



ISSUE BRIEF

The Kremlin's Gas Games in Europe

Implications for Policy Makers

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Gazprom is a monopoly gas company controlled by the Russian state.¹ While the company presents itself as motivated solely by commercial logic and economic interest, it has a consistent track record of acting as an arm of the Kremlin's foreign and economic policy. This paper provides an assessment of the choices facing the European Commission in regard to both Gazprom and Russia, as well as some background for the business community. In particular, the paper provides policy recommendations for US policy makers as the European Union (EU) negotiates on Gazprom's latest pipeline project, Nord Stream 2, a proposed new export gas pipeline that would run from Russia to Western Europe below the Baltic Sea. Nord Stream 2 is slated to have the same throughput capacity as an existing pipeline, Nord Stream 1. The conclusion is that Nord Stream 2 is a politically motivated project that presents a major challenge to European law and EU principles, and jeopardizes the security interests of the United States and its EU allies.

Brief history of Gazprom in Europe

The Russian gas industry's relationship with Europe has always been determined by the Kremlin. After the collapse of the Soviet Union in 1991, Boris Yeltsin partially privatized the Soviet Gas Ministry and renamed it Gazprom. The state always maintained majority control, however, and though there were efforts in the early days to make Gazprom behave as a private company, in practice, it evolved into a hybrid institution that brought foreign currency into the state budget, provided a slush fund for insiders, and could be deployed as a foreign policy tool in relations with the West and the former Soviet republics.²

The Dinu Patriciu Eurasia Center's mission is to enhance transatlantic cooperation in promoting stability, democratic values and prosperity in Eurasia, from Eastern Europe and Turkey in the West to the Caucasus, Russia, and Central Asia in the East.

1 Gazprom has a monopoly on the gas transit system in Russia as well as a monopoly on pipeline exports outside Russia. Since 2000, Gazprom has produced roughly over 75 percent of Russian gas and is a dominant seller of gas and downstream player in many regions in Russia, the former Soviet space, and Central and Eastern Europe (CEE).

2 See sections of report on corruption, Ukraine, pipelines machinations and gas conflicts in the CIS by former Deputy Prime Minister Boris Nemtsov and Deputy Energy Minister Vladimir Milov "Putin and Gazprom," in Boris Nemtsov and Vladimir Mirov, "The Nemtsov White Paper, Part II: Gazprom," *La Russophobe*, September 28, 2008, <https://larussophobe.wordpress.com/2008/09/28/the-nemtsov-white-paper-part-ii-gazprom-the-full-text>. Vladimir Mirov et al., "Putin. Corruption. An Independent White Paper," *Putin-Itogi*, 2011, <http://www.putin-itogi.ru/putin-corruption-an-independent-white-paper/http://www.putin-itogi.ru/putin-i-gazprom>. Also see Anders Aslund

In the early 1990s, when gas prices were low and Russian relations with the West were warm, Russia restricted the political use of Gazprom to its immediate neighbors in the former Soviet space.³ That changed in the 2000s, with the accession of Vladimir Putin to the presidency. This period coincided with the beginning of an unprecedented rise in commodity prices, including gas. Putin, who had grander ambitions than his predecessor, quickly seized the opportunity to use Gazprom to further his political goals—most importantly by having Gazprom continue to link the price of gas to that of oil through long term contracts (LTCs). LTCs crucially included “destination clauses” that prohibited buyers from selling gas purchased from Gazprom to third parties, which ensured that Gazprom continued its bilateral trade with each European country separately, and allowed it to implement rigid take-or-pay clauses for piped gas, as opposed to more flexible contracts based on spot pricing and reduced intake obligations. Many countries that were heavily dependent on Gazprom’s gas were thus given a de facto choice: compromise with Russia on sensitive political and economic issues and receive favorable LTCs, or defy the Kremlin and pay high gas prices for years to come.

In 2009, the European Union, responding to Russian and North African attempts to dominate its internal gas markets, implemented the Third Energy Package. This legislative package, which came into force in September 2009, seeks to open more broadly the gas and electricity markets in the EU, while enforcing ownership separation or unbundling.⁴ In 2010–14,

after demand for gas fell in Europe, competition from Norwegian producers, liquefied natural gas (LNG) suppliers, and spot traders increased, and customers started to challenge Gazprom’s pricing system⁵ and investment plans in arbitration courts.⁶ In the same period, Gazprom reluctantly agreed to include some limited spot pricing in its contracts. In 2011, its anti-competitive practices were exposed by a large EU Commission antitrust investigation, which revealed illegal practices in eight Eastern European countries where Gazprom continues to be a dominant or major supplier.⁷

In addition to concerns over corrupt business practices, Gazprom’s operations are particularly disconcerting as the Kremlin uses the company to exert control over the post-Soviet space while deepening European dependence on Russian gas. The proposed construction of Nord Stream 2 would specifically allow Gazprom a strategic foothold in Germany, as the project “opens the prospect for Germany to become the main center for the transit and storage of Russian gas and its onward distribution in Western Europe.”⁸

on the overview of the above report and his own views on corruption of Gazprom and its use as a foreign policy tool: Anders Aslund, “Why Gazprom Resembles a Crime Syndicate,” *Moscow Times*, February 27, 2012, <https://themoscowtimes.com/articles/why-gazprom-resembles-a-crime-syndicate-12914>; An account of Gazprom’s use in elections: Michael Gordon, “Huge Russian Company Is Biggest Yeltsin Backer,” *New York Times*, July 1, 1996, <http://www.nytimes.com/1996/07/01/world/huge-russian-company-is-biggest-yeltsin-backer.html>; Giles Tremlet, “Putin is out to get me, says media tycoon,” *Guardian*, April 24, 2001, <https://www.theguardian.com/world/2001/apr/24/russia.gilestremlett>

3 See Robert L. Larsson, *Russian Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Supplier*, Swedish Defense Research Agency, FOI, Stockholm (2006) which identifies over 40 politically driven energy cut offs and altogether over fifty coercive incidents against Russia’s neighbors between 1991 and 2004; Robert Larsson, “Russian Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Supplier,” Swedish Defense Research Agency, FOI, (2006), <https://ntrl.ntis.gov/NTRL/dashboard/searchResults/titleDetail/PB2007106453.xhtml>.

4 Unbundling is a legal process which ensures the separation of gas companies’ generation and sale operations from their trans-

mission networks in order to remove monopolistic capacity and create more competition.

