

Nord Stream 2: Implications and Outcomes for US-German Relations and the NATO Alliance

Abstract¹: Resolving the areas of contention between Germany and the United States is of the utmost importance early in President Joe Biden’s term. One of these disputes is the ongoing disagreements on the Nord Stream 2 undersea natural gas pipeline. This issue comes at a difficult time as Berlin is in a precarious position regarding its energy security outlook. To meet economic and environmental obligations after the shutdown of its nuclear power plants, Germany will depend on steady imports of natural gas; and Nord Stream 2 will secure additional volumes from Russia. Ironically, this will also increase Russia’s political and economic leverage over Ukraine as well as several Central and Eastern European Allies dependent on Russian gas. The US has voiced strong opposition to Nord Stream 2, but Germany is determined to proceed with its construction, further complicating efforts to normalize relations between the two nations. This position paper provides three potential scenarios on Nord Stream 2, discussing the implications of each for US-German relations, as well as for the NATO Alliance. Ultimately, careful diplomacy and compromise solutions from Washington and Berlin offer the best potential for ameliorating trans-Atlantic relations during a fraught election year in Germany.

Introduction

Berlin’s commitment to shut down its nuclear power plants by 2022² and cease coal-fired electricity generation by 2038,³ has placed the Federal Republic of Germany in a challenging energy security environment. Through its *Energiewende (Energy Transition)*, Chancellor Angela Merkel’s government is committed to carbon-free energy generation by 2050.⁴ However, with a raft of regional and national elections in 2021, and important economic, environmental and geostrategic considerations, the government also remains committed to completion of the Nord Stream 2 (NS 2) pipeline from Russia. In its pursuit of Russian gas, Berlin is at odds with the United States and/or other NATO/EU member that argue that NS 2: 1) fails to diversify gas supply sources to Europe; 2) as a diversionary pipeline does not provide new volumes of Russian natural gas; 3) leaves Ukraine vulnerable to further Russian aggression; 4) fails to “safeguard the security of gas supply” to the Baltic States and Poland (as directed by EU Regulation 2017/1938); and 5) obstructs developing “a truly interconnected internal energy market with multiple entry points and reverse flows [by] completing the North-South and Southern Gas corridors”.⁵ While much has been written about the pipeline politics in Europe, this paper outlines three potential scenarios regarding NS 2, while discussing the implications to US-German relations and the NATO Alliance.

[Navalny arrest and incarceration for 2.5 years
French opposition]

[Margarita:

¹ This white paper was written in preparation for a March 3, 2021 brief to USSTRATCOM.

² <https://www.dw.com/en/germanys-nuclear-phaseout-explained/a-39171204>

³ <https://www.energydigital.com/sustainability/germany-energy-regulator-close-4788mw-coal-plants>

⁴ Ibid.

⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32017R1938>

Gas consumption in the EU

amounted to 482 bcm

Net gas imports amounted to 398 bcm or 82.6 % of total gas consumption

In 2019 as whole, Russia supplied 46% of the total EU imports (pipeline and LNG), followed by Norway (29%) and other LNG sources (17%).

Source: https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q4_2019_final.pdf]

Here are the statistics for Russian gas exported to Europe and Turkey. It has increased from 138.6 bcm in 2010 to 198.97 in 2019 — by almost 44%.

European gas consumption was highest in 2010 and has not fully reached those levels yet.

Russian dependence on European imports has been the same in the last 3 years before the pandemic. But now Russia started exports to China — about 38 bcm through the Power of Siberia pipeline and also some LNG to Asia. Russian LNG is coming to Europe too — included in the statistics below.

<http://www.gazpromexport.ru/en/statistics/>

Natural gas exports made to countries outside the former Soviet Union by Gazprom Export (billion cubic meters):

Year	1973	1975	1980	1985	1990	1995	2000	2005	2010	2015	2016	2017	2018	2019
Total	6.8	19.3	54.8	69.4	110.0	117.4	130.3	154.3	138.6	158.6	178.3	192.2	200.8	198.97

Turkey gets about 15.5 bcm on these volumes.

