

# The Nord Stream 2 pipeline

## Economic, environmental and geopolitical issues

### SUMMARY

The EU's dependence on Russian gas imports shows no signs of lessening. Although the Green Deal envisages a carbon-neutral Europe by 2050, natural gas remains a key part of the energy mix as coal is phased out and renewable energy is not yet ready to fully take up the slack. EU domestic gas production is fast declining, and there is not enough gas at affordable prices from alternative suppliers to replace Russian production.

Launched in 2015, the Nord Stream 2 pipeline connects Russia and Germany directly via the Baltic Sea, following a similar route to Nord Stream 1 completed in 2011. Construction has taken several years, with delays due to protracted legal battles and, since 2019, US sanctions. Nevertheless, pipe-laying continues and is on track for completion in the next few months.

Few energy projects have ever been as hotly debated as Nord Stream 2. Pipeline owner Gazprom, a Russian state-controlled company, argues that it is needed to meet the EU's growing demand for gas imports. Germany's energy sector also sees the pipeline as a viable commercial project.

Some opponents point to the environmental impact of the pipeline's construction, as well as the contradiction between the EU's climate goals and long-term investments in fossil fuel import infrastructure. However, the pipeline's geopolitical implications are its most controversial aspect. Critics, including several EU Member States, describe Nord Stream 2 as a Kremlin project to export malign Russian influence as well as gas to Europe. They note that, combined with the new TurkStream pipeline delivering Russian gas to south-eastern Europe, it will eventually enable Russia to starve Ukraine's ailing economy of much needed transit fee revenue. The pipeline looks set to perpetuate Russia's stranglehold on EU energy markets and compromise European strategic autonomy.



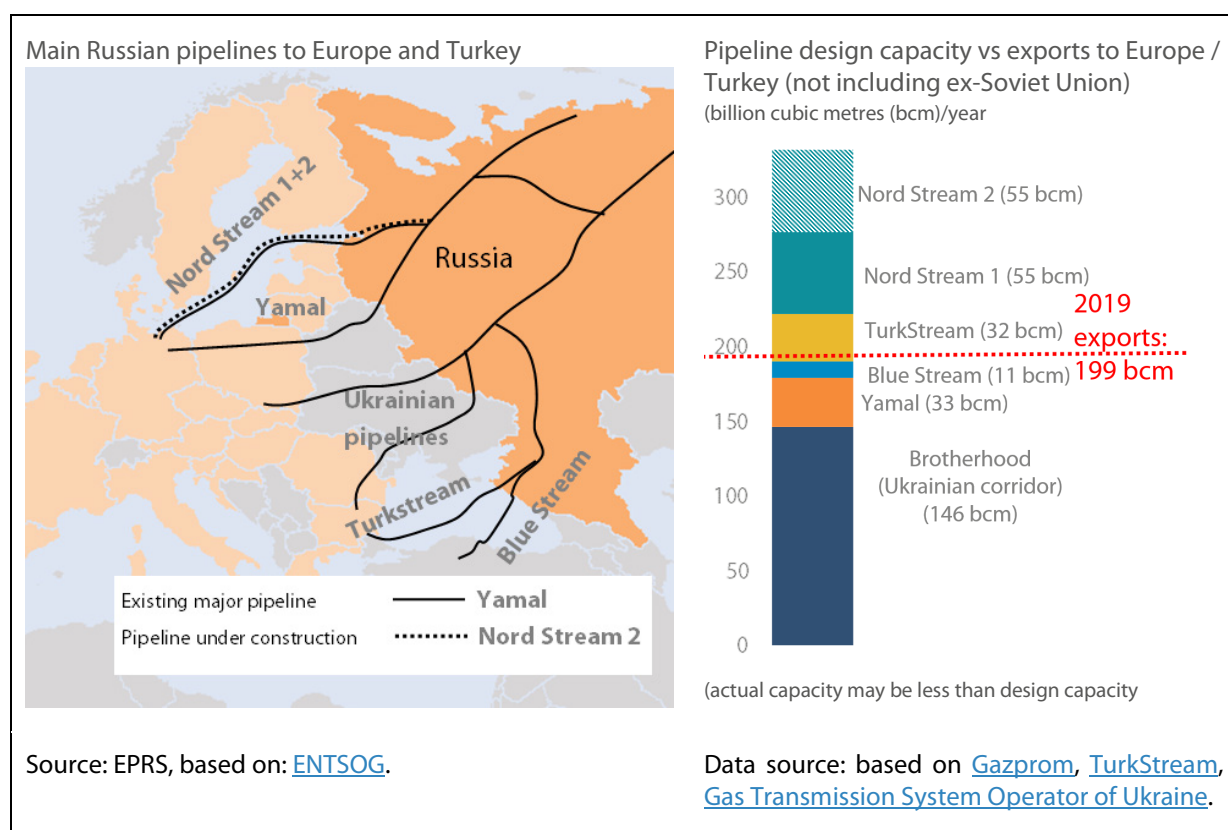
### IN THIS BRIEFING

- Russia's gas exports to Europe
- Environmental and climate change issues
- Energy security: Is Nord Stream 2 a threat or an opportunity?
- Economic aspects: Is Nord Stream 2 a commercial project?
- Geopolitical arguments against 'Putin's pipeline'
- The EU position on Nord Stream 2

