech Republic could be referred to as ambiguous.

From the EU's point of view, the Nord Stream 2 gas pipeline project is damaging for two main reasons. Economically, energy consumption forecasts seem to indicate that Europe does not need any more gas import routes from Russia to be set up as the capacity of existing pipelines is not used even in 50 percent. Also, it is about legal assumptions, under which Nord Stream 2 undermines the EU energy security strategy, adopted back in 2014, according to which the community is obliged to diversify sources, suppliers and delivery routes while the new Russian pipeline is contradictory to all the three premises. There were some legal grounds for the Commission to oppose Nord Stream 2. In 2015, Chair of the European Parliament Industry, Research and Energy Jerzy Buzek sent a letter to Commission Vice President Maroš Šefčovič responsible for the Energy Union and EU Commissioner for Climate Action and Energy Miguel Cañete, stating that Nord Stream 2 "contradicts" the need for diversification of energy routes and suppliers, being the basic principle of the EU energy security strategy. In early October 2015, Cañete stated that the European Commission would assess Nord Stream 2 rigorously against the European regulatory framework while Vice-President of the European Commission for Energy Union Maroš Šefčovič emphasized that the new trans-Baltic gas pipeline needed to fully comply with the European law, however, "much will depend on the project's key parameters", which sounded alarming. Published in November 2015, Commission's first official document on the Energy Union constituted a warning signal as only one paragraph was devoted to the issue of the new gas pipeline linking Russia to Germany. All threats were ignored while it was noted that the Nord Stream 2 gas pipeline needs to be compatible to all EU regulations on tenders and environmental standard as well as the Third Energy Package (TEP), the latter of which has turned out to be a curse for Gazprom's European intentions. These legal changes prompted the EU Member States to amend structures of their national gas sectors. Core elements of the

TEP stipulate the separation of sales operations from transmission networks and open access of a third party to the natural gas transmission system. Initially, such a solution prevented Gazprom and its European market from employing Nord Stream's full capacity as they were demanded to resign from part of OPAL and NEL pipelines' capacity. The problem is that Brussels began to make some exception to the rule, allowing Gazprom and Berlin to pursue their policies. The same threat may now apply to the Nord Stream 2 project. Gazprom, which is the majority shareholder of the consortium, will be in charge of producing and selling its blue fuel while managing the gas transmission system. It is therefore difficult to imagine a more serious breach of provisions of the TEP.

The European Union has no tool to completely block the Nord Stream 2 construction; instead, it disposes of an instrument that could make the project unprofitable, which is an amendment to the EU directive. In November 2017, the European Commission proposed to update the EU gas directive. Introduced in 2009, the amendment to the EU gas directive provides that all major gas pipelines entering EU territory should operate in accordance with the EU legal framework, stating that offshore parts of the gas pipeline running through the European Union fall under the TEP. If adopted, such a law could actually imperil the Nord Stream 2's profitability, meaning that Russian Gazprom would have to allow other companies interested in transmitting gas to use the pipeline. The European Parliament and the European Commission, both of which operate according to the Community method, strongly backed the revised document. Yet most problems come from the Council of the European Union as some EU Member States that apply the intergovernmental method keep obstructing the entire process, as exemplified by what happened in 2008.

On January 11, 2018, representatives of states took part in another working meeting, during which they discussed the amendment to be introduced. Bulgaria, which held the Council rotative presidency at that time, made a decision to ask for legal assistance while clarifying some points related to the directive. This was equivalent to fulfilling Germany's demands as the state authorities sought more analyses to be conducted, apparently hoping to slow down further works. Earlier Berlin had repeatedly raised doubts, pointing out the need for a deeper insight in the matter and reminding about trilateral talks to take

place between Russia, Ukraine and the European Commission on the future of gas transit via Ukraine. In addition, the German officials argued that the gas directive, once adopted, could potentially undermine the Commission's negotiating position. As expected, the legal services of the EU Council questioned the provisions of the draft amendment to the gas directive concerning offshore part of pipelines, including those of Nord Stream 2. This was in line with Berlin's strategy whose officials seek to play for time, trying their utmost to postpone transferring expert discussion on the amendment to the political level.

A vast part of EU Member States backs the idea of introducing a regulation under which offshore parts of gas pipelines running through Europe's territory shall categorically fall under the EU's restrictive Third Energy Package. In addition to Poland, also Denmark, Sweden, the United Kingdom, Croatia, Lithuania, Latvia, and Estonia demanded the regulation be adopted as soon as possible. Speaking of the Visegrad Group countries, such was the intention of Slovakia and the Czech Republic while Hungary did not want to communicate a similar intention. As reported by diplomats, six more countries, including France and Italy, declared their willingness to conduct further works as opposed to states such as Germany that express criticism of amendments to the directive, arguing that they could act to the detriment of EU competences in concluding an international agreement on energy matters. More concerns were related to EU and international legal framework to be applied with respect to the exclusive economic zones (EEZ) Nord Stream 2 was designed to run through. Germany raised its voice in this case while its initiative was backed by Austria, Belgium and the Netherlands.