- 5 “No more ‘take-or-pay’: Gazprom forced to end 40 year-old gas pricing regime,” RT, July 11, 2013, <https://www.rt.com/business/gazprom-rwe-germany-gas-893/>.
- 6 Jack Farchy, “Russia’s Gazprom Left Wounded by Gas Price Plunge,” *Financial Times*, May 22, 2016, <http://www.ft.com/cms/s/0/e872da42-1e68-11e6-b286-cddde55ca122.html#axz-z4LtXHnfGr>.
- 7 Upon the initial revelations from the investigation: Alex Froye, “Gazprom, Oil-Link vs Spot Gas Prices, and Storage,” April 23, 2015, <http://blogs.platts.com/2015/04/23/gazprom-gas-oil-link-spot-prices-storage>. In 2016, EU Commission and Gazprom narrowed their positions on the case after the monopoly reportedly promised to modify its business practices: Siobhan Hall, “EC mulls Gazprom’s proposals to end EU gas market antitrust case,” *Platts*, January 3, 2017, <http://www.platts.com/latest-news/natural-gas/brussels/ec-mulls-gazproms-proposals-to-end-eu-gas-market-26630235>; and in March 2017, EU Commission offered a draft compromise: Simone Tagliapieta, “The EU antitrust case: no big deal for Gazprom,” *Bruegel*, March 15, 2017, <http://bruegel.org/2017/03/the-eu-antitrust-case-no-big-deal-for-gazprom/>. But the dispute has not yet been formally resolved pending appeals in May 2017 from CEE stakeholders like Poland who are not satisfied with the proposed compromise: Lidia Kelly and Agnieszka Barteczko, “Poland to use ‘all legal means’ to block Gazprom’s EU antitrust deal,” *Reuters*, March 15, 2017, <http://www.reuters.com/article/us-russia-gazprom-eu-poland-idUSKBN16M2KD>.
- 8 Vladimir Socor, “Nord Stream Two: Implications for Europe,” *Geopolitical Monitor*, October 22, 2015, <https://www.geopoliticalmonitor.com/nord-stream-two-implications-for-europe/>.

NORD STREAM — START OF CONSTRUCTION



Former Russian President Dmitry Medvedev speaks during a ceremony marking the start of construction of the Nord Stream pipeline, near the Russian town of Vyborg April 9, 2010. *Photo credit: Reuters/Alexander Demianchuk.*

Kremlin's gas games: from Nord Stream 1 and Turkstream to Nord Stream 2

The case of Nord Stream 1

After many years of negotiations, the agreement to begin construction of Nord Stream 1 (then called the North European Gas Pipeline) was signed in 2005 by Gazprom, BASF, and E.ON.⁹ While Gazprom's likely motive was to bypass Ukraine—so as to reduce the political and economic power Ukraine derives from being the main transit country—Russian negotiators insisted that Gazprom strictly applied commercial logic against transit risks and offered additional (supposedly non-political) justifications for the Nord Stream and South Stream projects, such as “meeting Europe's soaring gas demand,”¹⁰ bringing new Russian gas from

the Shtokman¹¹ and Yamal gas fields,¹² and facilitating Central Asian gas exports to Europe.¹³

Nonetheless, the Kremlin's motivation for the construction of Nord Stream 1 was always political. Russia and Ukraine have long been involved in disputes over gas transit via Ukraine's state-owned oil and gas company Naftogaz.¹⁴ From Moscow's point of

2005, <http://www.gazprom.com/press/news/2005/december/article63374>.

- 11 Judy Dempsey, “Russia looks to Germany to build influence in Europe - Europe - International Herald Tribune,” *New York Times*, October 12, 2006, <http://www.nytimes.com/2006/10/12/world/europe/12iht-germany.3142269.html>.
- 12 The how the consortium cites Bovanenkovo field as the main source for Nord Stream: “The Pipeline,” Nord Stream, last updated January 20, 2017, <https://www.nord-stream.com/the-project/pipeline>.
- 13 Steven Eke, “Russia Signs Gas Pipeline Deals,” BBC, May 15, 2009, <http://news.bbc.co.uk/2/hi/europe/8051921.stm>.
- 14 For a good overview of Russia's disputes with Ukraine on transit in late 1990s to mid-2000s see: Aurelie Bros, “There will be Gas: Gazprom's Transport Strategy in Europe,” Institut Français des Relations Internationales, October 2015, https://www.ifri.org/sites/default/files/atoms/files/ifri_rnr_21_eng_aurelie_bros_october_2015.pdf.

9 “BASF, E.ON, and Gazprom Sign Agreement on North European Gas Pipeline Through the Baltic,” Gazprom, last updated September 8, 2015, <http://www.gazprom.com/press/news/2005/september/article63266>.

10 “Gazprom launches construction of onshore section of North European Gas Pipeline,” Gazprom, last updated December 9,



OPERATIONAL

- 1** Nord Stream 1
- 2** NEL
- 3** OPAL

- 5** Soyuz
- 6** Brotherhood
- 4** Yamal-Europe

- 7** Blue Stream
- 8** Trans-Balkan

PROPOSED

- 9** Nord Stream 2
- 11** Eastring

UNDER DEVELOPMENT

- 10** Turkstream
- 12** TAP
- 13** TANAP

CANCELLED

- 14** South Stream

view, bypassing Ukraine's transit system would allow Gazprom to control exports to the European market without negotiating for transit fees with Ukraine. Unlike other post-Soviet countries, successive governments in Kyiv tried to dictate transit terms for Gazprom's gas, asking for political concessions from the Kremlin, and playing Europe against Russia on sensitive issues, using gas as leverage. Gazprom had to make payments to Ukraine as the price of transit, roughly one to two billion dollars per year.¹⁵ The Kremlin, and Putin personally, objected to having to make these payments, both because it was costing Russia and because this money, in effect, helped fund the Ukrainian budget and thus supported the existence of a politically independent Ukraine.¹⁶

In order to reduce these payments, the Kremlin sought to subvert the Ukrainian elite through various forms of corruption in the gas trade, allowing insiders from both sides to extract enormous rents. Ukrainian oligarchs nevertheless understood that renunciation of national control over the gas transit system would deprive them of future revenue, killing the goose that lays the golden egg. While vested interests in each successive government in Kyiv engaged in various forms of corruption in the gas trade, none of them allowed Gazprom ownership or control of the Ukrainian gas transit system. In 2007, the Ukrainian parliament passed legislation that prohibited privatization or leasing of any element of the gas transit system—legislation that would be difficult to change.¹⁷

Officially, as noted above, Nord Stream 1 was driven chiefly by the need to create greater and more secure supplies of European gas, especially when Gazprom was still considering development of the Shtokman offshore field and the Bovanenkovo field in Yamal, which the monopoly presented as brand new sources of gas to satisfy rising EU gas consumption.

