



What will the impact be if Nord Stream 2 is completed?

ISSUE BRIEF

By Anders Åslund

A completed Nord Stream 2 pipeline will have an impact on a number of issues, from national and energy security to geopolitical and governance considerations, all while the gas supply will hardly be impacted with costs already sunk. Does the pipeline make commercial sense?



Anders Åslund is a resident senior fellow in the Eurasia Center at the Atlantic Council. He also teaches at Georgetown University. He is a leading specialist on economic policy in Russia, Ukraine, and East Europe.

The effects of the completion of the gas pipeline Nord Stream 2 (NS2) from St. Petersburg to Germany through the Baltic Sea will be numerous. The most important of these will involve national security, energy security, geopolitics, European Union (EU) energy policy, and governance, while the gas supply will hardly be impacted and the costs are already sunk—the only question is who will benefit from transit revenues. Numerous countries would be impacted, notably Belarus, Germany, Poland, Russia, and Ukraine, but also Eastern Europe as a whole, the European Union, and the United States. A controversial aspect is the application of US sanctions against subjects in allied countries.

NATIONAL SECURITY. Presumably, national security is the most important effect of a possible completion of NS2. Both the Ukrainian transit line and the Belarusian-Polish gas pipeline are likely to be abandoned. That would give Russia a freer hand for military actions in Ukraine and Belarus. The West as a whole has a vital interest in avoiding such a development. Needless to say, major Russian military aggression in Ukraine or Belarus would endanger the national security of Europe. If Gazprom stops transporting gas through Ukraine or Belarus and the Ukrainian transit pipeline is being abandoned, that risk grows considerably.

EUROPE'S ENERGY SECURITY would be seriously undermined by the pipeline's completion. In 2019, the twenty-seven EU members' total demand for natural gas peaked at 390 billion cubic meters (bcm). Because of the strong EU climate policy, it is unlikely to reach that level again. In 2019, Russian gas supplies to the twenty-seven EU members also peaked at 168 bcm, or 43 percent of total EU natural-gas consumption. In 2021, the anticipated Russian natural-gas exports to the EU amount to 135 bcm and are expected to decline gradually to 120 bcm a year by 2030.¹ The decline is not likely to be precipitous because Central Europe will replace some coal with gas, and Germany some nuclear power with gas, but no increase is expected.

Out of a maximum annual Russian gas supply of 135 bcm, 110 bcm—81 percent—could pass through the two Nord Stream pipelines. Given that Gazprom is notorious for cutting gas supply in the middle of the winter, this is an impermissible energy security risk.² As Gazprom has done every so often with former Soviet republics, Russia can use Nord Stream for political or financial extortion. Even if Gazprom is not being malicious, an accident can occur. This concern about excessive concentration in one pipeline system did not exist when only NS1 existed. It is the addition of NS2 that raises the supply risk above the acceptable level.

THE GEOPOLITICAL EFFECT of the completion could be devastating. Russia's obvious intention has been to form an alliance with Germany and Austria (also with the Netherlands and Belgium) against Eastern and Northern Europe. NS2 is Russia's most daring attempt to break up the EU. The Kremlin has provided all the evidence. In October 2015, Germany's then-Minister of Economy and Energy Sigmar Gabriel met with Russian President Vladimir Putin at his residence Novo-Ogaryovo outside of Moscow. The Kremlin quoted Gabriel as saying: "Mr. [Alexei] Miller and Mr. Matthias Warnig will continue to pursue the Nord Stream 2 project. This is in our interests...What's most important as far as legal issues are concerned is that we strive to ensure that all this remains under the competence of the German authorities, if possible. So if we can do this, then opportunities for external meddling will be limited. And we are in a good negotiating position on this matter."³

These reported remarks, coming just weeks after the announcement of Nord Stream 2 in mid-2015, clarify that this is a geopolitical project. Since the United States enjoys support in its opposition to NS2 from a majority of EU members, US sanctions will not split the United States from the EU. Gabriel is a Social Democrat, and so was his mentor, Gerhard Schröder. Immediately after the Social Democrats lost the parliamentary elections in 2005, Schröder decided to issue the permit for the construction of Nord Stream 1. Just after he had resigned, Putin appointed him chairman of the shareholders' committee of Nord

1 These numbers are much smaller than the Gazprom figures, but are more relevant because Gazprom discusses "Europe," including non-EU countries such as Turkey (a major importer) and the non-EU Balkan countries. <http://www.gazpromexport.ru/en/statistics/>.