The decision of both Germany and other countries that hold an interest in constructing the pipeline to play for time seems to have delivered concrete results. Although the European Parliament managed to assume a stance on the legislative proposal for the directive revision, EU Member States are unable to reach an agreement, thus preventing the amendment from being adopted. Back on April 18, 2018, representative of the EU Parliament's extreme political groups demanded all MEPs vote on the position towards the gas directive amendment, as previously approved by members of the Parliament's energy and industry committee. It might have been maintained if a group of MEPs consisting of 10 percent of all seats had not filed its objection. This

was raised by Confederal Group of the European United Left-Nordic Green Left and the Europe of Nations and Freedom. Yet even opponents of the directive can be founded among members of the EU Parliament's most influential factions. Objections were raised by German, Greek, Bulgarian, Spanish and Italian MEPs already at the committee stage while the socialists, which are the second largest political group in the Parliament, requested that the vote be postponed until the impact assessment is presented. The European Parliament failed to vote on amending the as directive as the application was withdrawn on April 19, 2018. This means that the stance adopted by the energy and industry committee was that of the European Parliament, permitting the institution to launch negotiations with the Member States within the EU Council.

Bulgaria's obstruction was then followed by Austria's attempts to block further proceedings. On January 11, 2018, representatives of states took part in another working meeting, during which they discussed the amendment to be introduced. Bulgaria, which held the Council rotating presidency at that time, made a decision to ask for legal assistance while clarifying some points related to the directive. This was equivalent to fulfilling Germany's demands as the state authorities sought more analyses to be conducted, presumably hoping to slow down further works. Earlier Berlin had repeatedly raised doubts, pointing out the need for a deeper insight in the matter and reminding about trilateral talks to take place between Russia, Ukraine and the European Commission on the future of gas transit via Ukraine. In addition, the German officials argued that the gas directive, once adopted, could potentially undermine the Commission's negotiating position. As expected, the legal services of the EU Council questioned the provisions of the draft amendment to the gas directive concerning offshore part of pipelines, including those of Nord Stream 2. This was in line with Berlin's strategy whose officials seek to play for time, trying their utmost to postpone transferring expert discussion on the amendment to the political level.

A considerable part of EU Member States backs the idea of introducing a regulation under which offshore parts of gas pipelines running through Europe's territory shall categorically fall under the EU's restrictive Third Energy Package. In addition to Poland, also Denmark, Sweden, the United Kingdom, Croatia, Lithuania, Latvia, and Estonia demanded

the regulation be adopted as soon as possible. Speaking of the Visegrad Group countries, such was the intention of Slovakia and the Czech Republic while Hungary did not want to communicate a similar intention. As reported by diplomats, six more countries, including France and Italy, declared their willingness to conduct further works as opposed to states such as Germany that express criticism of amendments to the directive, arguing that they could act to the detriment of EU competences in concluding an international agreement on energy matters. More concerns were related to EU and international legal framework to be applied with respect to the exclusive economic zones (EEZ) Nord Stream 2 was designed to run through. Germany raised its voice in this case while its initiative was backed by Austria, Belgium and the Netherlands.

In the second half of 2018, Austria assumed the rotating presidency of the European Council. No progress was made during the next six months, which was due to Vienna's support for the venture. In addition, Austria holds an economic interest in the project; since 2015, the strategic alliance with Gazprom has been supervised by OMV Chief Executive Rainer Seele, former CEO of Germany's Wintershall, a company that has close ties to the Russian energy giant. On November 9, 2015, Austrian energy giant OMV organized a conference to discuss current geopolitical challenges and the future of Europe's energy markets that took place in Vienna's Hofburg Imperial Palace. The list of guests included former German Chancellor Gerhard Schroeder. "I believe OMV's strategy of engaging in Russia is correct – both in terms of the planned construction of