## Russia's gas exports to Europe

Russia has the largest natural gas [reserves](#) in the world, but (as the Soviet Union) it only became a major producer and exporter in the 1970s, after the development of its Siberian gas fields and pipelines connecting them to European Russia and beyond. Large-scale exports to Western Europe began with the Urengoy–Uzhhorod pipeline built in 1984. The Yamal pipeline via Belarus and Poland became operational in 1996. The first Nord Stream pipeline, which connects Russia and Germany directly under the Baltic Sea, became operational in 2011. Other pipelines include Blue Stream, another undersea pipeline supplying Turkey, operating since 2003, and [TurkStream](#), supplying Turkey and south-east Europe, operating since 2020. Plans for a South Stream pipeline running directly from Russia to Bulgaria under the Black Sea were abandoned in 2014, after the European Commission objected that it did not comply with European energy legislation. All the above pipelines are owned and operated by Russian state-controlled company Gazprom and its subsidiaries; although Gazprom is not Russia's only gas company (privately owned Novatek is also a major player), it is the largest producer, and has a monopoly on all exports of pipeline gas, though not those of liquefied natural gas (LNG).

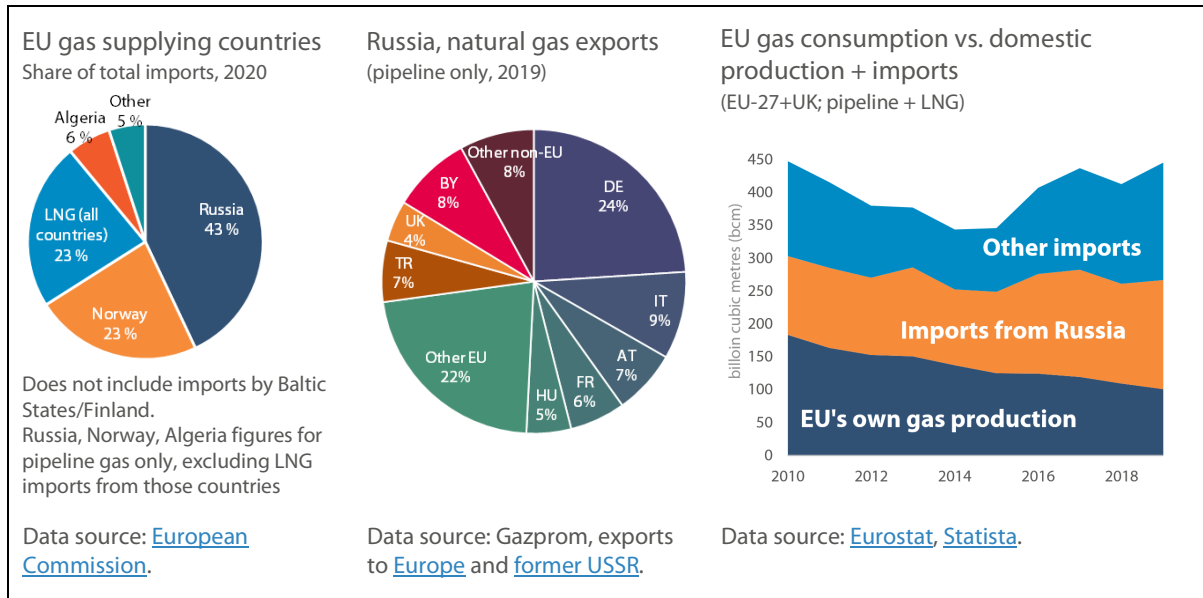
Figure 1 – Main Russian pipelines to Europe and Turkey



*Even without Nord Stream 2, Russia's existing pipelines already have more than enough capacity for exports to Europe*

Thanks to these pipelines, Russian gas exports have risen [steadily](#). Whereas the Soviet Union exported just 6.8 billion cubic metres (bcm) to the rest of the world in 1973, by 2019 Russia's exports to the EU alone had reached [166 bcm](#), 43 % of the EU's total gas imports. Russia therefore exports more gas to the EU than any other country, ahead of Norway (23 %) and Algeria (6 %). In terms of value, in 2019 Russian gas exports to the EU were worth [US\\$17.9 billion](#), 11 % of the EU's total imports of goods from Russia. In 2020, this figure fell to US\$11.8 billion, with lower energy prices and decreased volumes, partly due to the [economic effects](#) of the coronavirus pandemic

Figure 2 – Gas trade of the EU and Russia



Although the EU is dependent on Russia for gas supplies (41 % of EU gas imports), Russia is even more dependent on the EU, which accounts for 73 % of its gas exports. As EU gas consumption rises and production declines, the EU needs to import more gas, including from Russia, to fill the gap.

