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Nord Stream 2: A Geopolitical Lightning Rod

At the July 2018 NATO Summit in Brussels, President Donald Trump criticized German support for a natural gas pipeline project, Nord Stream 2, that would allow Germany to increase the amount of natural gas it imports directly from Russia via the Baltic Sea (see **Figure 1**). Although the President later suggested he expected the project would move forward, his comments underlined U.S. support for energy diversification in Europe and revived interest in potential sanctions against pipelines that could increase dependence on Russian energy.

Background

U.S. policymakers have supported European Union (EU) efforts to reduce reliance on Russian natural gas, especially after Moscow temporarily halted exports via Ukraine in 2009 and 2006. Although European governments have generally supported the goal of diversification, they have been challenged to reduce Europe’s dependence on Russian natural gas, which accounted for 37% of European imports in 2017, up 5% from the previous year.

Analysts cite various impediments to reducing European reliance on Russian gas, including divergent perceptions within Europe on the reliability of Russian supplies. Many have criticized Germany, Russia’s largest natural gas customer, for seeking to expand the Nord Stream pipeline system. Others suggest an expansion of Nord Stream would not necessarily lead to a rise in Russian gas imports by Europe, if Gazprom uses the new capacity to substitute for gas transit through Ukraine.

In operation since 2011, Nord Stream 1 has a total capacity of 55 billion cubic meters (bcm) per year. In 2017, it ran at about 93% of capacity and accounted for about 32% of Russia’s total natural gas exports to Europe and 11% of the EU’s gas consumption.

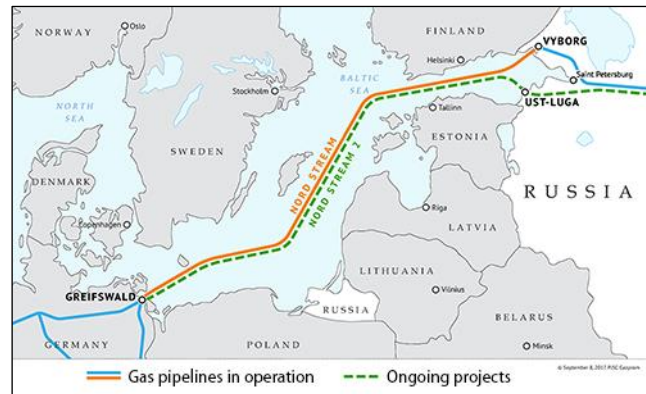
In March 2018, the German government granted permits for Nord Stream 2, which would run parallel to Nord Stream 1, doubling the pipeline system’s capacity to 110 bcm. Nord Stream 2 is estimated to cost about \$11 billion and scheduled to begin operations in late 2019. It is owned entirely by Russian state-owned energy company Gazprom. Half the cost is to be financed by five European companies: Engie (France), OMV (Austria), Shell (Netherlands/UK), Uniper (Germany), and Wintershall (Germany). By contrast, Gazprom owns 51% of Nord Stream 1; four European companies—Engie, Wintershall, E.ON (Germany), and Gasunie (Netherlands)—own the rest.

Project Status

Despite continued opposition from some European governments and EU officials, Nord Stream 2 has held up under a critical review by the European Commission (the EU’s executive agency) and secured the necessary permits

from all but the Danish government to enable its construction. Although its parliament may reject the pipeline on national security grounds, the pipeline could be slightly rerouted to avoid Danish territorial waters.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

The German government has faced heightened criticism of the project as concerns over Russian actions in Europe have grown. In an April 2018 meeting with Russian President Vladimir Putin, German Chancellor Angela Merkel addressed a chief concern of some critics by stating the project could not proceed without guarantees that Gazprom will continue to export gas through Ukraine. Merkel did not specify in what form such guarantees could be made. Some analysts question whether the government could revoke permits that have already been granted.

Critics of the proposed pipeline had been hopeful that the European Commission could block or limit Gazprom’s involvement in the project due to EU regulations intended to prevent monopoly control of energy projects. However, these regulations have been interpreted as applying only to intra-EU pipelines. EU member states have not acted on a Commission proposal to extend these regulations to pipelines coming from outside the EU. Others have argued that possible U.S. sanctions on European lenders could compel them to decide not to go through with the project.

Support and Opposition

In general, supporters of the pipeline, including the German, Austrian, and French governments, argue that Nord Stream 2 would enhance the EU’s energy security by increasing the capacity of a direct supply route. Germany and others have said that, once the gas reaches Germany, it can be transported throughout Europe.