the Nord Stream II pipeline as well as gas exploration in Siberia. This engagement is completely in the spirit of longstanding close Austro-Russian cooperation in the energy sector," he said. Three years later, his example was followed by former Austrian Finance Minister Joerg Schelling who was appointed a consultant for Gazprom<sup>21</sup>. Schelling is a member of the Austrian People's Party (ÖVP) headed by Austrian Chancellor Sebastian Kurz. In February 2018, Austrian Chancellor Sebastian Kurz, speaking alongside Russian President Vladimir Putin, said his government would support Nord Stream 2. Not incidentally, no steps concerning the gas directive were taken during the Austrian presidency. In November, Vienna proposed to exempt the pipeline from the EU gas directive, a suggestion that encountered objections from the European Commission and twelve countries, including Poland<sup>22</sup>. During the Energy Council meeting on December 19, 2018, Germany upheld its opposition to the gas directive amendment. Even though Austria, which held the EU presidency at that time, planned to summarize works on the proposal for changes, Denmark requested that discussion is launched; talks were attended by more than half of all the EU Member States. A representative of the German government argued that Europe needs new pipelines to guarantee the security of gas supplies all over the continent. A Dutch representative also voiced his opposition to the changes to be introduced to the text of the gas directive. The opponents of Nord Stream 2 are in hope for ending the deadlock on a draft directive after Romania assumed the rotating presidency in the EU Council in January 2019. Optimists believe that it may be adopted before the next European elections scheduled for May 2019.

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21 <https://euobserver.com/tickers/141478>

22 Austria chciała wyłączenia Nord Stream 2 z dyrektywy gazowej [Austria wanted to exclude Nord Stream from the EU gas directive], Polish Press Agency, November 27, 2018

# FRACTURED EUROPE

On April 5, 2018, Ukrainian MPs published an appeal, in which they wrote that the European Commission should first and foremost discuss the issue with Kiev, which is compliant with the EU-Ukraine Association Agreement, a free trade agreement and the treaty of European Energy Community. The politicians warned that the gas pipeline might eventually result with Russian monopoly in the European gas market, leading even to Europe's destabilization<sup>23</sup>. This was exemplified by a visit that Commission director-general for energy Dominique Rostori paid to the Ukrainian capital only the next day. He promised the Commission's support for Ukraine to hold bilateral talks with Gazprom after the existing gas transit deal expires in 2019 while stressing that the European Commission had no intention to back the Nord Stream 2 project. However, no verbal declarations turned out

helpful for Kiev, especially given that the European Union is divided on the matter. This is exemplified by a juxtaposition of the following two statements. On May 25, 2018, Vice President of the European Commission Maroš Šefčovič admitted that the Nord Stream 2 natural gas pipeline is not intended to be "purely commercial". "I am glad that the political dimension of the project has been noticed by the German authorities," he said, making a blatant reference to Angela Merkel's speech after a meeting with Ukrainian President in April. On November 14, 2018, Chief European Commission spokesperson Margaritis Schinas said that the EU's stance towards Nord Stream 2 has been known for a long time, saying that "we talked about it and repeated. We emphasized the commercial nature of this project. We said that there are gaps in the EU legislation, which, if they are eliminated, will allow us to have a more significant



Source: WIKIMEDIA COMMONS

23 [https://biz.censor.net.ua/news/3059763/rada\\_prizvala\\_ostanovit\\_stroitelstvo\\_severnogo\\_potoka2](https://biz.censor.net.ua/news/3059763/rada_prizvala_ostanovit_stroitelstvo_severnogo_potoka2)

voice.” He added that the EC proposed a mandate that would allow the commission to have more leverage in the gas pipeline project. Under both the Bulgarian and Austrian presidencies, German efforts resulted in failing to pass the proposal of changes in the existing legal framework that would permit the offshore part of the Nord Stream 2 to be subject to EU law restrictions as well as a draft mandate for further talks between Gazprom and the European Commission. Meanwhile, the project implementation seems to move forward, which exerted an impact on the stance assumed by the Czech Republic and Hungary, both of which has long hesitated.

The former does not oppose the Nord Stream 2 pipeline; quite the contrary, though Prague seeks to stand aside in a clash between the proponents and opponents of the project at the European forum. The Czech Republic considers the issue in purely economic terms. Deputy Minister of Industry and Trade of the Czech Republic Rene Nedela said on November 5, 2018, that “the planned pipeline may help fill the Czech gas network,” adding that Nord Stream 2 will enable to maintain current volumes of gas transmission through the Czech Republic. However, Nedela admitted also that Prague’s approach stems from concerns over the future of the Czech gas sector after natural gas transit through Ukraine stops. “From a technical and economic point of view, we certainly back the project so that transit potentials are preserved in the Czech Republic while we do not dispose of the most costly distribution in Europe,”<sup>24</sup> he stated. In fact, the new supply model providing for substituting Ukraine’s GTS with Nord Stream 2 would boost the Czech transit importance. The EUGAL gas pipeline would permit the country to become an important link in the further distribution process of Russian “blue fuel” flowing to Germany under the Baltic Sea. Some of the EU Member States seem critical of Nord Stream; this is not due to Russia’s interfering in the community’s affairs but rather the fact that Germany is favored in this kind of projects. Such is the case of Hungary whose representatives are not against the trans-Baltic project. The country’s Foreign Minister Peter Szijjarto accused the European Commission of applying double standards to Russian gas pipeline projects. “South Stream, which was