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Revision or Status Quo: Pipeline Politics in Europe

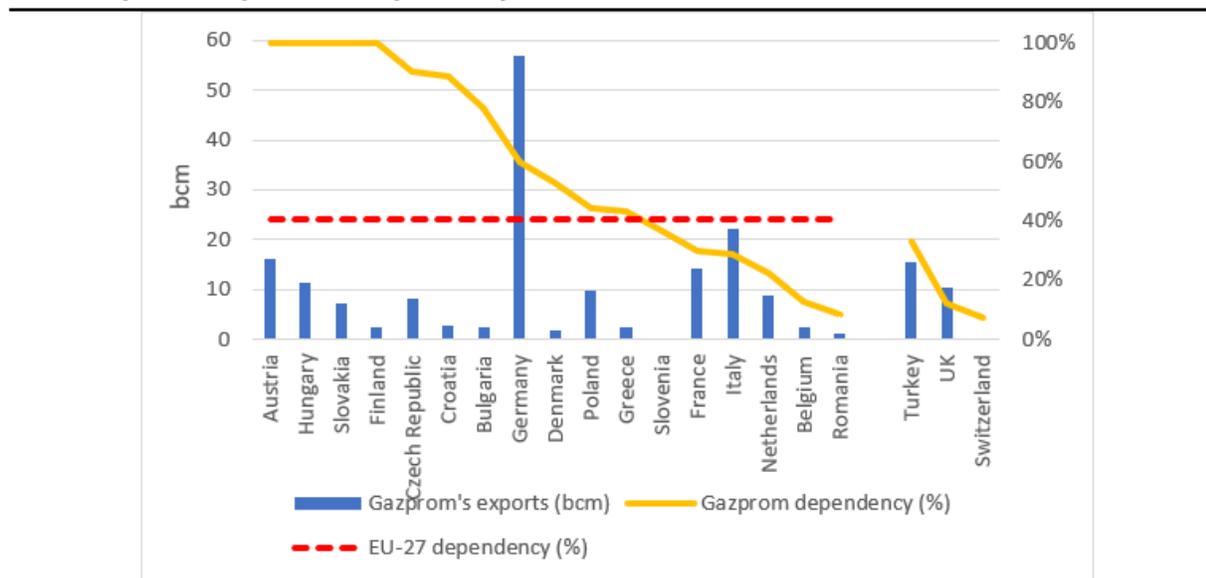
Background

According to the European Energy Security Strategy, in 2013 the EU imported 66% of the natural gas it consumed, and the Russian Federation accounted for 39% of the gas imported by the EU.⁶ By 2019, EU net gas imports amounted to 82.6 % of total gas consumption, while Russia accounted for 46% of the natural gas imported by the EU.⁷ These figures demonstrate the EU's increasing dependence on Russian gas.

⁶ European Commission. 2014. Communication from the Commission to the European Parliament and the Council: European Energy Security Strategy. COM/2014/0330 final. <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52014DC0330>. Accessed on January 6, 2021.

⁷ https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q4_2019_final.pdf

2019 Gazprom's exports and dependency



Source: Gazprom Export, BP Statistical Review, thierrybros.com

From the proponents' perspective,⁸ NS 2 is "purely economic and purely commercial," based on expected increases in gas demand and diminishing natural gas production in Europe.⁹

NS 2 opponents claim it is a diversionary pipeline that would not bring new gas to Europe but would divert Russian gas from Ukrainian pipelines. Therefore, it is a Russian political venture to control the European energy market and exert dominance over Eastern European countries, notably Ukraine, Poland and the Baltic States.

Key EU-Russia Energy Co-dependencies: National and Regional Perspectives

As Germany is the main consumer of Russian natural gas within the EU,¹⁰ the energy codependency implications to the NATO Alliance must be addressed. Our paper recognizes the perspectives of key NS 2 stakeholders, notably the European Union, Germany, Russia, the United States, other member states in Central and Eastern Europe, Ukraine and NATO.