In practice, Nord Stream 1 has been lucrative for Gazprom's partners in the project but disastrous for Russian taxpayers and the state budget. The cost of transporting gas through Nord Stream 1 proved to be identical to or higher than the cost of transit via Ukraine.¹⁸ Furthermore, estimates show that the pipeline cannot adequately meet Europe's peak demand due to base load arrangements¹⁹ and Putin's documented manipulation of the supply.²⁰ The pipeline has offered no cost savings, and the gas transported through Nord Stream 1 is simply being diverted from pipelines that go through Ukraine.²¹

Additionally, the promise of increased transit for Central Asian gas via Ukraine after the launch of Nord Stream 1 has also not been fulfilled. In 2009, at the start of the financial crisis and after a highly controversial incident involving an explosion on an import pipeline (believed to be staged by Russia),²² Gazprom defaulted on its

15 Annalena Baerbrock et al., "Nord Stream 2 – Not a Private Matter," *Heinrich Boll Stiftung*, April 22, 2016, <https://eu.boell.org/en/2016/04/22/nord-stream-2-not-private-matter>.

16 Putin started making degrading comments about Ukraine long before annexation of Crimea. In 2005, at the G-8 summit in Scotland, he said that Russia plans to increase cooperation with Ukraine only "if it stops nicking gas"; "G-8 Summit will take place in St. Petersburg in 2006," *Newsru.com*, July 8, 2005, <http://www.newsru.com/russia/08jul2005/piter.html>; in 2007, responding to a question on democracy, Putin said that in post-soviet space "Ukrainian guys were the last hope but they have fully discredited themselves, it is going full speed to tyranny. Full violation of constitution and all laws". "Putin had a hope for "guys from Ukraine" but the latter are headed towards tyranny," *UNIAN*, June 4, 2007, <http://www.unian.net/world/48232-u-putina-byila-nadejda-na-rebyat-s-ukrainyi-note-idut-k-tiranii.html>; At a Russia-NATO summit in 2008, Putin told U.S. President George Bush that "Ukraine, it is not even a state! What is Ukraine? Part of its territories – it is Eastern Europe, another part, and a big one, was given by us as a gift!". Olga Allenova, Elena Geda, and Vladimir Novikov, "NATO Bloc Divided Into Blocks," *Kommersant*, April 7, 2008, <http://www.kommersant.ru/doc/877224>.

17 "Verkhovna Rada of Ukraine Legally Prohibited Any Actions with Gas Transit System," *Regnum*, February 6, 2007, <https://regnum.ru/news/778186.html>.

18 For 2015, transit via Ukraine was slightly cheaper than via Nord Stream 1. See Mikhail Korchemkin, "Nord Stream - Не Самый Хороший Путь В Баумгартен," *LiveJournal*, August 1, 2016, <http://m-korchemkin.livejournal.com/750722.html>. Reliable numbers are unavailable, but most Russian and US experts the author talked to believe that transit through Ukraine was not just less expensive but significantly so until Gazprom announced that it will shut off Ukraine in 2019 and Naftogaz raised transit tariff in response.

19 In the case of Nord Stream 1, base load gas level is a pre-paid level of gas supply through the pipeline that is relatively cheap but incapable of reflecting seasonal or mid- and short-term change of demand. See: "Russian Gas Insight," *East European Gas Analysis*, December 14, 2016, <http://www.eegas.com/images/archive/EEGA-RGI-2016-12-14-NS-Ukraine-base-load.pdf>.

20 From autumn 2014 to spring 2015, Gazprom was ordered by Putin to unilaterally cut supplies by up to 50 percent to countries (Poland, Slovakia, Austria, and Hungary) that displeased the Kremlin by selling gas to Ukraine through reverse gas flow mechanisms. This is the most serious act of coercion by Gazprom in Europe since the company's 2009 transit halt: Alan Riley, "Smoke and Mirrors: Russian Disinformation Meets Pipeline Politics," *Center for European Policy Analysis*, March 29, 2017, http://cepa.org/EuropesEdge/Russian_Disinformation_meets_Pipeline_Politics.

21 Gazprom claims future supplies to Europe may come from Yamal and other new sources. However, the likelihood of this occurring is difficult to verify, and in any case this will in all probability be mostly or entirely Gazprom's gas. No Central Asian or other non-Russian gas is slated to be admitted into Nord Stream 1 or 2.

22 "Russia blamed for pipeline blast," *BBC*, April 10, 2009, <http://news.bbc.co.uk/2/hi/asia-pacific/7993625.stm>.

binding agreement to import 40 billion cubic meters per year (bcm/y) of gas from Turkmenistan and has since kept the intake of Central Asian gas at a low level.

Nord Stream 1 is still far from profitable; volumes are uncertain for the next ten to fifteen years. Gazprom has guaranteed to return the €12 billion investment to its European partners, even if the pipeline stops working—a promise that, if fulfilled, will hurt the Russian taxpayer even further.²³ Even if Nord Stream 1 were to pay back its construction loans by the mid-2020s, this would not bring any more revenue to Gazprom or the Russian budget, because the same volume of gas is being transported to the same customers under the same contract only through more expensive export routes.²⁴

The Case of Turkstream

In the last ten years, apart from Nord Stream 2, Russia has sought out other projects designed to bypass Ukraine's transit pipelines. These include South Stream, cancelled in 2014, and Turkstream, proposed to run from the southern Russian Krasnodar Region across the Black Sea to Turkey. Gazprom's argument that Turkstream would serve rising gas demand in Southeastern Europe is rather weak, however. Even under optimistic scenarios, the main commercial prizes for Turkstream in the early 2020s would be Italian and Turkish markets, and possibly (through more pipelines) Northwestern Europe, not Southeastern Europe. Once again, the political reasons for the investment are far more important. In April 2015, Gazprom's Chief Executive Officer Aleksey Miller made a milestone announcement about Russia's intention not to renew a transit contract with Ukraine in 2019, and thereafter to stop all gas deliveries to Europe through that country.²⁵ Miller suggested that by 2019, European customers would be able to find ways to pick up Russian gas from Turkstream at the future gas hub on the Greek-Turkish border.²⁶

23 Mikhail Korchemkin, "Nord Stream AG revenue not related to the volume of gas delivered to Germany," *East European Gas Analysis*, March 6, 2017, <http://www.eegas.com/ns-cost-volume-2014-2016e.htm>.

24 "Михаил Корчемкин, Президент Консалтинговой Компании East European Gas Analysis," *Lenta.ru*, November 14, 2011, <https://lenta.ru/conf/mkorchemkin>.

25 "Russia to Stop Gas Delivery via Ukraine by 2019, Push Ahead with Turkish Stream - Miller," *RT*, April 13, 2015, <https://www.rt.com/business/249273-gazprom-ukraine-gas-transit>.