beneficial for smaller EU Member States, has been withdrawn due to the fact that these countries are not as influential as Germany,” he said, adding that the main argument against the pipeline was that it was supposed to bypass Ukraine. There emerges the question of how that project was different from Nord Stream 2. When the U.S. Energy Secretary Rick Perry paid a visit to Budapest in November 2018, he called on Hungary and its neighbors to reject Russian gas pipelines. His statement was immediately commented on by Peter Szijjarto who stated that Turkish Stream was good news for Hungary and should not pose any problems as Nord Stream 2 – a new pipeline of a bigger capacity – will eventually reach Germany’s territory. Szijjarto criticized what he described as Western Europe’s double standards over Hungary’s decision<sup>25</sup>.

The European proponents of the Nord Stream 2 natural gas pipeline emerged victorious after the European Commission on May 24, 2018, had reached a settlement with Gazprom, finally concluding a long-running antitrust investigation into the Russian energy giant’s dominance in Central and Eastern Europe. Gazprom was entrusted with certain obligations yet it managed to escape fines for its monopolistic practices. If imposed, such considerable sums could hinder financing the Nord Stream 2 project. However, this ultimately did not happen while the Commission’s decision confirmed that key European players had divided the community into a few categories. Russia’s gas giant did not suffer any losses yet it turned out to be harmful to Central and Eastern European countries, including Bulgaria, Estonia, Lithuania, Latvia, Poland, the Czech Republic, Slovakia, and Hungary, because it was against interests of its partners, with particular regard to the German ones. EU High Representative for Foreign Affairs and Security Policy Federica Mogherini said on November 7, 2018, in Montreal that Europe’s strategic interest consists of maintaining Russian gas shipments through Ukraine, which comes as EU’s “common standpoint”. As she emphasized, “its coherence with further steps undertaken by individual member states is yet another matter.”<sup>26</sup> This may be deduced upon the attitude adopted by the EU Member States, whose consent is required for constructing a new natural gas pipeline under the

24 Czechi: Resort przemysłu Nord Stream 2 pomoże napęlić gazociąg [Czech Industry Ministry claims that Nord Stream will help fill gas pipeline], Polish Press Agency, November 5, 2018

25 Perry apeluje do Węgier i sąsiadów o rezygnację z rosyjskich gazociągów [Perry calls on Hungary and its neighbours to reject Russian gas pipelines], Polish Press Agency, November 13, 2018; [https://gazownictwo.wnp.pl/amerykanie-apeleja-do-wegier-o-rezygnacje-z-rosyjskich-gazociagow,334243\\_1\\_0\\_0.html](https://gazownictwo.wnp.pl/amerykanie-apeleja-do-wegier-o-rezygnacje-z-rosyjskich-gazociagow,334243_1_0_0.html)

26 Mogherini’s comment on the EU position towards Nord Stream 2, Polish Press Agency, November 11, 2018

Baltic Sea. Naturally, such a group does not include Germany that strongly advocates the projects.

On April 5, 2018, the Finnish authorities have approved Gazprom's plans to build the 374-kilometer Finnish section of the Nord Stream 2 pipeline in the country's exclusive economic zone. A week later, the Regional State Administrative Agency Southern Finland issued the second of permits required to construct and operate the planned natural gas pipeline in accordance with the Water Act. This was the second and last consent needed to complete the permitting procedure in Finland. On June 7, 2018, the Swedish government gave its approval for the construction of two threads of Nord Stream 2 in the country's exclusive economic zone in the Baltic Sea. Sweden's authorities explained that "neither international law nor Swedish law entitled Stockholm to decline the application" even though "Sweden is critical to the Nord Stream 2 project as it risks contravening the goals of the EU's Energy Union and not complying with applicable EU legislation.<sup>27</sup>" Unlike Finland and Sweden, Denmark did not succumb to pressure exerted by Russia and Germany.