Opponents of the pipeline—including, among others, the European Commission and President of the European

Council, Poland, the Baltic States, Ukraine, the Trump Administration, and many Members of Congress—argue that it would give Russia greater political leverage over Germany and others that are dependent on Russian gas. Critics also contend that Nord Stream 2 could leave some countries more vulnerable to supply cutoffs or price manipulation by Russia. They add that by reducing the transit of Russian gas through Ukraine, Nord Stream 2 would deprive Ukraine of revenue and reduce its importance to Russia as a transit state.

Impact on Ukraine

Russia began to reduce its gas transit through Ukraine after Nord Stream 1 opened in 2011. Previously, most of Russia's natural gas exports to Europe transited Ukraine. Currently, around 40%-50% transit Ukraine.

If Nord Stream 2 moves forward, it could further reduce transit through Ukraine. Potentially, it could eliminate it entirely, in conjunction with TurkStream, a pipeline under construction to transport Russian natural gas to southern Europe via the Black Sea. The combined capacity of Nord Stream 2 and TurkStream is 87 bcm a year (93 bcm transited Ukraine in 2017).

According to Ukrainian oil and gas company Naftogaz, its operating profit for gas transit was over \$900 million in 2016 and \$535 million in 2017. In addition to the revenue loss, many observers consider that Ukraine's loss of gas transit would threaten its security. It would not necessarily increase Ukraine's vulnerability to energy supply cutoffs, as Ukraine stopped importing natural gas from Russia in 2016. It could, however, increase Ukraine's strategic vulnerability, as Russia's dependence on Ukraine for gas transit would no longer be a constraining factor in its policies toward Ukraine.

Considerations for Congress

The 115th Congress and the Administration have declared opposition to the Nord Stream 2 pipeline. The Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA, P.L. 115-44, Title II) states that it is U.S. policy to “continue to oppose the Nord Stream 2 pipeline given its detrimental impacts on the EU's energy security, gas market development in Central and Eastern Europe, and energy reforms in Ukraine.”

In June 2018, Assistant Secretary of State for Europe and Eurasia Wess Mitchell said the United States seeks to “stop” the Nord Stream 2 project, which would “make the eastern flank of NATO more vulnerable to Russian pressure, reduce Ukraine's security as a transit nation and render it more susceptible to Russian aggression, and make Europe more dependent on Russian monopolies.” In July 2018, Assistant Secretary of State for Energy Resources Francis Fannon expressed the United States' “unqualified opposition to the Nord Stream 2 pipeline, as well as the need to maintain the robust gas transit in Ukraine.”

Some opponents of Nord Stream 2 support sanctions against the pipeline. CRIIEA authorizes (but does not require) sanctions on those who invest at least \$1 million, or \$5 million over 12 months, or engage in trade valued at

an equivalent amount for the construction of Russian energy export pipelines (Sec. 232; 22 U.S.C. 9526).

It is unclear how CRIIEA's Section 232 sanctions might apply to Nord Stream 2. The legislation does not provide for sanctions on, specifically, financing, although it does provide for sanctions on the provision of services and support. In October 2017, the Trump Administration released guidance noting that Section 232 sanctions would not apply to projects for which a contract was signed before August 2, 2017. Gazprom signed financing agreements with the five European companies in April 2017.

Some Members of Congress have introduced legislation that would impose mandatory sanctions on investment or trade in Russian energy export pipelines (S. 3229) or operating or transacting with the Nord Stream 2 pipeline (H.R. 6384). Other bills have been introduced that would support (1) sanctions against Nord Stream 2 (H.Res. 1035) or (2) efforts to halt construction of this and other Russian export pipelines (H.R. 6224, H.R. 6437).

European Responses

European supporters of Nord Stream 2, including the German government, have criticized Section 232 sanctions. They argue that opening European-backed projects to U.S. sanctions could jeopardize what has been strong transatlantic cooperation in imposing sanctions on Russia.

Some European officials have voiced suspicion that U.S. opposition to Nord Stream 2 is rooted in a desire to increase U.S. liquid natural gas (LNG) exports to Europe. They point to another statement in CRIIEA that the United States “should prioritize the export of United States energy resources in order to create American jobs, help United States allies and partners, and strengthen United States foreign policy.” They contend that imposing sanctions on an ally in order to advance national economic interests—especially when U.S. LNG is more expensive than gas from Russia and cannot replace all Russian imports—could have longer-term ramifications for the U.S.-German relationship.

EU concerns were appeased in part by language inserted in CRIIEA which said that the President should “continue to uphold and seek unity” with European partners on sanctions and that new U.S. sanctions on pipeline ventures would be imposed in coordination with U.S. allies. Following the enactment of CRIIEA, the European Commission expressed satisfaction that “European interests can thus be taken into account in the implementation of any [U.S.] sanctions.” Still, some remain wary that implementation of new U.S. sanctions could affect European energy projects.

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