26 Яна Шебалина, "Газпром Пригрозил Защитникам Транзита Российского Газа Через Украину Потерей Поставок," *Ведомости*, Апрель 13, 2015, <http://www.vedomosti.ru/business/arti->

Since then, the Russian government has issued conflicting statements, regarding their intention to stop all transit through Ukraine over the next two years. In any case, both Turkstream and Nord Stream 2 are part of the same plan to bypass Ukraine and possibly shut it out from Gazprom exports completely by 2019 or soon thereafter. An additional motive behind Turkstream is to weaken the political and commercial influence of the EU-/US-led Southern Gas Corridor that aims to bring Azerbaijani gas to Europe via Turkey as an alternative to Gazprom's gas.

Turkstream may also serve to repair Russian-Turkish relations, which were damaged after the Turkish military brought down a Russian jet flying over its airspace. Following a new intergovernmental agreement signed in August 2016,²⁷ Turkey approved all necessary construction and environmental permits for the development of the first 15.75 bcm/y line of the pipeline in early 2017.²⁸

The state of play for Nord Stream 2

In its advocacy of Nord Stream 2, Gazprom has sought from the beginning to portray the project as essentially identical to Nord Stream 1. But the political and economic context is very different in these two cases. At the time of the Nord Stream 1 approval in 2005, when the pipeline received most of its EU and national permits, the EU Third Energy Package had not yet been fully enacted. More importantly, Russia had not yet invaded Eastern Ukraine or annexed Crimea, and therefore did not have to address Western economic sanctions, which have limited Gazprom's ability to raise long-term loans and access upstream technology to develop offshore and shale deposits.

This new context gave rise to new obstacles. The first is legal: if the project goes forward, Gazprom will be the sole supplier, as well as the dominant owner and operator, of the existing Nord Stream 1 and future Nord Stream 2 pipelines. This infringes on the core tenets of the Third Energy Package and other existing EU laws that require unbundling, tariff regulation, and third party

cles/2015/04/13/gazprom-prigrozil-protivnikam-yuzhno-go-i-turetskogo-potoka-prekrascheniem-postavok-gaza.

27 Neil MacFarquhar, "Warming Relations in Person, Putin and Erdogan Revive Pipeline Deal," *New York Times*, October 12, 2006, <http://www.nytimes.com/2016/10/11/world/europe/turkey-russia-vladimir-putin-recep-tayyip-erdogan.html>.

28 "Turkey grants all permits required for work on Turkish Stream," *TASS*, January 27, 2017, <http://tass.com/economy/927665>.

access rules, and which protect the security of energy supply and commercial viability of existing projects involving EU member states.²⁹ Gazprom is suggesting that these gas regulations are not applicable to Nord Stream 2, on the grounds that they were not applicable to Nord Stream 1. The EU, however, has subjected the Polish end of the Yamal-Europe pipeline to a full Third Energy Package certification, so it is hard to see why an exception should be made for Nord Stream 2.³⁰ At the end of March 2017, the EU Commission, after bitter disputes with German regulators and divisions within its own legal team,³¹ said it will seek a mandate from EU member states to negotiate with Russia on a special legal regime for Nord Stream 2; however, whether it receives such a mandate depends on approval from two-thirds of the twenty-eight bloc members³² and could delay the project's start beyond 2019.³³

The second complication for Nord Stream 2 is political. Along with Ukraine, the pipeline will bypass several other countries with functioning pipelines. In March 2016, eight EU governments from Central and Eastern Europe signed a letter to the European Commission objecting to the Nord Stream 2 project, arguing that the project violates the competitive principles of the EU and could have “potentially destabilizing

“By giving the green light to Nord Stream 2, the EU will be endorsing a schizophrenic policy, in effect helping to empower a country whose policies are designed to undermine the EU.”

geopolitical consequences.”³⁴ This letter, like other statements from opponents of Nord Stream 2 within national governments and among EU commissioners, argues that the project violates the spirit and aims of the emerging Energy Union.

Recent studies show that the overall welfare effect of Nord Stream 2 would be negative for the EU. Though Gazprom's European energy partners and Transmission System Operators (TSOs) in Germany would gain profits, their counterparts in Central and Eastern Europe, Southeastern Europe, and Ukraine would lose.³⁵ In addition, Nord Stream 2 would create throughput congestion in existing pipelines from Germany to Eastern Europe and significantly increase the risk that the project could be used to separate markets and exercise market power in Central and Eastern Europe, Southeastern Europe, and Italy, as well as cut supplies to Ukraine.³⁶

Such outcomes would be particularly troubling for the United States, EU, and their allies as it would enable Russia to once again exert pressure on gas pricing in Central Europe, without the old tool of destination clauses. This would allow the Kremlin to coerce Kyiv (once again) to beg for favorable rates for gas supplied from Russia, a scenario inevitably entailing political concessions from Ukraine.

29 According to Korchemkin, Romania and Slovakia have a high chance of blocking Gazprom's new pipeline projects on the ground of negative impact on their existing pipelines: Михаил Корчемкин, “Румынский Ключ: Страна Может Заблокировать Европу От Турецкого Потока,” *Forbes*, January 16, 2017, <http://www.forbes.ru/kompanii/337269-rumynskiy-klyuch-strana-mozhet-zablokirovat-evropu-ot-tureckogo-potoka>.

30 For a detailed review of critical legal issues surrounding Nord Stream 2, see an exchange between Ulrich Lissek, Head of Communications for Nord Stream 2 AG: Ulrich Lissek, “Regulation of Nord Stream 2: Rule of Law, Equal Treatment, and Due Process,” CEPS Commentary, November 15, 2016 <https://www.ceps.eu/system/files/ULissekNordstream2.pdf>, and Prof. Alan Riley: Alan Riley, “Nord Stream 2: A Legal and Policy Analysis,” *CEPS Special Report*, November 2016, <https://www.ceps.eu/system/files/SR151AR%20Nordstream2.pdf>.

31 Rochelle Toplensky, “Setback for Brussels challenge to Nord Stream 2,” *Financial Times*, March 16, 2017, <https://www.ft.com/content/e9894b38-095d-11e7-ac5a-903b21361b43>.

32 Under EU rules two thirds of the 28 EU member states representing two thirds of the bloc's population would need to back the offer for the EU to open talks with Russia: “UPDATE 3-EU Seeks To Negotiate With Russia Over Nord Stream 2 Gas Pipeline,” Reuters, March 30, 2017, <http://www.reuters.com/article/russia-gazprom-eu-pipeline-idUSL5NH720V>.