"Never turn your back to Russia, as soon as you do this, you will immediately get hit in the back," Groysman said on June 26 during a briefing following a meeting with Danish Prime Minister Lars Lokke

Rasmussen in Copenhagen<sup>28</sup>. Most of Denmark's parliamentary factions are against the Nord Stream 2 project to be implemented. In 2017, the country's authorities adopted a legal framework allowing the government to reject the pipeline project due to security reasons or foreign policy issues. This gave a possibility to block the pipeline running through the Danish territorial water south of the Baltic island of Bornholm, which was the original route as laid out in the first plan from April 2017. It is to bypass a reservoir that contains large amounts of German chemical weapons that were flooded there after World War II. Nonetheless, Copenhagen hesitates to issue a final decision. This is why in August 2018 Nord Stream 2 AG commissioned developing of an alternative route in the Danish exclusive economic zone northwest of Bornholm for the Nord Stream 2 pipeline system<sup>29</sup>. It would not require any permits to be granted by Denmark's Foreign Ministry yet it will be longer. The alternative route would be 175 kilometers long, thus 36 more than initially planned. Changing the route will trigger additional expense, meaning an increase in costs of constructing the pipeline by between 5 and 10 percent, or 0.5–1 billion euro. On August 10, 2018, Nord Stream 2 AG submitted an application for an alternative route. From the point of view of Denmark's interest, such an option would be problematic because of a heavily-trafficked shipping route north of Bornholm.

27 <https://www.euractiv.com/section/energy/news/all-eyes-on-denmark-after-sweden-awards-nord-stream-2-permit/>

28 Hrojsman w Danii nigdy nie odwracajcie się do Rosji plecami [Ukraine's Groysman: "Never turn your back to Russia"], Polish Press Agency, June 26, 2018

29 <https://uk.reuters.com/article/uk-eu-gazprom-nordstream/russia-led-nord-stream-2-seeks-new-route-to-avoid-danish-waters-idUKKBN1KV118?il=0>

# U.S. SANCTIONS: SWORD OF DAMOCLES

The United States has opposed the construction of Nord Stream 2 since such an idea was announced, even regardless of the administration in power. The U.S. objection to the Russian-German joint gas pipeline stems from at least two main reasons. First, Washington sees Nord Stream 2 as a threat to Europe's energy security while new gas links with Russia is considered an obstacle to the diversification of gas supply sources as well as to stability and security in Central and Eastern Europe. Secondly, it is about

business affairs, which specifically concern the implementation of one of many objectives of Trump's energy policy aimed at boosting exports of U.S. liquefied natural gas, also to the European market. While representatives of Washington initially raised the issue of European security to criticize the Nord Stream 2 project, over the past year much has been said about the rivalry between U.S. liquefied natural gas and Russian natural gas in Central and Eastern Europe. This was best exemplified by statements by Donald Trump and U.S. Energy



Source: WIKIMEDIA COMMONS

Secretary during their visits to Poland, the U.S.-Baltic summit and the Helsinki conference.

Back in August 2017, the U.S. Congress authorized the President to impose sanctions, also against companies and individuals closely linked to the construction of the Nord Stream 2 pipeline, a decision that came as a response to Russia's meddling in the U.S. presidential election. Under the CAATSA regulation, restrictions would target all firms participating in the investment implementation and possibly banks that provide the necessary financing<sup>30</sup>. Germany's lobbying proved eventually to be so effective that both the U.S. government decided to add a provision to the aforementioned document as well as to the U.S. Department of State instruction for implementing the Act, under which restrictions should be launched "in coordination with allies of the United States". Nonetheless, the U.S. President is allowed to make a final decision to implement such steps. Trump's presidential administration has not yet fully implemented the provisions of the law, even though the U.S. leader has repeatedly criticized plans to boost transmission of Russian gas to Germany and other European countries. Even though a lot has been said about the U.S. intention to impose sanctions against the Russian-German gas pipeline<sup>31</sup>, the presidential administration has not decided to make such a step.

At the same time, the Trump administration keeps developing energy cooperation between the United States and Central and Eastern European countries with the aim of reducing dependency on Russia as the only gas supplier. In April 2017, U.S. Energy Secretary Rick Perry said that the United States will become "the dominant player in the global energy market" using its "massive reserves of shale gas resources shipped overseas." There emerges the go-ahead for the Golden Pass liquefied natural gas export project, the second LNG export terminal only to the Sabine Pass infrastructure. Importantly, Rick Perry stated that "energy policy is not only an essential part of the U.S. economic policy but also that of the state's foreign policy." In May 2017, Mary Warlick, the State Department's top energy diplomat, visited the capitals of Austria, Latvia, Slovakia, and Norway. Also, she held a number of meetings in Poland and Lithuania. Deputy Assistant Secretary for Energy Diplomacy in the Department of State's Bureau of Energy Resources

Robin Dunnigan headed to Brussels and Copenhagen for talks while Rex Tillerson, who was U.S. Secretary of State at that time, said in the U.S. Congress that "Europe needs to think about the full energy balance and energy security while admitting its dependence on Russian natural gas supplies." On June 7, 2017, a vessel called at the President Lech Kaczyński LNG Terminal in Świnoujście, bringing the first delivery of liquefied natural gas from U.S. supplier to Poland and this part of Europe.