2 Jakob Hedenskog and Robert L. Larsson, "Russian Leverage on the CIS and the Baltic States," Sweden Defence Research Agency, July 2007, https://www.researchgate.net/publication/228877758_Russian_Leverage_on_the_CIS_and_the_Baltic_States/link/5773a5d708ae4645d609d025/download.

3 "Meeting with Vice-Chancellor and Minister of Economic Affairs and Energy of Germany Sigmar Gabriel," Kremlin, October 28, 2015, <http://en.kremlin.ru/events/president/news/50582>.

Stream AG, a Swiss company fully owned by Gazprom. Since then, Schröder has acted as Putin's chief lobbyist in Germany.⁴

It is difficult to comprehend how a NATO government could accept any part of this, and it is remarkable that Germany, the otherwise most multilateral of the large EU countries, has acted so unilaterally for so long. Fortunately, Germany is not united around NS2. Apart from Schröder, the only full-fledged support comes from the extreme right, the Alternative for Germany, and the extreme left, Die Linke. The Greens are united against NS2, and the Free Democrats are predominantly negative. Angela Merkel's Christian Democratic Union (CDU) is split, and probably mainly against the pipeline. Norbert Röttgen, a CDU member of parliament (MP) and chairman of the Bundestag's Committee for Foreign Affairs, said that the completion of NS2 "would be the ultimate confirmation for Vladimir Putin that he is pursuing exactly the right policy because the West is doing nothing."⁵

As the outstanding German journalist Josef Joffe notes: "Merkel has maneuvered Germany into isolation." He adds: "The court of supply and demand may issue this definitive verdict: no need for another pipeline. If so, Nord Stream 2 may just rot away underneath the Baltic—a monument to greed and folly."⁶

EUROPEAN ENERGY POLICY. NS2 violates the market-oriented EU energy policy, which requests complete unbundling of pipelines and gas production, because NS2 is fully owned by Gazprom, the gas producer and supplier. Gazprom has all along opposed the EU policy of unbundling and marketization, preferring long-term contracts of take-or-pay over decades, and of course its monopolization. Gazprom's allies in Europe have been only four

governments—those of Austria, Belgium, Germany, and the Netherlands (and, intermittently, France), and five big energy companies—Austrian OMV, German Wintershall and Uniper, Royal Dutch Shell, and French Engie.⁷ It is a mystery how Europe can allow a handful of countries and big energy companies to jeopardize its national security, geopolitical objectives, energy policy, and climate policy.

Fortunately, strong market forces oppose these protagonists of oligopolization and high gas prices. If NS2 is not completed, the European Commission can more easily implement EU gas marketization, which will be important both for EU energy efficiency and for the reduction of greenhouse gases. Europe's gas trade had been marketized thanks to extension of pipelines, converters, reversed flow, and more storage. Gazprom claims that gas is scarce, but gas is abundant. Gazprom used to set the price through long-term contracts, but today the spot market for liquefied natural gas (LNG) is the price setter. The gas price vacillates, but until 2014 it was \$400–\$500 per bcm, while it fluctuates around \$200 per bcm, or half as much, today.

Conversely, the value of Russia's total gas exports has plummeted, from a peak of \$69 billion in 2008 to only \$25 billion in 2020.⁸ In 2019, 73 percent of all Gazprom's gas exports went to the twenty-seven EU members, which would amount to a total cost of \$18 billion in 2020.⁹ Given that EU total imports were \$2.3 trillion, this is merely 0.8 percent of total EU imports, while it was 5.4 percent of Russia's total exports, and Russia cannot export this gas anywhere else.¹⁰ Thus, Gazprom is completely dependent on Europe, while EU countries can easily purchase gas elsewhere. What used to be a seller's market has become a purchaser's market.