33 Alissa de Carbonnel and Vera Eckert, “EU Stalls Russian Gas Pipeline, But Probably Won't Stop It,” Reuters, March 24, 2017, <http://www.reuters.com/article/us-eu-gazprom-nordstream-analysis-idUSKBN16V20S>.

34 Andrius Sytas, “EU Leaders Sign Letter Objecting to Nord Stream-2 Gas Link,” Reuters, March 16, 2016, <http://uk.reuters.com/article/uk-eu-energy-nordstream-idUKKCNOW11YV>.

35 Borbála Takácsné Tóth, “Market Modelling of Nord Stream 2,” Regional Centre for Energy Policy Research, February 21, 2017, http://bruegel.org/wp-content/uploads/2017/02/toth_borbala.pdf.

36 Georg Zachmann, “Nord Stream 2 – A Risk for the Internal Market and Security of Supply?” *Bruegel*, July 18, 2016, http://bruegel.org/wp-content/uploads/2017/02/zachmann_nordstream2.pdf.

There is, however, a more straightforward argument for opposing the pipeline: Gazprom is one of the Kremlin's main cash generators and international political tools.³⁷ The company subsidizes Russia's wars in Ukraine and Syria, as well as the Kremlin's well-funded effort to undermine European unity through propaganda and support for anti-European parties. It is, indeed, for this reason that EU and US sanctions against Russia include restrictions on Gazprom and its subsidiaries. By giving the green light to Nord Stream 2, the EU will be endorsing a schizophrenic policy, in effect helping to empower a country whose policies are designed to undermine the EU.

Gazprom's Pressure on the EU

German Chancellor Angela Merkel is under pressure from the German industrial lobby, which wants lucrative deals with Gazprom, guaranteed long-term gas supplies, and an exclusive role as the new mega-hub for gas trade in the heart of Europe. So far, however, Merkel has been openly suspicious of Putin's intentions in Ukraine and Europe,³⁸ and has stood³⁹ ambivalent⁴⁰ to the project⁴¹ and firmly⁴² by the EU sanctions against Russia,⁴³ even threatening to increase them over deteriorating situations in Syria and Ukraine.⁴⁴

37 Even if Nord Stream is bad for the Russian budget, Gazprom secures lots of money from other projects. It also exports the message of Kremlin's political and economic domination in the energy sector to Russia's neighbors.

38 Robin Dixon, "Merkel Appears to be Losing Patience with Putin," *Los Angeles Times*, September 3, 2014, <http://www.latimes.com/world/europe/la-fg-germany-merkel-putin-20140904-story.html>.

39 Simon Shuster, "Putin's Loss of German Trust Seals the West's Isolation of Russia," *TIME*, November 17, 2014, <http://time.com/3590588/putin-merkel-germany-russia>.

40 Patrick Christys, "Angela Merkel Blasts 'untrustworthy' Putin as NATO Bolsters Troops on Russian Border," *Express*, July 8, 2016, <http://www.express.co.uk/news/world/687455/Angela-Merkel-Vladimir-Putin-Russia-Germany-NATO-Baltic-region-war-politics>.

41 Judy Dempsey, "Why Is Merkel Backing the Pipeline That Appeases Putin?" *Newsweek*, January 27, 2016, <http://www.newsweek.com/why-merkel-backing-pipeline-appeases-putin-420252>.

42 Alberto Mucci, "Matteo Renzi's Pipeline Politics?" *Politico*, December 16, 2015, <http://www.politico.eu/article/matteo-renzi-pipeline-politics-energy-south-stream-germany-russia-dependency>.

43 Caroline Copley and Michael Nienaber, "Merkel Sees No End to EU Sanctions Against Russia," *Reuters*, August 19, 2016, <http://www.reuters.com/article/us-ukraine-crisis-merkel-idUSKCN10U0J4>.

44 Andrew Rettman, "Merkel and Hollande Threaten New Russia Sanctions," *EUobserver*, October 20, 2016, <https://euobserver.com/foreign/135577>.

Putin's response to Merkel's lukewarm position on Nord Stream 2, as well as her critical views on his regime, appears to have taken political form. There is a wide range of evidence suggesting that the Kremlin has been campaigning both directly and indirectly against her government, in part by trying to create anxiety about refugees and immigration.⁴⁵ In France, Russian intermediaries are openly funding Marine Le Pen, the leader of the National Front, who has vowed to leave both the EU and NATO, and to join forces with Russia.⁴⁶

Another project that would extend Nord Stream 1 to the United Kingdom (UK) has apparently been shelved by Gazprom due to low gas prices.⁴⁷ However, Gazprom's leadership may simply be waiting to see if the Brexit process and Donald Trump's presidency strengthen its hand and allow the project to move forward. The UK and United States have been key advocates of sanctions against Russia and skeptics of both Gazprom and Nord Stream 2. But with Brexit and the potential of a more domestically focused US policy, Russia's allies in Europe may have an opportunity to sway Brussels, which has so far been opposed to the pipeline project.⁴⁸

To that end, Gazprom has undertaken an effort to secure prominent European customers and improve its image in Europe. In the United Kingdom, for example, the National Health Service, Oxford University, and other organizations have contracts with Gazprom.⁴⁹

45 Cynthia Kroet, "Russian Fake News Campaign Targets Merkel in German Election," *Politico*, January 24, 2017, <http://www.politico.eu/article/russian-fake-news-campaign-targets-merkel-in-german-election>.

46 Arne Delfs and Henry Meyer, "Putin's Propaganda Machine is Meddling With European Elections," *Bloomberg*, January 27, 2017, <https://www.bloomberg.com/news/articles/2016-04-20/from-rape-claim-to-brexit-putin-machine-tears-at-europe-s-seams>.

47 "Update 2 - Gazprom Mothballs Extension of Nord Stream Pipeline," *Reuters*, January 28, 2015, <http://uk.reuters.com/article/russia-gazprom-nordstream-idUSL6NOV71HO20150128>.

48 To improve its image in Europe, Gazprom has worked with top public relations firms: Andrew Rettman, "Gazprom Lobbyists Get To Work in EU Capital," *EUobserver*, April 21, 2015, <https://euobserver.com/foreign/128403>; In the US, the New European Pipeline AG, the consortium behind Nord Stream 2, has also been active: "Lobbying Registration," Legislative Resource Center, February 1, 2016, <https://soprweb.senate.gov/index.cfm?event=getFilingDetails&filingID=c-61517fa-a82e-4593-8eb8-223ae83bd229&filingTypeID=1>.