The same day, Foreign Intelligence Service (SVR) Director Sergei Naryshkin delivered a speech at the state Duma, saying that the U.S. top priority is to start an economic war with Russia, which is fostered by introducing subsequent batches of restrictions. Naryshkin accused Washington of "persuading its allies to reduce the volume of Russian oil purchased" while restricting Moscow's access to modern technologies. Most importantly, he argued that "desperate attempts are being made to nullify or at least slow down the implementation of the Nord Stream 2 natural gas pipeline," stating that "particular efforts are undertaken by Poland and the United States." On June 14, 2017, the U.S. Senate unanimously passed a draft bill of the Countering America's Adversaries Through Sanctions Act (CAATSA). Washington's decision almost immediately experienced bitter criticism from Germany's Vice-Chancellor and Austria's Chancellor, who referred to the U.S. Senate draft act as a threat to the EU energy policy that could affect European businesses involved in piping in Russian natural gas. In a joint statement, Sigmar Gabriel and Christian Kern accused the United States of "trying to help American natural gas suppliers at the expense of their Russian rivals." A spokesman for German Chancellor informed that Angela Merkel backed the stance adopted by Kern and Gabriel. Given the nature of Nord Stream 2, it was absurd to claim that Washington seeks to mix politics with the economy while "energy supplies to Europe are a European matter and not that of the United States."

In mid-March 2018, thirty-nine U.S. senators urged the Trump administration in a letter to U.S. Secretary of the Treasury Steven T. Mnuchin and Deputy U.S. Secretary of State John J. Sullivan to use all tools at its disposal to prevent the construction of the Nord

30 [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/hr3364\\_pl115-44.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/hr3364_pl115-44.pdf)

31 [https://www.wsj.com/articles/us-opposition-to-pipeline-hangs-over-meeting-between-putin-and-merkel-1534582801?mod=hp\\_lead\\_pos6](https://www.wsj.com/articles/us-opposition-to-pipeline-hangs-over-meeting-between-putin-and-merkel-1534582801?mod=hp_lead_pos6)

Stream 2 natural gas pipeline. The planned pipeline would negatively impact the EU energy market while strengthening Russia's position of a top gas supplier to the EU Member States, the letter said. Moreover, Nord Stream 2 would "make U.S. allies in Europe more susceptible to Russia's coercion and malign influence, being a step backward in Europe's efforts to diversify its gas suppliers," the statement read. In addition, the U.S. officials voiced their concern that "Nord Stream 2 would undermine the economy of Ukraine and other gas transit countries in Central Europe by allowing Russia to reduce or even cut off gas supplies to those countries with impunity." U.S. senators called on Trump's administration to employ all possible means to block the project, including the act on sanctions against Moscow adopted by the Congress ("Section 232 provides the administration more tools to sanction the U.S. and foreign entities "supporting or expanding or expanding Gazprom's near-monopolist role in providing energy to U.S. allies.") Actually, the presidential administration assumed the same stance. Back in March 2018, the U.S. State Department spokeswoman Heather Nauert

said the U.S. government opposed Nord Stream 2 as the project "would undermine Europe's energy security and stability, providing Russia with another tool to pressure European countries, especially Ukraine. We've seen that – what Russia has done in the past, when they've turned off the pipeline in the middle of winter, causing some families to not have heat to prepare meals, for example. We think that this is simply wrong," she reiterated. Shortly afterward, a new critical element sparked in the U.S. stance towards the Russian gas pipeline. At a meeting with the presidents of the three Baltic States on April 3, 2018, Donald Trump referred to Germany's behavior as hypocritical, accusing Berlin of backing a project that would provide Moscow with an additional source of income while enjoying the umbrella of defense provided by NATO. "Germany is giving billions and billions to Russia," the U.S. leader stated, blaming Berlin for spending no more than 1 percent of the country's GDP for defense purposes, thus not fulfilling its obligations towards NATO, instead opting for backing Russia's Nord Stream 2 project.

# SECURITY AND BUSINESS

State Department Deputy Assistant Secretary Sandra Oudkirk said on May 17, 2018, in Berlin that the United States “will use as much persuasive power as possible to prevent the project from being implemented,” saying that Washington could impose sanctions on all companies that take an active part in the pipeline’s construction. She sought to emphasize that the U.S. administration opposes Nord Stream 2 as the investment might potentially increase Russia’s “malign influence” in Europe. Oudkirk stressed that once built, the Russian-German gas pipeline bypassing Ukraine’s territory would deprive the country of its hitherto role for Russian gas supplies to Europe, thus putting an end to Kiev’s transit fees. Also, the pipeline could

pave Russia’s way to install undersea surveillance equipment in the Baltic Sea (“The new project would permit new technologies to be placed along the pipeline route and that is a threat,” she stated)<sup>32</sup>. U.S. Special Representative for Ukraine Kurt Volker said two days later that “this is not a decision, but a discussion,” adding that the United States is “considering the possibility of imposing restrictions against international companies that participate in the Nord Stream 2 project.” He said that the venture “is hazardous for Ukraine allowing Russia to spark crises in the EU’s immediate neighborhood.” Speaking about the U.S.-wide discussion on introducing punitive measures against Gazprom’s European partners, he added that in his opinion “this should give a signal