Germany

Natural gas is perceived as a 'bridge' fuel taking Germany to full reliance on renewables, bio-gas, hydrogen, and/or fusion.¹¹ Therefore, from the German perspective, increased levels of natural gas must be imported for domestic consumption and transshipment to other countries. The questions become, with COVID-19-induced budgetary pressures, from where will the gas be imported and at what cost? From Germany's view, completion of NS 2 is of vital importance,

⁸ Gazprom, BASF, Uniper, ENGIE, OMV, and Shell

⁹ "Putin: Nord Stream-2 Not an Alternative to Ukrainian Transit Route," *TASS*, February 28, 2018, <http://tass.com/economy/991997>.

¹⁰ <https://www.statista.com/statistics/353622/natural-gas-sales-top-customers-of-gazprom/>

¹¹ https://www.ipp.mpg.de/4887650/010_Juli_2020_dt.pdf

and impacts the 2021 regional and federal elections, as well as Berlin's ambitions as a regional hub for natural gas¹² and hydrogen.¹³

Other considerations include whether Germany doubles down on *Energiewende*, and the impact on local, regional and global energy prices and competitiveness? Would Germany support other pipeline projects in North Africa or elsewhere, or the possibility to source non-Russian gas? Finally, there is the option to invest in liquified natural gas (LNG) facilities and import from US, Qatar and Australia.

Russia

As a result of the 2006 and 2009 gas crises, Russia declares Ukraine as an unreliable transit country and views NS 2 as a vital national interest and economic priority, thereby justifying the Kremlin's push for the pipeline's completion. From a political perspective, increasing Germany's dependency on Russian natural gas also 1) undermines EU energy security strategy; 2) provides Russia with military freedom of maneuver in eastern Ukraine, and 3) weakens NATO's cohesion.

[Sanctions and Gazprom lobby?]

United States

These benefits to Moscow are not lost on Germany's allies, particularly in the United States. The Obama, Trump, and now the Biden, Administrations have opposed NS 2, and Senators Ted Cruz (R-TX) and Jeanne Shaheen (D-NH) co-authored the 2020 sanctions packages aimed at the project. The 2021 National Defense Authorization Act (NDAA) imposes even stronger sanctions, notably on financial institutions, insurers, port facilities, and certifying companies. This is in addition to the 2019 sanctions, which targeted pipelaying companies. In July 2020 the State Department also lifted restrictions on NS2 under the Countering America's Adversaries Through Sanctions Act (CAATSA), allowing for all participating European companies to be sanctioned.

[Biden administration sending feelers for a compromise]

Central and Eastern European Allies: The Three Seas Initiative

Among Germany's allies in Central and Eastern Europe, NS 2 is equally unattractive. Over 75% of natural gas imports by several EU and NATO member states in Central and Eastern Europe—to include Bulgaria, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and the Czech Republic—come from Russia.¹⁴ This regional dependency on Russian gas calls for “a truly interconnected internal energy market with multiple entry points and reverse flows [by] completing the North-South and Southern Gas corridors”.¹⁵ Despite that, the financial feasibility of several natural gas projects under the auspices of the Three Seas Initiative, a forum of twelve

¹² <https://www.argusmedia.com/en/blog/2020/july/15/germanys-new-gas-hub-faces-uphill-fight-for-liquidity>

¹³ <https://www.cleanenergywire.org/factsheets/germanys-national-hydrogen-strategy>

¹⁴ <https://carnegieeurope.eu/2019/11/28/geopolitics-of-energy-security-in-europe-pub-80423>

¹⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32017R1938>

EU nations in Central and Eastern Europe,¹⁶ could be impacted by NS 2; notably the Gas Interconnector Poland-Lithuania (GIPL), Bulgaria-Romania-Hungary-Austria (BRUA), the Easting Pipeline and Ionic Adriatic Pipeline (IAP).¹⁷

[Ion: Three Seas Initiative / Central and Eastern Europe (Baltic, Adriatic, Black Sea Initiative)

The Three Seas Initiative is a forum of twelve EU nations in Central and Eastern Europe including Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia

Affected energy projects agreed upon in 2018:

Gas Interconnector Republic of Poland-Republic of Lithuania (GIPL): "GIPL aims at connecting the gas transmission systems of Republic of Poland and Republic of Lithuania, and, consequently, integrating the isolated gas markets of Baltic States (and Republic of Finland) with the Polish and EU gas markets. This will contribute to the creation of a regional gas market, enhancement of competition and the security of gas supply."