The EU has made efforts to diversify away from Russian gas supplies, and Russia is also looking for new export markets. However, the two sides are likely to remain mutually dependent, due to the lack of viable alternatives in the near term. For the EU, there are few countries apart from Russia that have large enough gas reserves and are close enough to be connected by pipeline; Russia faces similar difficulties in finding significant export markets in its neighbourhood. Russia has built a new [pipeline](#) to China, and the EU now has the Southern Gas Corridor delivering Azeri gas, but the volumes transported along these new routes are small compared to EU-Russia gas trade. Liquefied natural gas (LNG) is another diversification option, but currently represents less than [one-quarter](#) of the EU's pipeline imports and Russia's pipeline exports, due among other things to its cost and the need for dedicated LNG import infrastructure.

Looking towards the future, in 2020 the International Energy Agency [forecast](#) that EU demand for gas would remain flat over the next five years, while EU domestic gas production would decline by 40 %. Based on production of [55 bcm](#) in 2020, this would mean that the EU would have to import an additional 20 bcm by 2025 (+6 % compared to current imports). For the longer term, Nord Stream 2 AG [forecasts](#) an additional 120 bcm demand for imports (+37 %) by 2035. Due to the above-mentioned difficulty of diversifying towards other suppliers, it is likely that a large part of this increase will come from Russia. Most other [projections](#) reach similar conclusions for the next 5-10 years. In the longer term, renewable energy sources are expected to gradually displace gas.

## The controversial Nord Stream pipelines

Although usually referred to as a single pipeline, the first Nord Stream route actually consists of two parallel pipelines running directly from western Russia to Germany under the Baltic Sea (see Fig. 1). Operational since 2011, it has a capacity of 55 bcm, equivalent to one-third of the EU's gas imports from Russia. Construction of two additional pipelines (referred to as Nord Stream 2), following a similar undersea route and with the same capacity as the first two pipelines, began in 2018 and is not yet complete.

Both projects, and especially Nord Stream 2, have proven highly controversial, with a highly polarised debate on their environmental, economic, energy security, legal and geopolitical implications. Nord Stream 2 is backed by the German and [Austrian](#) governments, whereas

opponents include [Poland](#), the Baltic States, the United States and [Ukraine](#) (for more on the position of the EU institutions, see below).

For [proponents](#), the Nord Stream pipelines will supply the EU economy with reliable, environmentally clean and cheap energy. For detractors, they are environmentally harmful, undermine EU energy security and are fundamentally incompatible with EU energy legislation and policy. Whereas Nord Stream's backers emphasise above all its alleged commercial benefits, opponents see it principally as a Kremlin-instigated project that offers few economic advantages, but will weaken and divide the EU. Above all, this geopolitical dimension dominates the current debate on Nord Stream 2.

## Construction of Nord Stream 2: State of play

### A convoluted legal saga clouds the pipeline's future prospects

Facing strong opposition, Nord Stream 2 has run into numerous obstacles that have delayed but not stopped its construction. The start of the project goes back to 2011, just after the first Nord Stream pipeline was inaugurated, when Gazprom and a group of major European energy companies decided to look into the possibility of doubling the capacity of the new undersea route. In 2015, Gazprom and five EU companies – Royal Dutch Shell, E.ON (subsequently replaced by Uniper after the latter became a separate entity from E.ON), OMV, Wintershall and ENGIE – [agreed](#) to build the pipeline. Initially, construction was planned as a joint venture, 50 % owned by Gazprom and the remainder split between the five EU partners, each contributing according to their share to the total capital of €9.5 billion.

Objections were already raised in 2016 by the leaders of [eight EU countries](#) warning of the geopolitical and energy security risks, and by [UOKiK](#), Poland's competition authority, on the grounds that the new pipeline would increase Gazprom's dominance of the country's gas market. To avoid the risk of a UOKiK fine, the five EU energy companies decided to participate in the project as [lenders](#) rather than shareholders; thus, instead of being set up as a joint venture, Nord Stream 2 AG, the company building the pipeline, is a fully owned subsidiary of Gazprom.

In October 2020, Poland's UOKiK again joined [battle](#) with the pipeline, imposing a record-breaking €6.5 billion fine on Gazprom, and penalties ranging from €6–€20 million on the five project partners. Gazprom has appealed the ruling, and the outcome will probably take years to settle. The fine is unlikely to stop the pipeline, but if upheld, it will be a major blow to its future profitability.

### Does Nord Stream 2 comply with European energy law?

Compliance with EU energy law was a problem from early on in the project, with the prospect of it meeting the same fate as the aborted South Stream pipeline. Among other things, the EU's [2009 Gas Directive](#) requires unbundling of network ownership – in other words, in the EU internal market, gas producers may not simultaneously control the pipelines that deliver their gas to purchasers. Furthermore, other producers must also have non-discriminatory access to those pipelines.