49 In Europe, Gazprom has worked with top public relations firms such as GPlus, Hill & Knowlton, and Brunswick. In the US, the New European Pipeline AG, the consortium behind Nord Stream 2, has also engaged McLarty Inbound LLC to represent the project. Terry Macalister and Matthew Taylor, "Russia sanction tension highlights Gazprom's growing role in Britain," *Guardian*, July 30, 2014, <https://www.theguardian.com/business/2014/jul/30/russia-sanction-tension-gazprom-gas-role-britain>.

The Austrian company OMV, a key supporter of the pipeline in Europe, joined the Nord Stream 2 consortium in 2015.⁵⁰ In the same year, the company hired a new president, Rainer Seele. In a previous role as chairman of WINGAS, Seele was “above all responsible for alerting the public to the significance of cooperation with Russia for Europe’s gas supplies.”⁵¹

“Gazprom’s anti-commercial mentality has also blinded the company to the long-term potential of shale gas in Europe.”

Still, despite Gazprom’s public relations efforts, in July 2016, the Polish antitrust agency (UOKiK) issued a formal objection to Nord Stream 2, arguing that the project will negatively affect Poland’s purchasing power in Russia.⁵² As a result, Gazprom’s European partners—Uniper, Wintershall, Shell, OMV, and Engie, all of which were slated to become 10 percent shareholders in Nord Stream 2 AG—gave up on the plan to form a consortium.⁵³ Nonetheless, Prime Minister Dmitry Medvedev has since claimed that Gazprom has “already found ways of this project’s implementation with the participation of [Gazprom’s] foreign partners.”⁵⁴

Gazprom’s political use is its weakness

Reluctance and inability to face renewables, energy efficiency, and LNG

Gazprom has long justified its push to construct Nord Stream 1 and 2, South Stream, and Turkstream on the grounds that there is a significant long-term demand in Europe for Russian gas. However, this claim is not

supported by evidence. With the rise of renewables, greater energy efficiency, and the emergence of unconventional gas (such as shale gas), Gazprom’s arguments become even less rational. The company itself mocks renewables, famously putting a frozen windmill on the cover of its corporate magazine.⁵⁵ Gazprom officials periodically sneer at Europe’s pursuit of renewables and energy efficiency as uneconomical and politicized.

Gazprom also failed to foresee the long-term impact of LNG imports into Europe, including into its own traditional markets. In 2014, completion of the first LNG terminal in Klaipeda, Lithuania effectively ended Gazprom’s monopoly hold over its market there. Norwegian Statoil is now competing with Gazprom to be the main supplier in the country,⁵⁶ and the price level⁵⁷ for imported gas is now much more acceptable. In the long term, Poland, which opened its own LNG terminal at Świnoujście a year ago,⁵⁸ is on the same trajectory.⁵⁹

Gazprom additionally failed to predict the rise in exports—not only from traditional LNG suppliers such as Qatar and Norway—but also from the United States, where prices have dropped due to shale gas production.⁶⁰ Gazprom’s anti-commercial mentality has also blinded the company to the long-term potential of shale gas in Europe. Instead of adapting to the circumstances, the company has sought to use political means to undermine the shale gas industry. Over the past two years, Russia has been frequently suspected of organizing protest groups and lobbying

50 “Nord Stream 2,” Gazprom, <http://www.gazprom.com/about/production/projects/pipelines/built/nord-stream2/>.

51 “Rainer Seele appointed new CEO of OMV,” OMV Group, last updated March 27, 2015, <http://www.omv.com/portal/generic-list/display?lang=en&contentId=1255764335999781>.

52 Andrew Rettman, “Russia to build Nord Stream 2 Despite Polish Objection,” *EUobserver*, August 22, 2016, <https://euobserver.com/economic/134694>.

53 Max Seddon, “Nord Stream 2 Partners Withdraw Amid Poland Pressure,” *Financial Times*, August 12, 2016, <https://www.ft.com/content/97491341-152b-3c13-8961-7fbf3b87540c>.

54 Shadia Nasralla and Vladimir Soldatkin, “Gazprom Says Poland Transit Deal Delay Endangers Gas Exports to EU,” Reuters, January 25, 2017, <http://www.reuters.com/article/us-russia-gazprom-nordstream-idUSKBN1591L6>.

55 “Альтернативная Реальность,” Корпоративный Журнал ОАО Газпром (2010): 1, <http://www.gazprom.ru/f/posts/32/005727/journal-gazprom-2010-12.pdf>.

56 “Norway to Surpass Russia as Lithuania’s Top Gas Supplier in 2016,” Reuters, February 8, 2016, <http://www.reuters.com/article/lithuania-gas-idUSL8N15N1UF>.

57 “Gazprom Regains Half of Lithuania’s Gas Market,” *Baltic Course*, March 1, 2017, http://www.baltic-course.com/eng/good_for_business/?doc=126571.

58 Agata Loskot-Strachota, “Great Expectations: LNG on the European Gas Market,” The Centre for Eastern Studies, April 13, 2016, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2016-04-13/great-expectations-Ing-european-gas-market>.

59 “Poland Plans to Cut Out Gazprom,” the *American Interest*, May 31, 2016, <http://www.the-american-interest.com/2016/05/31/poland-plans-to-cut-out-gazprom>.

60 Georgi Kantchev, “With U.S. Gas, Europe Seeks Escape from Russia’s Energy Grip,” *Wall Street Journal*, February 25, 2016, <http://www.wsj.com/articles/europes-escape-from-russian-energy-grip-u-s-gas-1456456892>.

against shale gas development in Romania,⁶¹ Bulgaria,⁶² Ukraine,⁶³ and other European countries.

The real reason for Gazprom's reluctance to accept the realities of energy efficiency, renewables, shale gas, and LNG is that the company is ultimately accountable not to a commercial board but to its political masters in the Kremlin.⁶⁴ Indeed, Gazprom lacks the managerial capacity and flexibility to make market-oriented responses to new developments. Instead, the company prefers to rely on things that it knows best: oil-linked LTCs, bilateral negotiations in European capitals, and subversive operations.

Fierce competition in Central and Southeastern Europe

After Gazprom announced its plan to end transit through Ukraine by 2019, several countries in Southeastern Europe responded with proposals to connect themselves and their neighbors to the new Turkstream delivery points in Greece and elsewhere. But these proposals are being driven by governments and national companies, not private investors. The interested parties hope to receive partial or full financing from the EU or Russia, as there is very little capital in the region for infrastructure projects. Several countries are promoting themselves as candidates for gas hubs and are in competition with one another and with Turkey. These countries—mainly Bulgaria and Greece, but also Albania and Croatia—seek to achieve hub status not only through their own (future) diversified pipelines and virtual trading platforms, but also with storage facilities and LNG terminals, where

sea access is available.⁶⁵ The warming up of Russo-Turkish relations in 2016 renewed Bulgaria's hope that Gazprom will help finance a national gas hub in the Black Sea port of Varna, an idea that was put on hold when the South Stream pipeline was cancelled in 2014.⁶⁶

The construction of vital pipelines and interconnectors is a priority for most Southeastern European countries, but the question of who will fund them remains unanswered. Bulgaria, Hungary, Slovakia, and Greece all have strong pro-Russia factions that have, in the past, torpedoed EU-led gas projects, some of which were aimed at reducing local vulnerability to Gazprom blackmail.⁶⁷ Both Brussels and Washington have fought back, either through legal means or political pressure, and all four countries have withdrawn support for key Kremlin gas and political initiatives in the past three years.