BRUA: "Development on the territory of Romania of the National Gas Transmission System along the corridor Bulgaria-Romania-Hungary-Austria (BRUA Phase 1 and 2) and Enhancement of the bidirectional gas transmission corridor Bulgaria-Romania-Hungary-Austria (BRUA Phase 3) and the Development on the territory of Romania of the Southern Gas Transmission Corridor for taking over gas from the Black Sea shore (Black Sea-Podisor)"

Easting - "a new transmission pipeline, connecting the existing interconnection point Veľké Kapušany on the SK-UA border, with UA/HU-RO-BG transit pipeline."

Romanian-Hungarian-Slovak gas transmission corridor: "The projects with new gas source decreases the dependence on Russian gas supply. The Polish-Slovak interconnector enlarges the capacity of shippers to deliver gas among 3SI counties, creating a real North-South corridor in the Central European region. The interconnectivity of the region will be increased considerably. The group of projects ensure gas delivery towards Ukraine, Republic of Croatia and Republic of Serbia"

Diversification of gas supply sources and integration of gas infrastructure in the Three Seas Region with the implementation of the Baltic Pipe project and cross-border interconnections Republic of Poland-Slovak Republic and Republic of Poland-Ukraine: "In line with the EU North-South Gas Corridor, the project aims to diversify gas supply sources and integrate the gas infrastructure in the Three Seas region. This will be made possible with: 1) Baltic Pipe project that will connect the gas transmission systems in Republic of Poland, Denmark and Norway to

¹⁶ Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. It should also be noted that as of October 2020, Germany and the United States enjoy observer status in the Three Seas Initiative.

¹⁷ <https://3seas.eu/about/progressreport>

enable the transport of Norwegian gas to Republic of Poland and further on to the Baltic States and Central-Eastern Europe; 2) Cross-border interconnections Republic of Poland – Slovak Republic, Republic of Poland – Ukraine that will better integrate the gas markets in the Three Seas region and increase the security and diversification of gas supply in the region."

Ionic Adriatic Pipeline – IAP: The IAP project has been based on the idea of connecting the existing gas transmission system of Croatia via Montenegro and the Republic of Albania with the TAP gas transmission system (Trans Adriatic Pipeline).

LNG Terminal on the Island of Krk with evacuation pipeline: "The Project has the purpose to secure energy needs and increase security of gas supply through the provision of a new gas supply route for the Central and South-Eastern European countries."]

Ukraine

Meanwhile, completion of NS 2 threatens to dramatically impact Ukraine both economically and politically. About 80% of total Russian natural gas exports go to the EU,¹⁸ of which half that amount transits Ukraine.¹⁹ Aside from the \$5.9 billion in transit revenues in 2019, which approximates 3.9% of Ukrainian GDP, Kyiv also views this gas transmission as a deterrent against future Russian aggression.²⁰ The Ukrainian government fears that NS 2 is another deliberate attempt by Russia to destabilize it, resulting in lost revenues and greater political, economic, and military pressure from Moscow.

Implications for the NATO Alliance

NATO has little directly at stake, viewing NS 2 as a sovereign issue. Nonetheless, if Ukraine is pressured by Russia, there could be significant security-related implications for neighboring Poland, Slovakia, Hungary, and Romania, as well as the Baltic States. More broadly, alliance cohesion could be adversely affected by a dramatic split between Germany on the one hand and many Central and Eastern Europe allies on the other. It is conceivable the NS 2 issue would force a rancorous public debate further weakening NATO's standing. These considerations will weigh heavily on the Alliance's civilian and military leadership.