There was, however, some uncertainty over the extent to which the Gas Directive applied to pipelines, such as Nord Stream 2, which supply the EU market but are physically located outside it. In September 2017, the European Commission's legal service [concluded](#) that Nord Stream 2 was outside the scope of EU law (the legal service of the [Council](#) reached a similar conclusion). To fill the legal void, it recommended international negotiations with Russia. However, the mandate for such negotiations – which would have required the unanimous approval of all then 28 Member States – was never agreed. Instead, the EU opted to amend the Gas Directive so that it could after all apply to Nord Stream 2 – or at least the 22 km of it within German territorial waters. Under a trilogue [compromise](#) reached in February 2019 between representatives of the Commission, Council and Parliament, it was agreed that the new provisions of the amended Gas Directive would apply to Nord Stream 2 and other similar future pipelines, but not to pre-existing ones such as the first Nord Stream pipeline. Under these provisions, Germany's national energy regulator is responsible for applying

EU energy law to the pipeline; in May 2020, it rejected Nord Stream 2 AG's application for an [exemption](#) from the Gas Directive. The regulator argued that the pipeline was not complete in May 2019, at the time when the amendments came into force.

Nord Stream 2 has launched three separate legal challenges to the application of the Gas Directive's new provisions, namely: in the German courts, contesting the German regulator's decision not to exempt the pipeline; in the EU court system – in July 2020 it filed an [appeal](#) with the Court of Justice after the General Court [ruled](#) its complaint was inadmissible; and with a [panel](#) of independent arbitrators, under the Energy Charter Treaty (Russia withdrew from the treaty in 2009, but Nord Stream 2 AG is headquartered in Switzerland, which is a party). Unless one of these challenges succeeds, Gazprom will have to find a legal arrangement to bring the pipeline into compliance once it becomes operational – for example, by selling it off (in full or in part), or more likely by relinquishing control to a fully owned but organisationally independent subsidiary.

Figure 3 – Nord Stream 2 timeline

● construction progress ● legal issues ● US sanctions



Data source: EPRS.

## US sanctions attempt to halt the pipeline

Sanctions are a second front in the war against the pipeline. [EU sanctions](#) against the Russian energy sector, initially adopted in July 2014 in response to Russian aggression against Ukraine, target Gazprom non-gas subsidiaries (Gazprombank and oil producer Gazpromneft), but otherwise leave the gas sector untouched. Presumably, the decision to exempt gas producers reflects the EU's dependence on imports from Russia. By contrast, the US imports no Russian gas, and its corresponding [measures](#) included private gas company Novatek from the very start, and subsequently added Gazprom; these measures restricted investment and loans in these two companies but did not initially seek to limit Russian gas exports or the pipelines carrying them.

In 2017, the Countering America's Adversaries Through Sanctions Act ([CAATSA](#)) extended the scope of US sanctions to include pipelines. The act authorised but did not require the US president to impose sanctions on companies involved in constructing new Russian energy export pipelines. No sanctions were initially applied, after US State Department implementation guidelines limited the scope of the new legislation to pipeline projects for which a contract was signed on or after August 2017, therefore excluding Nord Stream 2.

In the absence of US sanctions, pipe-laying began in 2018 and progressed rapidly. In October 2019, Denmark granted a [permit](#) for the construction of Nord Stream 2 under its waters, removing the last remaining regulatory obstacle to completion. At the time, only [160 km](#) remained to be built, putting the pipeline on track to becoming operational by mid-2020.

It was at this point that the US finally decided to act: with bipartisan support from Congress, in December 2019 Donald Trump signed the Protecting Europe's Energy Security Act ([PEESA](#)), included in the National Defense Authorization Act for 2020. PEESA envisages sanctions for companies

owning ships involved in laying the Nord Stream 2 and TurkStream pipelines at depths of over 100 feet (30 metres). PEESA did not affect TurkStream, the undersea sections of which had already been completed by then, but forced Swiss-Dutch company Allseas to withdraw from the Nord Stream 2 project and brought construction to an almost immediate halt. To strengthen the legal basis for US sanctions, in July 2020 the US State Department issued new guidelines stating that CAATSA would after all apply to Nord Stream 2, while in January 2021 PEESA was amended with a slightly broader definition of activities connected to the pipeline susceptible to sanctions. In the same month, the US added the first names to the PEESA sanctions list – *Fortuna*, one of two ships laying the pipeline, and its Russian owners. The sanctions were not welcomed by German Foreign Minister, Heiko Maas, who [accused](#) Washington of meddling in European energy policy. The European Commission President, Ursula von der Leyen, also [criticised](#) the measures, due to the threat they posed to European companies carrying out legitimate business.

## Construction continues despite obstacles

Responding to news of PEESA in December 2019, Dmitry Medvedev, at the time still prime minister of Russia, struck a defiant note, [declaring](#) that sanctions would not delay construction by more than a few months. In February 2020, Gazprom's *Akademik Cherskiy* set sail for Europe from the Russian Far East to join *Fortuna*. Nevertheless, prospects for completion remained highly uncertain, with doubts as to how long it would take to adapt the ships for the laying of Nord Stream 2, and the willingness of Western companies to cooperate, given the prospect of further US sanctions.