Source: NATO

to the German authorities to tackle this issue before the United States makes a final decision on imposing further sanctions.”<sup>33</sup> On June 30, 2018, the issue was sharply commented on by a spokeswoman for the U.S. Department of State Heather Nauert who said in a press statement that “over the last week, U.S. officials underscored the strong U.S. opposition to Russian-led pipelines that would exacerbate Europe’s dependence on Russian-sourced energy.”

Germany’s assistance in developing the project aimed at boosting Europe’s dependence on Russia’s energy supplies was denounced by Donald Trump during the NATO summit in July 2018. The U.S. leader lambasted Berlin’s policy during a bilateral breakfast meeting with NATO Secretary General Jens Stoltenberg. It seemed that Germany’s steps would become one of the key points of a dispute between U.S. and Russian presidents during the July summit in Helsinki. Surprisingly enough, Trump softened his stance in this regard. Nothing was said about Europe’s weakening energy security while the U.S. President overtly admitted that Nord Stream 2 is in fact a German matter. Trump adopted a purely mercantile approach to the problem, looking at the issue in terms of market competition between U.S. energy resources and those of Russian origin. Claims that the U.S. liquefied natural gas is able to compete with Russian natural gas in Europe turned out harmful and tactically incorrect, fitting in Moscow’s narrative, according to which Washington’s resistance to Nord Stream 2 derives from its desire to reduce competition from Russia. As almost immediately pointed out by the first deputy of the Federal Council economic policy committee Sergey Kalashnikov, “it is pretty clear for everyone that at the core of Trump’s statement lie the commercial interests of American businesses.” Further, he argued that “the United States is trying to palm its own liquefied gas—which is far more expensive than Russian natural gas—off on Germany and Europe in general.”

Due to the shale revolution, the United States could eventually emerge as one of the world’s top gas producers. Nonetheless, Washington stays far behind the biggest LNG exports; for instance, such countries as Qatar ship much more liquefied natural gas to Europe. Washington is a minor player, exporting

most of its LNG resources to Asia. This is due to three reasons: attractive prices in Asia, Russia’s clever marketing techniques in Europe and a lack of sufficient infrastructure for LNG reception in various parts of the Old Continent. As declared by the United States, all actions carried out against the Nord Stream 2 endeavor should be underpinned by a strive for boosting Europe’s energy security through diversifying transit routes and supply sources. This lies in Washington’s geopolitical interest because the more Europe is reliant on Russian gas the more political influence Moscow has on the continent. U.S. Ambassador to the EU Gordon Sondland adopted a similar approach; addressing an audience at the European Policy Centre think-tank in Brussels on November 4, 2018, he said that “U.S. opposition to such projects as Nord Stream 2 is long-term.” Sondland stressed that “U.S. opposition was not based on hopes of exporting more U.S. gas to Europe but on geostrategic concerns,” adding that the diplomat claimed that Nord Stream 2 poses a threat to trans-Atlantic security, making Europe’s eastern flank more vulnerable to Russia. In addition, he suggested new sanctions be imposed against companies involved in constructing the pipeline. Speaking on September 13, 2018, alongside his Russian counterpart Alexander Novak in Moscow, U.S. Energy Secretary Rick Perry called on Russia to be a “responsible supplier” and to stop using its resources for “influence and disruption.” Asked whether the United States might impose “punitive measures” against Nord Stream 2 and other projects, Perry said “yes.”<sup>34</sup> Exactly two months later, while visiting Budapest, Perry called on Hungary and its neighbors to reject Russian gas pipelines which Washington says are being used to cement Moscow’s influence in Central and Eastern Europe. “Energy diversification would be crucial for the region, as Russia has used energy as a weapon in the past”, he stated.