4 Anders Åslund and Benjamin L. Schmitt, *Biden Must Persuade Germany and Austria to Stop the "Schroederization" of Europe*, Atlantic Council, March 11, 2021, <https://www.atlanticcouncil.org/blogs/ukrainealert/biden-must-persuade-germany-and-austria-to-stop-the-schroederization-of-europe/>.

5 Julian Wettengel, "Gas Pipeline Nord Stream 2 Links Germany to Russia, but Splits Europe," *Clean Energy Wire*, March 19, 2021, <https://www.cleanenergywire.org/factsheets/gas-pipeline-nord-stream-2-links-germany-russia-splits-europe>.

6 Josef Joffe, "Germany's Empty Pipeline Logic," *Project Syndicate*, February 19, 2021, <https://www.project-syndicate.org/commentary/germany-nord-stream-2-strategic-mistake-by-josef-joffe-2021-02?barrier=accesspaylog>.

7 Ties Keyzer and Mira Sys, "MH17 Was No Obstacle to Gas Talks with Putin—They Just Had to Be Carried Out Secretly," *Follow the Money*, March 23, 2021, <https://www.ftm.nl/artikelen/mh17-was-no-obstacle-to-gas-talks-with-putin-they-just-had-to-be-carried-out-secretly>.

8 "Export Value of Natural Gas from Russia from 2000 to 2020 (in Billion U.S. Dollars)," Statista, <https://www.statista.com/statistics/1032435/russia-natural-gas-export-value/>. Gazprom tends to show higher numbers for its exports to "Europe," because it includes Turkey and non-EU countries such as Serbia.

9 "Marketing: Europe," Gazprom, <https://www.gazprom.com/about/marketing/europe/>.

10 "Russia Statistics," Bank of Finland Institute for Economics in Transition, <https://app.powerbi.com/view?r=eyJrJoiOWQwM2VjNTUzTmZC00N2lyLTkyNTMtY2MwYjMxYjdhYzciOiwidCI6ImVkdikNDIhLTJiOTQtNGFkZi05MzY0LWMyN2ZiZWFiZWY4YyIsImMiOiJh9&pageName=ReportSection0670cd3fe87e80037c8d>.



Former German Chancellor Gerhard Schröder greets Russian President Vladimir Putin during Putin's inauguration ceremony at the Kremlin on May 7, 2018. (Sputnik/Alexei Druzhinin/Kremlin via REUTERS)

GOVERNANCE. NS2 has had a corrosive impact on governance in Germany, Austria, and the Netherlands, which have all suffered from severe top-level corruption from Gazprom and Russia. In Germany, Schröder stands out. The chief executive officer (CEO) of Nord Stream AG is Putin's old friend, Matthias Warnig, from the East German secret police (Stasi) in Dresden. Schröder and Warnig are Putin's foremost, and presumably best paid, agents in Europe. The completion of NS2 will further enhance Kremlin influence in the German business community. In Austria, a number of prominent former politicians have started working for Russian state companies after their retirement.¹¹ Gazprom's way of doing business is so devious and nontransparent that any advance for this company would be damaging for Europe. Both Gazprom and NS2 involve corruption risks that should not be permitted in societies that claim to support the rule of law.¹²

An egregious example of dubious governance is the establishment by the government of the northern German state of Mecklenburg-Western Pomerania of a state-owned "climate" foundation. This "foundation for climate and environment protection" is supposed to facilitate the completion of NS2. The state will put up €200,000, while Nord Stream 2 AG, which is wholly owned by Gazprom, has provided €20 million.¹³ How can this be legal? Germany should have laws against such foreign-government intrusion.