Nevertheless, after a pause of over one year, in February 2021 pipe-laying [resumed](#). Despite public criticism by US President Joe Biden, and State Secretary [Antony Blinken](#), of Nord Stream 2 as a 'bad deal', Washington has held off from harsher measures that would stop its construction. On 19 May, Blinken [re-stated](#) his 'unwavering opposition' and announced that several names, including those of pipe-laying vessels, would be added to the PEESA sanctions list; crucially, however, he also granted a waiver for the Nord Stream 2 AG company itself and company executive, Matthias Warnig, a sign that Washington has resigned itself to completion of the pipeline. Indeed Joe Biden [acknowledged](#) that, although he had always opposed the project, it was too late to stop it, and sanctions would be counter-productive for trans-Atlantic relations. The pipeline was not among the [topics](#) discussed at the June 2021 Biden-Putin summit.

With the first string of the pipeline completed in June 2021 and [50 km](#) of the second one remaining, laying is progressing at the rate of up to [1.5 km](#) per day; construction could in theory be completed in a month or two. However, Gazprom executives have [declined](#) to state a deadline, citing severe weather as among the many factors that could cause further delays.

## Environmental and climate change issues

### Pipeline construction threatens Baltic coastal and marine ecosystems

Nord Stream 2 AG [insists](#) that it is building the pipeline in the 'most environmentally friendly and sustainable way' possible. It argues that the [project](#) uses locally sourced materials, and the route was carefully chosen to avoid sensitive areas on the Baltic seabed. It also points out that environmental monitoring has not identified any lasting damage from the first Nord Stream pipelines, which follow a similar route.

However, environmental NGOs point out that the pipeline passes through or affects several onshore and offshore conservation areas, including the [Kurgalsky](#) nature reserve in Russia and five Natura 2000 sites in Germany. According to them, construction has destroyed coastal wetlands, dunes and forests, and threatens animals such as porpoises and seals. Dredging activities damage the sea bed, and in 2018 [released](#) as much as 140 kg of toxic grease into the Baltic, subsequently washed up on German beaches; the company says it has since switched to using biodegradable

grease. Environmentalists have filed multiple [legal challenges](#) against the pipeline in Russian, German and Finnish courts, but so far, none of these has been upheld.

## The role of Nord Stream 2 in climate change

With its [Energiewende](#) (energy transition), Germany has made efforts to shift away from fossil fuels to renewable energy, thus helping the EU to become carbon-neutral by 2050, in line with the goal set by the European Commission's 2019 [Green Deal](#). The share of renewable energy in the EU's energy mix has climbed steadily, reaching nearly [20 %](#) in 2019, with a goal of 32.5 % by 2030. Paradoxically, however, natural gas consumption has also increased; after a decade of decline, between 2014 and 2019 [consumption](#) rose by 19 % in the EU as a whole, and 24 % in Germany.

Gas is [cleaner](#) than other fossil fuels, emitting around 50 % and 25 % less [carbon dioxide](#) than coal and petrol respectively for an equivalent energy yield, and emits much smaller quantities of other pollutants. Indeed, rising gas consumption is linked to the above-mentioned energy transition: several EU countries have committed to phasing out [coal](#); Germany, Belgium and Spain plan to close their nuclear power plants. Given that the EU does not yet produce enough renewable energy to take up the slack, gas plays an important role as a reliable and less polluting [transition fuel](#).

Nord Stream 2 AG [argues](#) that its pipeline is cleaner than alternative sources of gas, generating around one-third less carbon dioxide than liquefied natural gas due to the emissions associated with liquefying and shipping the latter. It also compares favourably with other pipelines; for gas delivered to central Europe from Russia's Yamal gas fields, the Nord Stream route is about [1000 km](#) shorter than the much older pipelines transiting Ukraine, meaning that less energy is needed for compressor stations (Nord Stream 2 will only need one such station for the entire undersea section), and less gas is lost to leakage along the way.

In 2020, the EU adopted a [hydrogen strategy](#) aimed at developing hydrogen as a low-carbon, or zero-carbon fuel. Green hydrogen is produced by electrolysing water with electricity from renewable sources, with oxygen as the only by-product. Grey hydrogen is produced from natural gas, resulting in carbon dioxide emissions, but it can be made more sustainable by carbon capture and storage, in which case it is referred to as blue hydrogen. Potentially, Nord Stream 2 could play a [part](#) in supplying Europe with grey and blue hydrogen, but there are still many unanswered questions as to how this could work. Russia does not currently have enough renewable energy to produce green hydrogen, or big enough carbon storage for blue hydrogen, and developing the capacity for either would require considerable capital. To date, Russian energy companies such as Gazprom have shown little interest in making such investments.

While defenders of Nord Stream 2 highlight the role of gas as a transition fuel, environmentalists [point out](#) that, to be economically viable, the pipeline will have to continue transporting large quantities of gas for decades to come. As a result, rather than phasing out fossil fuels, EU markets are likely to remain locked into them. Opponents of the pipeline include Environmental Action Germany NGO, which in April 2021 filed a [lawsuit](#) against it, partly in view of its implications for climate goals. The German Green Party has [promised](#) to stop Nord Stream 2 if it joins the federal government after September 2021 elections.