In countries with tenuous political cohesion and serious economic problems,⁶⁸ the competition between Russia and the EU and/or the United States has spilled into politics.⁶⁹ Last year, the Center for Strategic and International Studies published a report on Russia's subversive activities in Eastern Europe, including a detailed account of Gazprom's meddling in Hungarian and Bulgarian politics and economy.⁷⁰ Responses to

61 Andrew Higgins, "Russian Money Suspected Behind Fracking Protests," *New York Times*, November 30, 2014, http://www.nytimes.com/2014/12/01/world/russian-money-suspected-behind-fracking-protests.html?_r=0.

62 "Bulgarians see Russian hand in anti-shale protests," *Financial Times*, November 30, 2014, <http://www.ft.com/cms/s/0/e011d3f6-6507-11e4-ab2d-00144feabdc0.html#axzz4LxHnfGr>.

63 Szilvia Batkov, "Russia's silent shale gas victory in Ukraine," *Euractiv*, September 2, 2015, <https://www.euractiv.com/section/europe-s-east/opinion/russia-s-silent-shale-gas-victory-in-ukraine>.

64 This is not to say that Gazprom is incapable of employing commercial logic, but that there is a hierarchy in its decision-making process. All major financial, project, and contract decisions are made by the Kremlin with an eye to achieving political objectives. Gazprom's top management thereafter ensures its own vested interests and those of well-connected sub-contractors and other insiders. Lastly, on a residual basis, the company applies commercial rationale for the remaining decisions. The commercial rationale is applied, in other words, only when it is politically suitable. When it is not politically expedient for the Kremlin and Gazprom management, commercial logic rarely applies, giving way to corruption and/or politically driven deals.

65 By and large, Southern and Eastern European countries lack even basic infrastructure, technology, and skilled personnel required for such a goal, and they are unlikely to improve in these areas in the next five to seven years without considerable external help. Ukraine has ample storage capacity but obviously lacks security and is undermined by Russia in various ways.

66 "Bulgaria Hopes to Attract Russia to Gas Hub," *Maritime Executive*, September 9, 2016, <http://www.maritime-executive.com/article/bulgaria-hopes-to-attract-russia-to-gas-hub>.

67 Georgi Gotev, "Bulgaria lacks political will to build interconnectors, says Commission," *Euractiv*, March 6, 2015, <http://www.euractiv.com/sections/energy/bulgaria-lacks-political-will-build-interconnectors-says-commission-312709>.

68 Other problems include a large shadow economy, bureaucratic obstruction, vested interests, and anti-EU nationalism.

69 Kremlin employs old KGB links, Far Right and Far Left factions, and paid media propaganda in SEE. Gazprom relies on help from its European partner IOCs, lures vested local interests that have little chance of surviving under the increasing thrust of transparent EU regulation, and deploys its own industry specific propaganda, such as hired anti-fracking "activists." Andrew Higgins, "Russian Money Suspected Behind Fracking Protests," *New York Times*, November 30, 2014, http://www.nytimes.com/2014/12/01/world/russian-money-suspected-behind-fracking-protests.html?_r=0. Robert Zubrin, "Putin's Anti-Fracking Campaign," *National Review*, May 5, 2014, <http://www.nationalreview.com/article/377201/putins-anti-fracking-campaign-robert-zubrin>.

70 Heather Conley et al., "The Kremlin Playbook: Understanding



A general view shows the pipe storage area of French pipe coating company EUPEC in Sassnitz, Germany, May 6, 2011. Photo credit: Reuters/Tobias Schwarz.

Gazprom's operations by local governments have been inconsistent. Lastly, even though Turkstream was approved for construction, it is possible that future sanctions would seriously impede Russia's ability to finance the project.

Political bottom line of Russia's energy strategy in Europe

All indicators suggest that Russia's pipeline policy is dictated entirely by opportunistic concerns. The Kremlin seems keen to take a few more years to engage with Southeastern European countries to see how the political situation there develops, but without jeopardizing old alliances.

Public comments from Gazprom and its associates support the hypothesis that Putin is biding his time while looking to sow confusion and provoke anxiety.

Russian Influence in Central and Eastern Europe," Center for Strategic and International Studies (2016): accessed April 12, 2017, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/1601017_Conley_KremlinPlaybook_Web.pdf.

On the one hand, a former Gazprom consultant told the company's official magazine that all European governments are run by the CIA, and that only Italy, Austria, Hungary, and Greece have the strength to resist the Americans in the upcoming regional confrontation in Europe between Russia and the United States.⁷¹ Another group of Russian ex-officials issued a consultancy outlook with aggressive wording about a future Russian victory over an "inconsistent European regulatory system" full of "absurd controversies," and called for a halt to transit via Ukraine by 2020.⁷²

On the other hand, however, Gazprom's CEO has offered only vague warnings to European customers regarding

71 Leonid Reshetnikov, "Fight for Europe," Corporate Magazine Gazprom, May 2015, 28-31, accessed August 1, 2016, <http://www.gazprom.ru/f/posts/17/786569/gazprom-magazine-2015-05.pdf>.

72 See the full report Grigory Vygon et al., "Technological Progress in Motor Transport: How Close Is Peak Oil Demand?," Vygon Consulting, December 9, 2016, <http://vygon.consulting/en/products/issue-306>; and digest of the report presented at Kremlin-supported Valdai club: Grigory Vygon, "Russia-EU Gas Relations: Change of Course," Valdai Club, May 5, 2015, http://valdaiclub.com/a/highlights/russia_eu_gas_relations_change_of_course.

its intentions to cut off supply via Ukraine. The Gazprom press service diligently assures Europe that “Gazprom will always meet its gas delivery obligations,” and that the company is “in discussions with our European partners to adjust the LTCs accordingly.”⁷³

In short, Gazprom and its Russian supporters are deliberately incoherent on how the monopoly can fulfill its obligations under LTCs without transit through Ukraine. Nevertheless, Gazprom keeps its rhetoric upbeat on the 2019 deadline and the many options available to bypass Ukraine's gas transit system. Russian media boast that Gazprom is circumventing Western sanctions by buying expensive pipe-laying vessels to build Nord Stream 2 and offshore projects under sanctions in the Far East. It seems that, on the contractual level, Gazprom will seek to honor its obligations unless the Kremlin orders otherwise. However, in its public statements (or statements from its supporters), Gazprom will continue its abrasive and defiant propaganda.