The Russian threat to European governance is not limited to NS2. Gazprom is engaged in similar nefarious activities with TurkStream in Bulgaria and Serbia. In Hungary, Prime Minister Viktor Orbán suddenly changed his policy on Russia after he agreed to purchase a new nuclear-power station from Russia after a private meeting with Putin in Moscow

11 Åslund and Schmitt, *Biden Must Persuade Germany and Austria to stop the "Schröderization" of Europe*.

12 Boris Nemtsov and Vladimir Milov, "Putin i Gazprom (Putin and Gazprom)," *Novaya Gazeta*, 2008.

13 Wettengel, "Gas Pipeline Nord Stream 2 Links Germany to Russia, but Splits Europe."

in January 2014.¹⁴ Since then, Hungary has declined drastically in Transparency International's Corruption Perception Index.¹⁵

GAS SUPPLY. Ironically, the gas supply from Russia to the EU will be least impacted. It has declined since 2019, and is likely to stay at a level of about 135 bcm a year for a few years and then decrease as Europe moves rapidly toward decarbonization.

Gazprom already has a massive oversupply of pipelines to the EU. The transit pipeline through Ukraine has a capacity of at least 120 bcm a year, and nominally of 160 bcm a year. The Yamal-Europe pipeline that goes through Belarus and Poland has a capacity of 33 bcm a year. Both of these pipelines function perfectly well, while fully owned Russian NS1 has faced repeated interruptions. NS1 and NS2 together will have a capacity of 110 bcm a year. Gazprom's newly built TurkStream with two pipes has a capacity of 31.5 bcm a year, though only half (that is, 15.75 bcm) is meant for Europe. Thus, Russia has installed and almost completed a gas-pipeline capacity to Europe of possibly up to 319 bcm a year to transport 135 bcm a year. That is 136 percent more than needed, which is a massive waste that makes no commercial sense. This does not include the two pipelines solely designed for Turkey, Blue Stream and Turk Stream 1.

THE FINANCIAL EFFECTS if NS2 is completed or not will be significant, but not major. They fall into two groups. One group is redistribution of transit fees in the case of completion of NS2. The other is the sunk construction costs of NS2.

Traditionally, Ukraine has made \$3 billion a year on transit fees, which have fallen to less than \$2 billion a year now that Russia has reduced its transit volumes after having cut its supplies and diverted them to NS1. Poland and Belarus probably each receive transit fees of about \$500 million a year, though Gazprom has seized ownership of the pipeline through Belarus. With the completion of NS2, Germany would

receive transit fees on the order of \$2 billion a year to transport gas to Southern and Eastern European countries that might have been forced to pay slightly more for the Russian gas. There is also a risk that the completion of NS2 will aggravate monopoly effects, about which the European commissioner for competition policy has complained at length.

In December 2019, Gazprom and Naftogaz concluded a five-year agreement on gas transit through Ukraine. Gazprom committed to ship 65 bcm in 2020, and then 40 bcm in 2021 and in each subsequent year until 2024.¹⁶ Gazprom complied with its contracted obligations in 2020, but it had a commercial interest in doing so. Given Gazprom's record of patently breaking its agreements, this is no reassurance. Nor is Gazprom able to provide any credible guarantee.

In 1997, Gazprom suffered from a surplus of gas. Then, it stopped accepting any gas supplies or transit from Turkmenistan for one and a half years, while Turkmenistan had no other outlet. Russia ended its blockade only after Turkmenistan had built an alternative pipeline to Iran. In the spring of 2009, gas was plentiful again. This time Turkmenistan's pipeline to Russia "accidentally" blew up because Gazprom stopped taking Turkmenistan's contracted gas without informing Turkmenistan.¹⁷ The President of Turkmenistan learned his lesson. Now, China has built a large pipeline to Turkmenistan, so that it does not have to rely upon Russia any longer.

Why wouldn't Gazprom do the same to Ukraine? The operation of the transit pipeline requires a reasonably steady flow, which Russia never provides. Gazprom could stop for half a year, which would stop the gas transit from functioning, and then complain that Ukraine does not fulfill its contract obligations. Considering that Gazprom regularly loses multi-billion-dollar arbitration conflicts in Stockholm, Gazprom cannot be trusted.