## Energy security: Is Nord Stream 2 a threat or an opportunity?

### Nord Stream 2: Helping to meet rising EU demand for gas imports?

Nord Stream 2 AG [argues](#) that, due to fast declining production, the EU will need to import an additional 120 bcm of gas by 2035, and that the pipeline will be needed to cover at least part of this expected increase. Moreover, even if the pipeline spells continued dependence on Russia for Germany and downstream countries, such as Czechia, which is linked to Nord Stream via the [EUGAL](#) interconnector, they will at least have greater flexibility in their choice of supply routes. Such flexibility would be helpful in case of incidents such as the [2009 gas crisis](#), during which Gazprom

closed the taps on Ukrainian pipelines for nearly two weeks due to a dispute with Kyiv over gas prices and unpaid supplies. As a result, central European countries supplied with Russian gas transiting Ukraine faced a brief but severe shortfall in midwinter. Ukrainian pipelines are still the main route for Russian gas exports to Europe, and although there have been no major disruptions since 2009, there is always a risk that tensions between Moscow and Kyiv could interrupt gas transit.

## Scepticism about the energy security case for Nord Stream 2

For its part, the European Commission [disputes](#) the energy security benefits of Nord Stream 2, which does nothing to help the EU to diversify to new sources and suppliers of gas, and indeed seems designed to further deepen European dependence on imports from Russia. Besides, existing Russian pipelines to Europe and Turkey are capable of transporting nearly 300 bcm a year, whereas deliveries in 2019 were 199 bcm; there therefore seems to be plenty of spare capacity to accommodate even a large increase in imports. Most excess capacity is in Ukrainian transit pipelines, which in 2020 carried just [56 bcm](#) despite having a design capacity of [146 bcm](#). Even acknowledging that design capacity is a theoretical figure that the Ukrainian pipelines could hardly reach due to their poor state of repair, such a high volume of additional capacity from Nord Stream 2 may not be needed.

On the other hand, if Nord Stream 2 is intended to [replace](#), rather than supplement the Ukrainian route, that is worrying from an energy security perspective, as it would leave Europe with three main supply routes (the Nord Stream pipelines, Yamal and – once interconnecting pipelines are in place – TurkStream), instead of four at present, resulting in less flexibility rather than more.

## Economic aspects: Is Nord Stream 2 a commercial project?

### The commercial case for Gazprom

Even if there are some doubts as to whether EU imports of Russian natural gas will increase to the point where the additional capacity provided by Nord Stream 2 becomes necessary, there are still several economic arguments in favour of the pipeline. Due to their age, obsolete design and underspending on maintenance, the Ukrainian pipelines are in a poor state of repair and becoming increasingly unreliable. [Estimates](#) of how much refurbishment would cost vary from US\$2.5 billion to US\$12 billion, while the bill for total replacement, according to a 2017 KPMG [study](#), could be as high as US\$17.8 billion.

Apart from the fact that renovation could cost nearly as much if not more than the €9.5 billion set aside for Nord Stream 2, the Ukrainian route is vulnerable to tensions between Ukraine, Russia and frequent [legal disputes](#) between their respective gas companies, which have disrupted gas flow on several occasions, most notably during the above-mentioned 2009 gas crisis. Given the harm that such incidents cause to Gazprom's reputation for reliability, the company has sound commercial reason for preferring a pipeline that it fully owns and controls, and is not exposed to geopolitical risks. Under the 2019 Russia-Ukraine [gas transit deal](#), Gazprom is committed to paying Ukraine US\$7 billion in transit fees over the 2000-2024 period for a total volume of 225 bcm; the Nord Stream pipelines, which do not pass through the land territory of any countries other than Russia and Germany, are not subject to such fees. Furthermore, the route is much shorter, and for this reason alone, cheaper to operate than even a fully modernised Ukrainian pipeline would be.

### Economic benefits and costs for EU companies and consumers

As already mentioned, five EU energy companies are participating in Nord Stream 2. Their eagerness to invest in the project despite sanctions and other risks suggests that they see a strong commercial case for the pipeline. Besides serving as a new, relatively cheap and secure source of gas, the pipeline is expected to create commercial opportunities for the German energy sector: with more Russian gas flowing to neighbouring countries via Germany rather than Ukraine, the country's network operators will earn more from transit fees, and if Germany becomes the EU's main [gas hub](#), traders



will be able to generate [profits](#) by selling to importers in downstream countries. Conversely, if the pipeline does not go ahead, Germany could be [liable](#) for billions of euros in compensation to investors who have sunk money into the project. Looking at the bigger picture, the economic benefits for Germany need to be offset against the corresponding losses to countries on the Ukrainian transit route – especially Ukraine itself, which currently earns up to [US\\$2 billion](#) per year in transit fees.

According to most forecasts, Nord Stream 2 will mean cheaper gas prices for consumers – both due to the pipeline's lower operating costs and the tendency of additional supply to depress prices. For example, energy consultancy company Wood Mackenzie [estimates](#) that EU gas prices could drop by 25 %, while a study commissioned by Nord Stream 2 [posits](#) a 13-32 % drop in wholesale gas prices. However, the benefits of lower gas prices will be felt very unevenly across Europe; in one [analysis](#), Germany and France come out as clear winners, whereas Czechia, Slovakia and Ukraine will lose, especially if supplies via the Ukrainian route are halted.