Three Scenarios for US-German Relations

Completion of NS 2

Under this scenario, Berlin satisfies its energy security on its terms, which could prove crucial in an election year for all political parties, including the Greens. Furthermore, Germany becomes a hub for natural-gas distribution in Europe. This is welcomed by some neighboring countries, mostly NS 2 stakeholders such as Austria, Switzerland, France, and the Netherlands. Nonetheless, the Alliance's political cohesion and credibility is damaged in this scenario, as German relations with the Baltic States and Poland sour. Spillover effects also negatively impact

¹⁸ <https://www.sciencedirect.com/science/article/pii/S2211467X2030064X#:~:text=3.1.-,Russian%20natural%20gas%20export,bcm%20in%202018%20%5B1%5D>.

¹⁹ <https://www.naftogaz.com/www/3/nakweben.nsf/0/CA66A758D9FDDBFBC2258507003F06B3?OpenDocument&year=2020&month=02&nt=News&>

²⁰ <https://www.bakerinstitute.org/media/files/files/6754d0f0/ces-wp-ukraine-050720.pdf>

Alliance members in the Baltic and Black Sea regions. As Washington pushes on with sanctions, the downward spiral in US-German relations would become even more difficult to reverse.

Suspension of NS 2

In this scenario, the German Christian Democratic Union (CDU) is accused of ‘knuckling under’ to US pressure. Moscow manipulates this in campaign aimed at weakening centrist parties in Germany competing in the regional and national 2021 elections. The Green Party, the Alternative for Germany (AfD) and the Left Party (Die Linke) increase their protest potential, fueling political polarization. Allies in Central and Eastern Europe are pleased, but leaders in Paris, Brussels and The Hague complain bitterly about Washington’s heavy-handed tactics. Putin’s Russia is displeased it has lost leverage vis-à-vis Ukraine but continues to rely on other political destabilization tools to keep most of Eastern Europe off balance.

Temporary US-German Compromise

The European Parliament calls for an immediate halt to NS 2 in the wake of Alexei Navalny’s arrest. In response, the Kremlin cracks down on protesters across Russia, which spurs Washington and Berlin (and to a lesser extent Brussels) to engage in diplomatic efforts demonstrating solidarity. Germany agrees to ‘delay’ further work on NS 2 until 2022 at the earliest –after the elections of 2021 – and Washington agrees to suspend sanctions for the same period. In the near term, Germany’s energy deficit is resolved through LNG imports facilitated by the United States. Over the longer run, and as a means of incentivizing more acceptable Russian behavior, Berlin holds out the possibility of importing extra volumes of Russian gas via existing pipelines.

Conclusions

While resolving this rupture between Germany and the United States is of the utmost importance early in President Biden’s term, a solution will not occur without mutual good faith efforts. Such a solution, could include a commercial-political fact-finding commission resulting in a temporary compromise, delaying the completion of NS 2 while suspending US sanctions. This would provide President Biden, German Chancellor Merkel, and her eventual successor with time to revive trans-Atlantic relations without incurring short-term political costs.

Admittedly, a temporary solution as discussed above would not address the root cause of the dispute – Europe’s energy insecurity and the willingness of some European states to commercially engage with their primary geo-political rival. Moreover, Russia’s need for revenues and its determination to control its border region by subverting NATO will not subside, creating the environment for regional destabilization and energy dependence well into the future. Even if Germany’s natural gas requirements subside later this century, as is expected, the divergent perspectives on NS 2 between Germany and the United States have already created deep strains in the Baltic States, Poland, and Ukraine and other Allies in Central and Eastern Europe. The result could be broad geopolitical divisions in the EU and more specifically within the NATO Alliance.