Because of various legal intricacies, Gazprom was forced to take full ownership of NS2. It was supposed to cost about €9.5 billion, but is probably closer to €11

14 Anthony Faiola, "From Russia with Love: An Energy Deal for Hungary," *Washington Post*, February 16, 2015, https://www.washingtonpost.com/world/europe/from-russia-with-love-an-energy-deal-for-hungary/2015/02/16/05216670-b134-11e4-bf39-5560f3918d4b_story.html.

15 "Corruption Perception Index," Transparency International, accessed on April 8, 2021, <https://www.transparency.org/en/cpi/2020/table/hun>.

16 Vladimir Soldatkin, Andrey Kuzmin, and Natalia Zinets, "Russia, Ukraine Outline Terms for Five-Year Gas Transit Deal to End Row," Reuters, December 21, 2019, <https://www.reuters.com/article/us-russia-ukraine-gas-details/russia-ukraine-outline-terms-for-five-year-gas-transit-deal-to-end-row-idUSKBN1YP081>.

17 Simon Shuster and Marat Gurt, "Turkmen May Sue Russia for 'Vacuum-Bomb' Pipe Blast," Reuters, May 29, 2009, <https://www.reuters.com/article/us-russia-turkmenistan-gas-sb/turkmen-may-sue-russia-for-vacuum-bomb-pipe-blast-idUSTRE54S4TG20090529>.



Gazprom chief Alexei Miller (L) poses with former German Chancellor Gerhard Schröder (C) and Isabelle Kocher, Chief Executive Officer of French gas and power group Engie, pose in Paris, France, April 24, 2017, after western partners of gas giant Gazprom agreed on Monday on financing the 9.5 billion euro (\$10.32 billion) Nord Stream 2 pipeline. REUTERS/Christian Hartmann

billion. Gazprom is supposed to finance half of NS2 on its own, while its five Western partner companies are supposed to lend €950 million each to the project.¹⁸ The big legal question is who, if anybody, becomes liable if the project is stopped. If US sanctions stop it, as currently seems likely, nobody is likely to be held responsible, because so far nobody has managed to successfully sue the US Treasury Department over sanctions. If the German government stops the project, it might become liable, since it has previously approved of NS2. A third option is that the European Union, in one of its many forms, blocks the project. It is unlikely that the EU would be liable, as it has never really approved of NS2 but was overrun by the German government.

US SANCTIONS IN ALLIED COUNTRIES. During the Cold War, Western companies that violated the Western sanctions on technology supplies to the Soviet Bloc were frequently sanctioned. Similar US sanctions have continued.

In 2014, the US Treasury Department sanctioned Putin's cronies Gennady Timchenko and Boris Rotenberg in its Ukraine-related sanctions on Russia, although both are Finnish citizens. At least in public, the Finnish government has kept quiet.

In 2015, the US Treasury Department sanctioned a Swedish lawyer, Sven Olsson, for having worked with Putin cronies Gennady Timchenko.¹⁹ Nobody seems to have protested.

In December 2019, the Treasury Department sanctioned Aivaras Lembergs, presumably the wealthiest oligarch in Latvia, designating him for being

¹⁸ Wettengel, "Gas Pipeline Nord Stream 2 Links Germany to Russia, but Splits Europe."

¹⁹ "Swedish Lawyer Blacklisted by the US," Radio Sweden, December 24, 2015, <https://sverigesradio.se/artikel/6333616>.

“directly or indirectly engaged in, corruption, including the misappropriation of state assets, the expropriation of private assets for personal gain, corruption related to government contracts or the extraction of natural resources, or bribery.”²⁰

At the same time, the US Treasury Department sanctioned prominent Slovak businessman Marián Kočner “for being responsible for or complicit in, or having directly or indirectly engaged in, serious human rights abuse. Kočner threatened Ján Kuciak, a reporter who was investigating Kočner’s corrupt dealings.”²¹ In 2020, Marián Kočner was acquitted of ordering the 2018 killing of Ján Kuciak.²² That verdict appears to have said more about the frailty of the Slovak judicial system than about the guilt of the suspect.