## Geopolitical arguments against 'Putin's pipeline'

### Ukraine is likely to become the main victim of Nord Stream 2

Gas pipelines almost invariably have important geopolitical implications, given that they create long-term dependency between supplying and importing countries. Washington has tended to view Moscow's pipelines to Europe with suspicion, worrying that they serve as a conduit not only for gas but also for political influence. Expressing opposition to Soviet gas exports to West Germany, in 1981 the then US Assistant Secretary of Defense, Richard Perle, [warned](#) that US allies 'would listen more carefully to kings and rulers who supply them with energy than to those who do not'. In 2006, former Polish Defence Minister, Radoslaw Sikorski, (currently a Member of the European Parliament – Poland, EPP) even [compared](#) the first Nord Stream pipeline to the 1939 Molotov-Ribbentrop Pact between Nazi Germany and the Soviet Union.

It is therefore hardly surprising that, while practically every aspect of the Nord Stream 2 pipeline has been hotly debated, controversy has above all focussed on its geopolitical repercussions. In 2016, then EU Energy Commissioner, Maroš Šefčovič, [observed](#) that he had 'never seen a project that was heralded as a purely commercial one so intensely politically debated', including at the highest levels of government. [Sceptics](#) of the commercial rationale for Nord Stream 2 see Gazprom's determination to push through the pipeline, despite the fact that existing pipelines already have enough capacity to handle Russia's gas exports, as evidence that the project is primarily driven by Moscow's geopolitical agenda; after all, Gazprom is controlled by the Russian state, and some of its decisions (such as the [lower gas prices](#) offered to Russian allies, including Belarus and, before 2014, Ukraine) are apparently politically motivated.

The US State Department [sees](#) Ukraine as the main geopolitical target of the two new Russian pipelines – Nord Stream and TurkStream – which both circumvent the country. Nord Stream 2 AG [disputes](#) Kyiv's claims that it will lose US\$2 billion a year in transit fees, noting that this figure fails to take into account either the significant costs to Ukraine of providing transit services or the fact that some gas will continue to transit the country even after the new pipeline becomes fully operational. Nevertheless, any loss of revenue will be a serious blow to the ailing Ukrainian economy. Moreover, Ukraine would lose the capacity to disrupt Russian gas exports, a significant deterrent against further Russian aggression.

Possible solutions to limit the potentially damaging impact on Ukraine could include [EU funding](#) to help the Ukrainian energy sector to modernise and adapt, or a negotiated guarantee that Russia will continue sending at least some gas through Ukraine after the current [transit deal](#) between the two countries expires in 2024.

## A low risk of Russia restricting gas supplies to EU countries

Like the Soviet Union before it, Russia has a history of restricting gas supplies in order to exert political pressure over importers. One of the most overt examples of this came in 1990, with an oil and gas [embargo](#) against Lithuania, after the country's leaders demanded independence. A European Parliament [study](#) lists nearly two dozen cases of probable Russian gas coercion – such as a temporary [50 % drop](#) in supplies to Slovakia and neighbouring countries in October 2014, in the context of EU sanctions against Russia for its aggression in Ukraine.

Despite this, a Russian gas embargo against EU countries seems unlikely. The only major disruption in 2009 was apparently targeted against Ukraine and not downstream EU markets, which were briefly caught in the crossfire between the two countries. Russia is arguably more dependent on the EU for its gas exports than vice-versa; as already mentioned, in 2019 the EU accounted for 73 % of Russia's pipeline exports, with only limited scope for diversification.

Whereas in the past Russia might have attempted to divide and conquer, that has now become far [more difficult](#); especially since 2009, when the Lisbon Treaty added energy security as an EU competence, Europe has developed a largely integrated network, allowing EU countries to share gas supplies with one another and neighbours. For example, in 2014 Slovakia [diverted](#) some of its gas via a reverse flow pipeline to Ukraine, making it impossible for Russia to isolate Kyiv. Although there are still many bottlenecks in the European network of gas pipelines, a 2014 EU '[stress test](#)' suggests that only a prolonged Russian blockade of all EU markets would result in a significant shortfall. Huge revenue losses would probably deter Moscow from such an embargo, except in the extreme situation of all-out war. The Nord Stream pipelines do not fundamentally change that situation; theoretically, they could be used to bypass Ukraine and EU countries such as Poland, but there are enough alternative routes and bidirectional interconnection capacity to ensure that gas supplies keep flowing throughout Europe.

## Geopolitical implications of Nord Stream 2 for EU strategic autonomy

The goal of achieving [strategic autonomy](#) has become central to the EU's external policy. However, lacking energy resources of their own, EU countries depend on imports to meet [over half](#) their energy needs. According to the European Parliament's [Normandy Index](#), energy insecurity is the EU's main external vulnerability. Insofar as it affects EU energy supplies, Nord Stream 2 therefore has major geopolitical implications for Europe.

