

Europe's Gas Crunch: The Pending Crisis Around Nordstream 2 & Ukraine Transit

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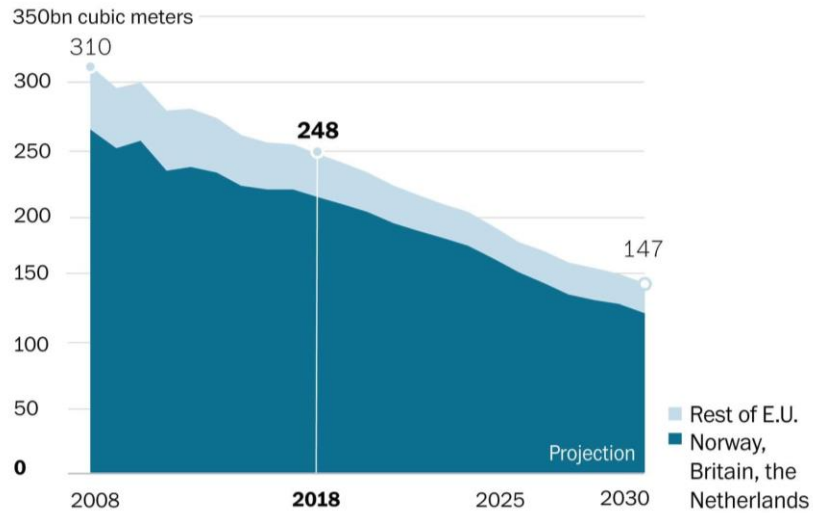
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Part 1 | European dependence is long term