In each of these cases, the host countries kept quiet, happy that the United States sanctioned those whom they were too weak to punish themselves. For unknown reasons, Finland did not act against Timchenko and Rotenberg. Sweden had no law according to which Sven Olsson could be prosecuted. Latvian prosecutors had tried to prosecute Lembergs for corruption since 2006, but the Latvian state is too weak to pass on a verdict on the richest man in the land, whose closely connected party had been part of almost all coalition governments. Similarly, the Slovak state was too weak to prosecute Kočner.

Friends help friends, and allies help allies. Apparently, the German state is too weak or does not have adequate laws to prosecute Schröder and Warnig, although they are Putin’s foremost representatives in Europe. The United States should step in and sanction them, just as it has done in Finland, Latvia, Slovakia, and Sweden. It could sanction Schröder and Warnig either on the basis of the Ukraine-linked sanctions or according to the Global Magnitsky Act. Austria needs some assistance too, but that is discussed in another report.²³ Exactly as the EU aspires to support the rule of law in member countries, the United States should assist its allies with rule-of-law issues.

Conversely, the United States has just strengthened the Western Alliance by sanctioning NS2. In the last two US Defense Acts, two important acts sanctioning NS2 were included—the Protecting Europe’s Energy Security Act at the end of 2019, and the Protecting Europe’s Energy Security Clarification Act of 2020—which effectively allow the sanctioning of all involvement with NS2. Most of the possible targets for sanctions are Russian entities. Germany and the EU should appreciate that the United States has resolved a problem they appear too weak to resolve on their own.

CONCLUSION. The Nord Stream 2 pipeline makes no commercial sense. Since Russian gas supplies to Europe are unlikely to increase, there is no need for more gas pipelines from Russia to Europe. NS2 serves two aims—geopolitics and dubious business interests. Neither is acceptable. The geopolitical aim is to facilitate Russian military actions in Ukraine and Belarus, to cut off Germany politically from the EU and the United States, and to corrupt important leading voices, especially members of the German and Austrian elite. Nor should Europe accept facilitating the enrichment of Putin’s personal friends through the construction of an unnecessary and overpriced pipeline.²⁴ The only surprising thing is that Germany has such poor governance that this project has been able to proceed so far. The German elections this fall might strengthen the Green Party to such an extent that Germany will walk away from this project. If not, the Joe Biden administration should implement the sanctions mandated by bipartisan action in Congress and stop the project.

ACKNOWLEDGEMENTS. The author would like to thank Debra Cagan, Ambassador Daniel Fried, Ambassador John Herbst, Ambassador Richard Morningstar, and Daniel Vajdich for very helpful comments. The responsibility for any mistake rests with the author.

²⁰“Treasury Sanctions Corruption and Material Support Networks,” US Treasury Department, press release, December 9, 2019, <https://home.treasury.gov/news/press-releases/sm849>.

²¹ Ibid.

²² Miroslava German Sirotnikova, “Businessman Acquitted in Murder of Jan Kuciak, Journalist in Slovakia,” *New York Times*, September 3, 2020, <https://www.nytimes.com/2020/09/03/world/europe/slovakia-murder-trial-acquittal.html>.

²³ Åslund and Schmitt, *Biden Must Persuade Germany and Austria to stop the “Schroederization” of Europe*.

²⁴ Anders Åslund, *Russia’s Crony Capitalism: The Path from Market Economy to Kleptocracy*, Yale University Press, New Haven, 2019, 132-143.



The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.

© 2021 The Atlantic Council of the United States. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Atlantic Council, except in the case of brief quotations in news articles, critical articles, or reviews. Please direct inquiries to:

Atlantic Council

1030 15th Street, NW, 12th Floor,
Washington, DC 20005

(202) 463-7226, www.AtlanticCouncil.org