As explained above, Russia is unlikely to hold Europe to ransom by interrupting gas supplies. However, Nord Stream 2 has more subtle geopolitical implications. By perpetuating Russia's dominance of European gas markets, it gives Moscow continued leverage over EU politicians and business leaders. As outlined in a [paper](#) by the Center for Strategic and International Studies, Russia's role as Europe's leading energy supplier has enabled it to co-opt business and political elites.

For opponents, Nord Stream 2 illustrates the extent to which Moscow influences European and national decisions on energy and environmental matters. EU-US tensions over Washington's extra-territorial sanctions show how the pipeline has created trans-Atlantic as well as intra-European rifts. For such reasons, the [US State Department](#) describes the project as a vehicle for Moscow 'to further spread its malign influence in Europe'.

In some ways, the US–German rift over Nord Stream 2 [echoes](#) the debate over Soviet pipelines in the 1980s. However, there are also important differences between the two situations. At that time, there were geopolitical as well as economic arguments in favour of Siberian gas exports to Europe, as a contribution to normalisation of relations with Moscow in line with Germany's *Ostpolitik*. That is hardly the case now; since 2014, EU-Russia relations have deteriorated despite booming gas trade, and there is no reason to expect that Nord Stream 2 will reverse this trend, even if Kremlin officials were quick to [welcome](#) the May 2021 US sanctions waiver as a step towards defusing tensions.

Some [observers](#) have expressed scepticism towards the geopolitical arguments that have been advanced against Nord Stream 2. They note that EU countries have, to a large extent, succeeded in compartmentalising energy trade from diplomatic relations, and that continuing imports of Russian oil and gas have not prevented the EU from adopting harsh economic sanctions which, according to one [estimate](#), had shaved 6 % off Russia's GDP by 2018.

Yet, whether or not Nord Stream 2 actually strengthens Russia's influence in Europe, its likely completion will inevitably be seen as a geopolitical [win](#) for Moscow, which succeeded in pushing through the pipeline despite Washington's professed [determination](#) to stop it. It will hand Moscow a victory even while it continues to flout values upheld by the EU, through actions such as its aggressive [military manoeuvres](#) threatening Ukraine. The poisoning and arrest of opposition activist, [Alexey Navalny](#), led to widespread calls – including from leading German politicians such as Merkel ally [Norbert Röttgen](#), chair of the Bundestag's foreign affairs committee – to punish Russia for its behaviour by blocking the pipeline. At one point, even the German government, which has mostly been supportive of the project, [declined](#) to rule out halting it.

### Russian pipeline gas vs US LNG

While Washington criticises Nord Stream 2 as an ostensibly commercial project driven by a geopolitical agenda, Moscow claims that US geopolitical arguments against it are commercially motivated. For Russian Deputy Prime Minister, [Alexander Novak](#), US sanctions against the pipeline are protectionist measures aimed at promoting the sale of US LNG on EU markets. For its part, in 2019 the US Department of Energy described US LNG exports to Europe as '[freedom gas](#)', liberating the continent from its dependence on Moscow.

## The EU position on Nord Stream 2

**European Commission:** in 2006, the European Commission was supportive of the first Nord Stream pipeline, with Energy Commissioner, Andris Piebalgs, [arguing](#) that 'the more pipelines we have, the securer is the supply'. By contrast, the Commission has consistently maintained that Nord Stream 2 does not offer any energy security benefits. Nevertheless, according to DG Energy Director-General, [Ditte Juul Jorgensen](#), provided the pipeline complies with EU law, the Commission will not try to stop it, and indeed has no means of doing so, given that the decision on allowing it to operate will be taken by the German energy regulator, as per the provisions of the EU's Gas Directive. A similar position has been taken by **EU High Representative**, Josep Borrell, who, in a [speech](#) to the European Parliament, described the pipeline as a matter for private companies and Germany.

The Commission and the High Representative's June 2021 joint [update](#) of their Russia strategy does not mention Nord Stream 2, but notes Russia's dominance of European gas markets and its ownership of 'strategic assets' as challenges to energy security. To strengthen resilience towards such challenges, the strategy calls for diversification of supplies, further development of an integrated EU internal gas market through new legislation and infrastructure, and increased use of renewable energy.

In its March 2019 [resolution](#) on EU-Russia political relations, the **European Parliament** argues that 'Nord Stream 2 reinforces EU dependency on Russian gas supplies, threatens the EU internal market and is not in line with EU energy policy or its strategic interests, and therefore needs to be stopped'. The Parliament's call for an end to the pipeline was repeated several times since then, most recently in the January 2021 [resolution](#) on the arrest of Alexey Navalny.

## DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2021.

Photo credits: © Mike Mareen / stock.adobe.com.

[eprs@ep.europa.eu](mailto:eprs@ep.europa.eu) (contact)

[www.eprs.ep.parl.union.eu](http://www.eprs.ep.parl.union.eu) (intranet)

[www.europarl.europa.eu/thinktank](http://www.europarl.europa.eu/thinktank) (internet)

<http://epthinktank.eu> (blog)