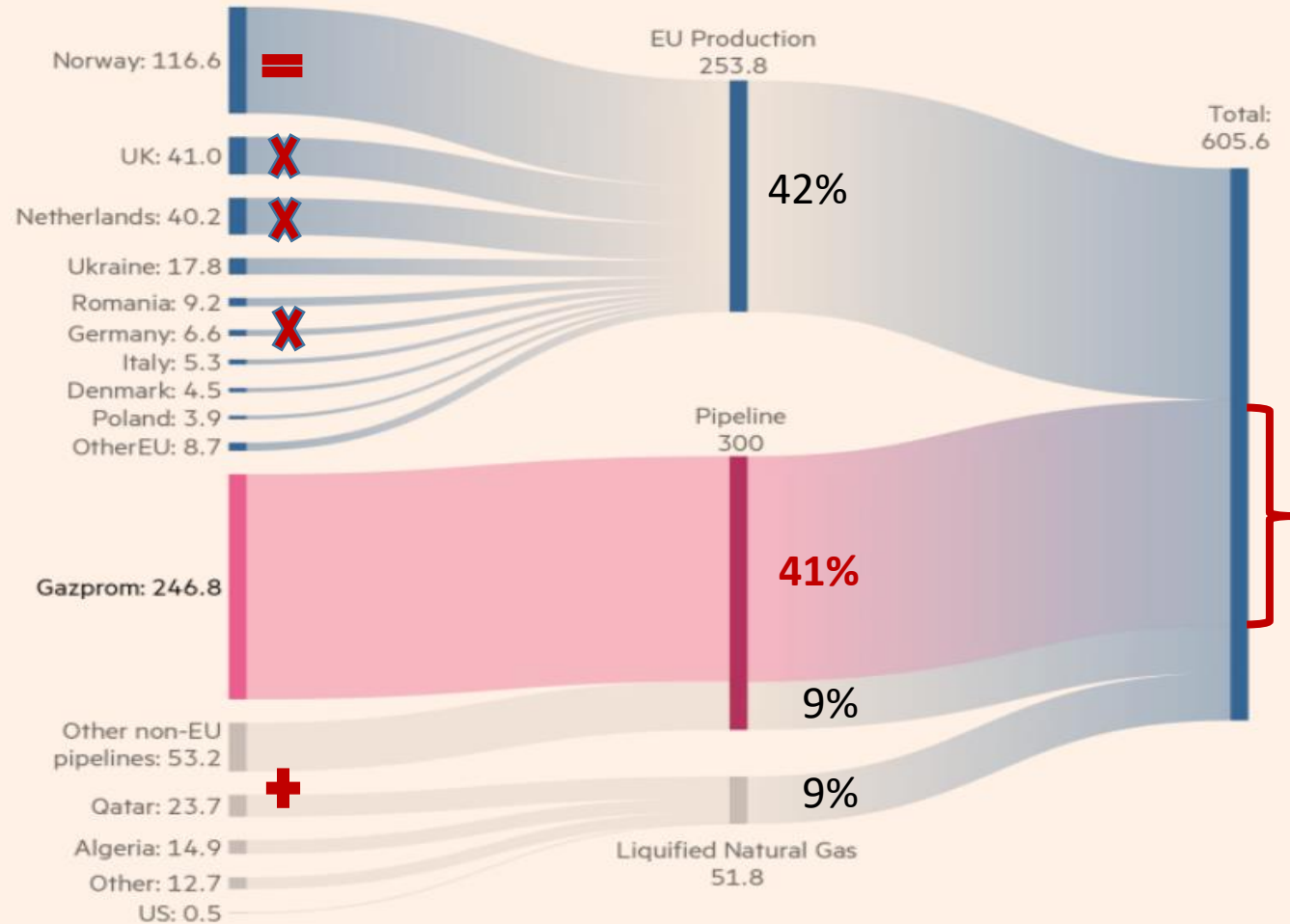


Source: Oxford Institute for Energy Studies

RICK NOACK/THE WASHINGTON POST

Europe's appetite for gas depends on Gazprom

Sources of European gas, 2016 (billion cubic metres)



Graphic by Alan Smith Sources: BP Statistical Review of Energy 2017, Gazprom, national statistics © FT

Geopolitics: Post-'91 strategies

Soviet system:

Russia gathered/processed oil & gas
Distributed to CSS, at solidarity prices, bred dependence.

CEE-EU integration required/requires
remaking

Eurasian Oil & Gas (O&G) system

aspects ...

Gas-pipeline “Great Game”

Western campaign:

- US backed promising Azerbaijan Caspian off-shore fields v Russia; Bush/Clinton Caspian bases, ...
- OIL
 - Back BTC (Baku, Tbilisi, Ceyhan), 2nd longest pipeline
 - Geopolitically difficult; but commercially attractive. Big success
 - Most via tankers (Druzba, world’s longest now enigma/disaster!)
- Gas
 - Nabucco pipeline. Why failed?
 - One *HUGE* pipe to end CEEs’ Russian dependency
 - Like BTC geopolitical. Unlike BTC not commercial
 - *The gas pipeline “Great Game” was on*

US backed off-shore Azerbaijan v. Russia



*“While Russia’s initial energy development strategy in the Caspian has been predicated on maintaining dominance, the presence of alternative projects and infrastructure can create new **“facts on the ground”** that alter Russian behavior, influencing it in a more competitive direction.”*

The Caspian Sea & S. Gas Corridor: A View from Russia
Bud Coote
Atlantic Council, April 2017

Gas-pipeline “Great Game”

Western campaign:

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- OIL
 - Back BTC (Baku-Tbilisi-Ceyhan), world's 2nd longest pipeline
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 - However, most oil goes via tankers (Druzba, world's longest; now disaster!)
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BTC success: active diplomacy + commercially viable



BTC was finished May 2005. World's 2nd longest (Druzba is longer)

<http://www.azerb.com/az-btc.html?i=1>

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Western opening: Nabuccco Pipeline (USA-EU 2002-13)

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Russia blocking (*pipeline “game of go”*): South Stream (Russ 2007-14) v. Nabucco (USA/EU 2002-13)

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West's 1st counter:

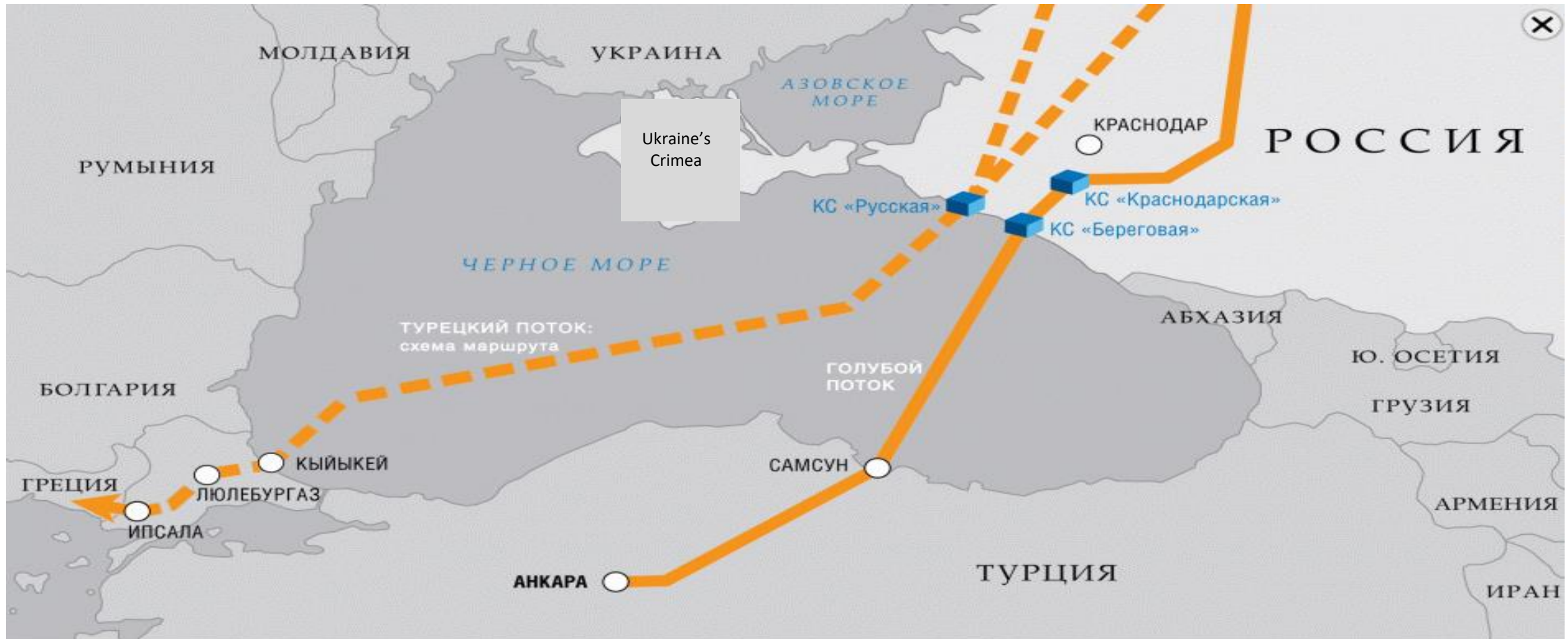
i) Southern Corridor (EU/USA) *a viable mini-Nabucco*



West's 2nd counter: Southern Stream checked with EU law



Russian escape: Southern Stream → Turk Stream



But Nord Streams + S. Stream beyond “game of go” Russia’s constraints as subverts transit CEEs

- Russian war and subversion in Ukraine presents gas-transit risks now beyond benefit of earlier corruption and pressure gas games.
- Move it out to allow more forceful, destabilizing tactics.



But Nord Streams + S. Stream beyond “game of go” Russia’s constraints as subverts transit CEEs

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Yanovsky Anatoly

Russian Deputy Minister of Energy
(At Russian Gas Society mtg., Adlon Hotel, Berlin.
18 May 2009.)



Elena Burmistrova

Director General of Gazprom Export

But Nord Streams + S. Stream beyond “game of go” Russia’s constraints as subverts transit CEEs



Part 2 | Why does Germany support NS2?

Russian-gas dependence is risky ▲

Two sources of Russian risk

1. Russia's domestic production is risky

- a. The oil and gas sector is not properly maintained, has falling expertise, low tech level, is opaque and poorly governed; it suffers sanctions.
 - *E.g. Druzba pipeline failure: opaque*
- b. The political and legal regime is autocratic and arbitrary

2. Russia's gas-transit states are also risky

- Gazprom's transit states to EU are targets of Russian subversion. Russian behavior leads to corruption, transit interruptions and even war
- Russia uses gas cutoffs, contract renewals as geopolitics/geoeconomic weapon
 - *E.g. Ukraine, Belarus, Caspian transit, etc.*

Why does Germany support NS2?