On December 11, 2018, the U.S. House of Representatives adopted a bill agreeing to impose sanctions on Nord Stream 2 participants and urging European countries not to take part in a project that hits Europe’s energy security. “Nord Stream 2 is a drastic step backwards for European energy security and US interests,” the bill reads.<sup>35</sup> The lower chamber of the U.S. Congress urged President Donald Trump to

32 <https://www.golos-ameriki.ru/a/reuters-usa-germany-russia-pipeline-update-1/4398160.html>

33 Volker: zastanawiamy się nad sankcjami na koncerny uczestniczące w Nord Stream 2 [Volker: the United States is considering sanctions against companies involved in the Nord Stream 2 construction], Polish Press Agency, May 19, 2018

34 <https://www.rferl.org/a/us-warns-sanctions-possible-on-nord-stream-pipeline/29488617.html>

35 <https://www.rferl.org/a/us-house-of-representatives-condemns-russia-s-nord-stream-2-pipeline/29651530.html>

use “all available means to support European energy security that is possible through a diversification policy to minimize dependence on the Russian Federation.” In addition, reference was made to a statement of U.S. Deputy Assistant Secretary for Energy Diplomacy Sandra Oudkirk, according to whom the endeavor may have “major impact on national security of some of the U.S. largest allies” and the country itself. Kremlin spokesman said the U.S. resolution constituted part of Washington’s consistent policy. While speaking of the gas pipeline project, Dmitry Peskov accused the United States of resorting to the “unfair competition” strategy. “It is about trying to prevent the implementation of a purely commercial, economic project that is in the interests of not only the gas supplier, Russia, but also consumers, first of all, Germany,” he claimed. Interestingly, on December 15, 2018, the

U.S. Department of State urged Berlin to “take into account fears of its neighbors”<sup>36</sup>, thus referring to the European Parliament legislative resolution adopted on December 12, 2018, calling for the cancellations of Nord Stream 2.<sup>37</sup> Earlier Berlin had succumbed to neither threats nor pressure; it is thus likely that an article published in German economic daily *Handelsblatt* in early 2019 is part of this political game. Washington may still levy sanctions, yet this time on the highly specialized companies laying the Nord Stream 2 pipeline. These two contractors are Swiss-based Allies Group and Italy’s Saipem. The former accounted for a considerable part of work to be performed while the latter has already completed its tasks. Ultimately, if the Trump administration finally carried out its threats, Nord Stream 2 AG would find it uneasy to come up with an adequate substitute.

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36 <https://www.state.gov/r/pa/prs/ps/2018/12/288122.htm>

37 <http://www.europarl.europa.eu/news/en/press-room/20181205IPR20940/meps-commend-ukraine-s-reform-efforts-and-denounce-russian-aggression>

# CONCLUSIONS

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Since the very beginning of the project, it was Berlin, and not Moscow, that has held at its disposal all tools to block the construction of Nord Stream 2. Everything seems, however, to indicate that Germany did not succeed in passing a credibility test for a state that often urges other countries to bear in mind solidarity while referring to purely European values. Theoretically speaking, even if the project was brought to a halt, such a decision would come against Berlin's will. Nord Stream 2 needs to face three fundamental challenges, including plausible U.S. sanctions, Denmark's delay in issuing building permits and a potential necessity to comply with EU competition law under the gas directive. Even if to take into account the worst-scenario in all of these cases, the project is likely to be delayed and/or become less profitable but it will be implemented.

The draft amendment to the gas directive is of crucial importance for Europe's gas market; once adopted, it could actually imperil Nord Stream 2's profitability. Nonetheless, the construction of the disputed gas infrastructure has been going on for several months while works on the regulation came to a deadlock for the entire 2018. As a result, the pipeline may become operational before new legislation comes into force. Given Berlin's firm stance, Brussels may find it unlikely to implement punitive measures that would make German contractors suffer considerable financial losses. Time is running out as the gas directive competes with the

pipeline; even though such a race against time seems to be won by the latter, this may still be subject to changes. It was mostly due to Denmark whose authorities played for time. Their behavior stood in stark contrast to the approach adopted by neighboring Sweden as the government in Copenhagen sought to delay its decision. The Nord Stream 2 natural gas pipeline is scheduled to be completed by the end of 2019 while much seems to indicate that its implementation will be hampered. Owing to the urging need to lay pipes along the alternative route northwest of Bornholm, the venture is expected to get a one-year delay. In addition to all the obstacles mentioned above, the Gazprom-led Nord Stream 2 pipeline first and foremost needs to face the U.S. state policy. Washington is still looking to introduce further punitive measures; in fact, if they were to hit the companies involved in providing financial aid to the Russian-German joint gas link, they could even impede its enforcement. Nonetheless, apart from issuing some verbal threats, the U.S. administration is in no rush to take any decisive steps. Furthermore, sanctions-stricken companies could hope for Gazprom's substantial aid as Russia's energy giant would cover all these expenses out of its own pocket. A greater risk would be triggered by U.S. punitive measures targeted at specialized companies laying the underwater part of the pipeline. If levied by Washington, sanctions could represent the only solution to blocking the venture or at least impeding its completion.













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