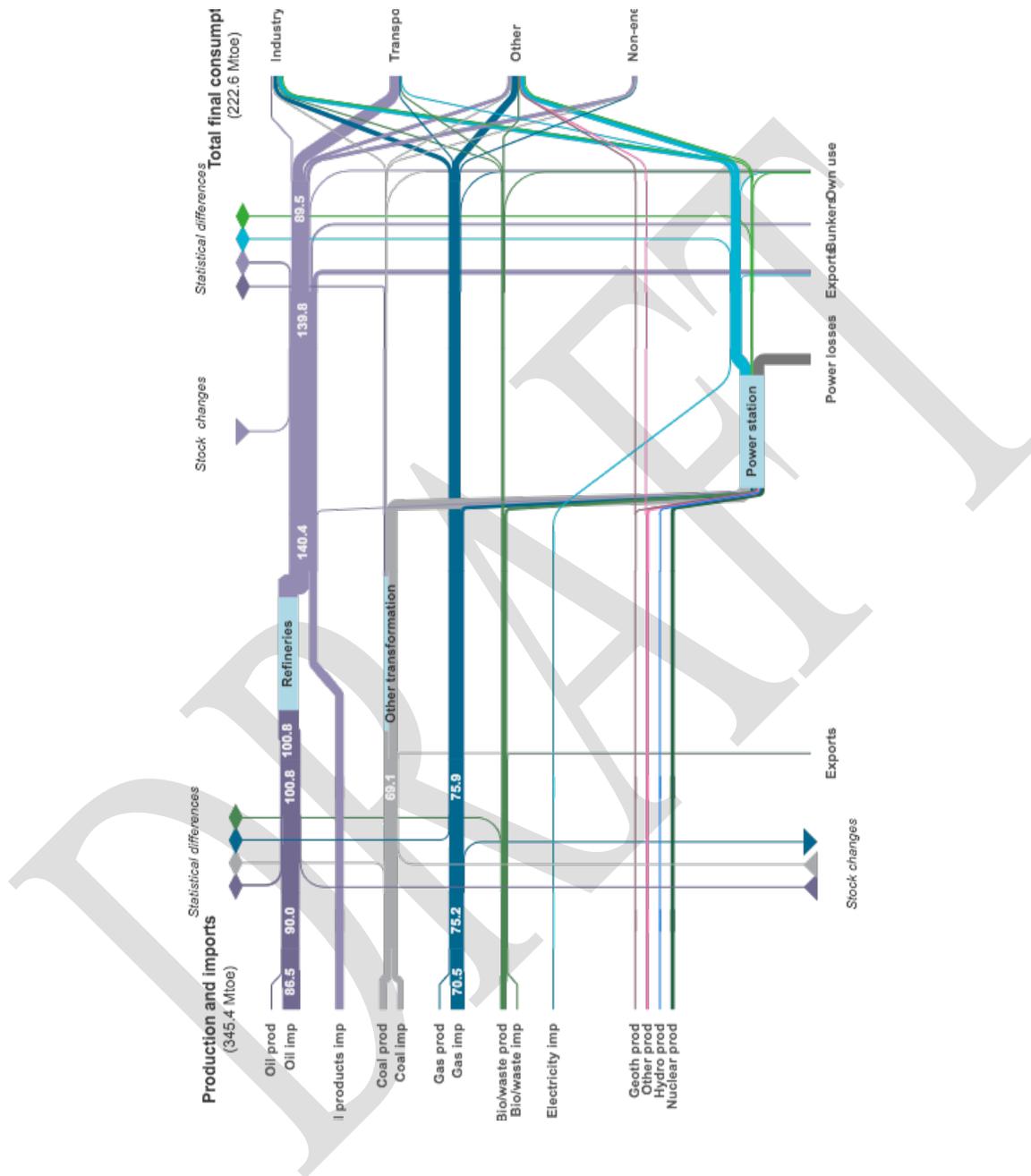
[David: Finally, does another 55 Billion CM a year of Russian gas portend even greater Russian supply chain 'integration' into the Central European energy and power grids, and if so, does a

European civilian - NATO firewall on grid access, distribution, resilience, and security merit discussion from a different or unconventional geopolitical and geoeconomic perspective?]

Additional category: 1) Fallout from the sanction
2) Gazprom lobby in DC

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Annex 1: Germany Energy Balance (2018)²¹



²¹ <https://www.iea.org/sankey/#?c=Germany&s=Balance>