Conclusions: implications for Western policy makers

Russia will not change through the EU's unprincipled gas cooperation with Gazprom

Cooperation with Putin's Gazprom should not be regarded as just another “trade decision” or form of “business as usual.” Large mineral extraction corporations and infrastructure companies have argued since Soviet times that bilateral trade with corrupt and authoritarian states will reform their political character and bring them closer to liberal market economies. The reality, however, is that oil and gas revenues allow dictatorships and kleptocracies to establish a stronger grip on power by deploying improved surveillance techniques, purchasing military and police equipment, and engaging in regional wars and domestic oppression. Both in the Cold War era and today, the Europe-Russia oil and gas trade has undermined both liberal capitalism and democracy.

Gazprom is a monopoly gas company controlled by the Russian state. Therefore, it should not be treated as a regular commercial enterprise. The avoidance of politically charged projects like Nord Stream 2 and de-monopolization of the gas trade between Russia and

Europe should become overarching objectives of the EU in all relevant policy fields.

“Cooperation with Putin's Gazprom should not be regarded as just another ‘trade decision’ or form of ‘business as usual.’”

Concrete policy recommendations on Nord Stream 2 US and European policy makers should debunk myths about the positive outcomes of Gazprom's proposed plans in Europe



To that end, US policy makers, Congress, and agencies should:

- Support the dissemination of information on Gazprom's structure, strategy, and politically motivated actions against other countries in the policy-making community by holding open hearings and briefings.
- Task the US Department of Energy (DOE) with preparing and publicizing a forecast analysis for US LNG exports to Europe, assessing LNG's ability to uphold competitive practices and satisfy long-term gas demand in Europe, while at the same time pointing out the limitations of US LNG trade in the European market. The DOE should work with the European Commission on the outlook of global gas demand and on sharing best business practices in the energy sector, which can be useful to the evolving Energy Union.
- Task US intelligence and law enforcement bodies to prepare a briefing for their EU partners on the current status of the Kremlin's intelligence and organized crime operations in the energy sector in Europe and worldwide.
- Urge the European Commission and Parliament to sponsor an independent inquiry, by industry experts not associated with Gazprom or the Kremlin, into the funding of Nord Stream 1, Nord Stream 2, and the accompanying infrastructure in Russia and the host countries. The US Department of State and Department of Energy should assist

⁷³ These are statements from the Gazprom press service in response to the author's questions regarding Miller's comments about the 2019 deadline and the need for Europeans to agree on a new delivery point at the Greek-Turkish border.

as facilitators and expert contributors to this assessment.

 *To that end, European policy makers, institutions, and agencies should:*

- Task the Directorate-General on Energy (ENER), International Cooperation and Development (DEVCO), and Trade (TRADE), together with The European Political Strategy Centre (EPSC)—the European Commission's in-house think tank—with producing a comprehensive analysis of the history of European cooperation with authoritarian hydrocarbon states and the extent to which such cooperation has made these states more democratic. This study should also include an analysis of Gazprom's compliance with the EU Third Energy Package and other competition regulations.
- Task Europol, together with relevant agencies of the EU Commission and national security agencies of EU member states, to conduct a study analyzing Gazprom's use of Russian security agents in Europe, and the company's connections to organized crime figures both within and outside Russia.
- Task the EPSC, along with other relevant think tanks and EU Commission research centers, to engage more proactively in conversation about the political and economic principles of the emerging Energy Union, and how to redefine the concept of EU energy security in light of Russia's aggression against Ukraine in 2014. The EPSC, together with other relevant agencies, should publish a paper summarizing all legal and regulatory debates concerning Gazprom's ambitions to build and access pipelines in Europe in a way understandable to the general public and media.
- Task the Disinformation Review (published by the European External Action Service) along with the Directorate-General for Energy to run a brand-new, separate analytical section countering energy propaganda coming out of Russia, as it creates a distorted view of the EU's policies and outlook on renewables, shale, and other conventional and unconventional energy.

The protection of Ukraine's sovereignty and its gas supply must be non-negotiable elements of any talks

between US and/or EU agencies and Russia and Gazprom

 *US policy makers could consider the following:*

- If Gazprom persists in isolating Ukraine from reverse gas flows from Europe, breaks its delivery or transit contracts with EU members in order to force its 2019 deadline on Ukraine, or if Russia and Gazprom expand their aggression against Ukraine in any other significant way, the US Congress ought to respond by increasing sanctions against Gazprom and its Russian associates and intermediaries in Europe. To that end, Congress should pass the Stability and Democracy (STAND) for Ukraine Act.⁷⁴ The US State Department and Intelligence services should closely monitor all Gazprom's plans to exclude Ukraine from commercially viable gas imports and share this information with EU allies.
- The US Department of State, the US Agency for International Development, and the National Endowment for Democracy, along with US representatives in the World Bank, should further enhance existing teams in Ukraine and develop a more comprehensive plan for the reform of Ukraine's indigenous energy production to ensure more self-reliance and diversification away from Russia. In addition, contingency plans for decreasing volumes of Russian gas transit via Ukraine after 2019 should be prepared, focusing on measures that Ukraine and its EU neighbors can take even in worst-case scenarios.

 *European policy makers could consider the following:*

- Relevant EU agencies should continue to implement the Deep and Comprehensive Free Trade Area (DCFTA) agreement with Ukraine and uphold standards for transparency and accountability in the energy market. As the EU Energy Union

⁷⁴ In 2016, the US House of Representatives adopted H.R. 5094, the Stability and Democracy (STAND) for Ukraine Act, a bipartisan bill that locks in the minimum underpinnings of the US response to Russia's annexation of Crimea and its occupation of parts of eastern Ukraine. This bill converts some of the Obama administration's executive actions into Public Law, makes it much harder for President Trump to overturn. STAND also tightens current sanctions, extends the Magnitsky Act to all territories under Russian occupation, and requires the State Department to counter Russian propaganda and cyber offensives.

develops its principles and regulations further, the adjustment of DCFTA standards with Ukraine should be improved accordingly and without delays.

- The Directorate-General for Competition and Energy should prepare guiding principles on negotiations with Gazprom about Nord Stream 2 that would require Gazprom to be explicit about its position on the 2019 deadline ultimatum and demand that the company uphold all of its existing delivery and transit obligations with individual EU member states.

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