Different sections have different reasons ... but one is crucial.

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The US Senate's decision to expand sanctions against Russia triggered indignation in Berlin, throwing Germany's geopolitical ambitions concerning the Nord Stream 2 project into sharp relief.

Why does Germany support Nord Stream 2?

Different sections have different reasons

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Key analytical point here:

Aside from *Ostpolitik* and narrow-business interests, the key section of German foreign-policy/energy elites actually have no illusions about Putin's unreliability and the risks of dependence on Russian Gas.

However, they have no confidence Ukraine will soon reform, and there is a war there, so Ukraine transit is seen as, *de facto* an additional, unacceptable energy security risk to European/German gas security. So, without consultations, Berlin/Merkel decided to 'remove' the added risk of Ukraine transit; and instead take the gas directly to Germany and distribute it to Europe.

However, this perceived/de-facto cooperation with Putin's desire to separate his gas deliveries from states he is warring with (Ukraine) and that he wants to subvert (remainder of CEE states) naturally enrages the CEE states,

This policy by Germany (taken from a position of energy/geopolitical/military weakness) has cost Germany much of its soft-power in CEE and Nordic states, and its relations with both parties in the USA.

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The crises confronting German-Russian NS2

- **Roadblocks to completing NS2**
- USA and EU sanctions on Russian energy, oligarchs, finance, etc.
- Opposition by Ukraine and V4/Poland
- Danish opposition
- Application of EU law (3rd Energy Package)
- Votes in EU parliament
- US administration and congressional threats to block NS2 with sanctions
- **Putin's refusal to negotiate a new Ukraine gas-transit contract unless Germany and Ukraine ignore a Stockholm arbitration ruling that Gazprom must compensate Naftogaz**
 - Chancellor Merkel's threat (April) to cancel NS2 without this transit contract
 - The failure (July) of Merkel's envoy, Altmaier, to resolve this among Russia, Ukraine, Poland, etc.,
 - Subsequent ongoing "tripartite" crisis negotiations hosted by the E.C.
- Status of reform of Ukraine's gas sector
- EU buildup of pipeline-inter-connections and liberal markets in East and Central Europe
- Poland's embrace of LNG v. Gazprom pipeline gas
- Trump administration insistence Europe purchase US LNG to counter Russian gas

Why does Germany support NS2?

Different sections have different reasons ... but one is crucial.

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Key articles:

→ [- Germany backs small-scale LNG](#) import terminals despite opposition, EUCERS *Newsletter*, Issue 77, July 2018

Berlin Policy Journal: (of DGAP: German Council on Foreign Relations)

→ [- Germany's Real LNG Policy](#), 4 July 2018

→ [-Neue Neue Ostpolitik](#): What lies behind the US-German spat over new Russian sanctions affecting the Nord Stream 2 gas pipeline project? July/Aug. 2017

[- An Oil-Price War's Surprise Ending](#): No one expected shale producers to survive extended low oil prices, but they have. The next act could prove even more destabilizing. 29 November 2016

[- Pipe Dream?](#) The Nord Stream 2 pipeline project is in danger of being derailed (on the implications of Polish competition authority's decision). 22 September 2016

[- Bypass Operation: Nord Stream 2, Russia-to-Germany pipeline deal, raises questions](#) October 20, 2016

[- Containing Gazprom: Putin may be overplaying his hand on gas – but no thanks to Berlin and Paris](#) August 10, 2015

[- Oil Price Collaterals: Saudi strategy shakes Russia, Iran & Venezuela, but they're not targets](#) Feb 4, 2015

IP Journal:(DGAP: German Council on Foreign Relations)

[- EU's "Stress Test" of a Russian gas cutoff: Official optimism?](#) Nov 22, 2014

[- Addressing Europe's Energy Dependence on Russia: Gas Globalization?](#) May 6, 2014

[- "A firm US-EU partnership on Iran came at great cost, and made a deal possible"](#) August 14, 2014

[- Energiewende vs. USA Shale Gas: Can German industry compete?](#) January 22, 2014



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