At a glance

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Gazprom's controversial Nord Stream 2 pipeline

In April 2017, European Energy Commissioner, Maroš Šefčovič, commented that no commercial project has ever been so intensely debated as the Nord Stream 2 pipeline. Opponents of the pipeline are above all worried about its geopolitical and energy security implications.

Nord Stream in a nutshell

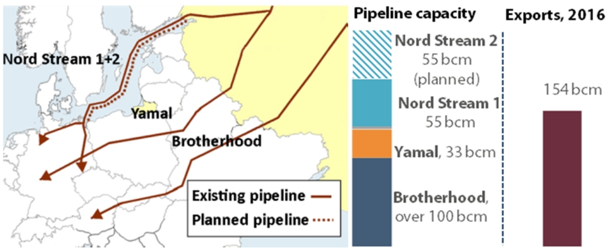
The first Nord Stream pipeline, which became operational in 2011, is a 1 200-kilometre twin pipeline under the Baltic Sea (the longest undersea pipeline in the world), bringing Russian gas to Germany. In 2015, Russian gas exporter Gazprom announced the construction of Nord Stream 2, a second twin pipeline, following essentially the same route and with the same capacity. As of July 2017, the project is at the stage of tendering and obtaining environmental permits. Gazprom expects the pipeline to become operational by the end of 2019. Once completed, the Nord Stream pipelines will be able to transport most of Russia's gas exports to Europe, partially replacing the 'Brotherhood' pipeline via Ukraine and Slovakia.

The pros and cons of Nord Stream 2

Does Nord Stream 2 make commercial sense?

Gazprom, which will own the pipeline, claims that there are sound commercial reasons for building it. Besides eliminating transit fees to Ukraine (as much as US$2 billion a year) it will be a shorter and therefore cheaper route from the Yamal gas field. If Gazprom does not build a new pipeline, it will have to refurbish the leaky Brotherhood pipeline, and this will not be any cheaper than the €9.5 billion that Gazprom is investing in Nord Stream 2.

Main Russian gas pipelines to Europe



Pipeline capacity in billion cubic metres of gas (bcm) per year; Gazprom exports to Europe, without Ukraine/Belarus/Moldova.

Gazprom forecasts that Europe will have to import an extra 120 bcm a year, as its own production capacity declines. The new pipeline will therefore be needed to meet growing demand for gas.

In addition, the Nord Stream pipelines would end the uncertainty of the Ukrainian transit route; Russia accuses Ukraine of stealing gas and failing to adequately maintain pipelines, and there are long-standing gas disputes between the two countries. The willingness of European energy companies (Engie, Shell, and three others) to lend Gazprom €4.75 billion for the new project suggests they see the pipeline as commercially viable.

Critics of the pipeline argue that it is unnecessary: existing pipelines to Europe have enough spare capacity to carry additional imports, and Gazprom's estimates of the cost of refurbishing the Ukraine route are inflated.

Impact of Nord Stream 2 on European energy security

Gazprom argues that Nord Stream 2 will benefit the EU's energy security by expanding pipeline capacity and ending dependence on the unreliable Ukrainian transit route. On other routes, Russia has a good track record as a reliable supplier of cheap gas, and Europe lacks adequate alternatives: Middle Eastern and North African suppliers lack sufficient export capacity, besides being plagued by instability, while the planned Southern Gas Corridor from the Caspian region is expected to deliver less than 10 bcm a year.

Moreover, thanks to new pipeline infrastructure, EU countries can now easily share gas with one another, ending their dependence on a single supply route. As a result, the 2009 gas crisis, when Gazprom turned off the taps on the Ukraine route for nearly two weeks in mid-winter, is unlikely to be repeated. When Russia threatened to do the same in 2014, Ukraine was able to buy Russian gas from Slovakia instead.

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Strong regulatory action by the European Commission is another safeguard against Gazprom's market dominance; in 2017, the company committed itself to ending abusive practices under threat of legal action.

On the other hand, Nord Stream 2 does not help the EU's diversification efforts; on the contrary, it concentrates most Russian exports on a single route, while potentially ending transit via Ukraine if combined with the future TurkStream pipeline. In addition, by facilitating Russian exports, the pipeline could reduce the incentive to develop alternative sources, such as liquefied natural gas (LNG) from the United States.

Geopolitics: Nord Stream 2 could shift the balance of power in Europe

Gazprom insists that Nord Stream 2 is a purely commercial project. However, for the Kremlin, which holds a controlling stake in the company, the pipeline may be a means to a geopolitical end. Nord Stream 2 is likely to consolidate Russian economic influence in Europe; at the same time, it will hurt Ukraine by depriving it of much-needed transit fee revenue, as well as threatening European energy solidarity (an EU objective since the Lisbon Treaty) by creating divisions between Member States (see below).

Other concerns: environmental impact of the pipeline and safety problems

Gazprom points out that six years of rigorous monitoring have only identified short-term and minor environmental impacts of the Nord Stream route. The new pipeline will have a smaller carbon footprint than existing pipelines or LNG, which requires more energy to transport and process. Safety concerns due to the presence of chemical and other weapons dumped in the Baltic Sea have been addressed by carefully surveying the seabed and routing the pipeline to avoid hazardous areas. However, environmentalists argue that Nord Stream runs counter to the EU's aim of moving away from fossil fuels.

Security aspects: Nord Stream 2 could facilitate Russian espionage in the Baltic Sea

In 2006 and again in 2016, Sweden expressed concerns about the potential use of Nord Stream infrastructure as a cover for Russian espionage. However, in January 2017 it dropped its objections to Gazprom's use of the port of Karlshamn, despite its proximity to a large Swedish naval base.

Nord Stream 2 faces challenges from EU energy law

The EU's third energy package bars gas producers such as Gazprom from owning pipelines in the Internal Market. In December 2014, the European Commission therefore objected to South Stream, a pipeline which would have brought Russian gas to south-east Europe via Bulgaria, forcing Gazprom to abandon the project. However, Gazprom claims that the same argument does not apply to Nord Stream 2, which is built offshore; precedents such as the trans-Mediterranean Greenstream suggest that undersea pipelines are not treated as part of the Internal Market.

In March 2017, the European Commission's legal service conceded that Nord Stream 2 may be outside the scope of EU energy rules. To ensure that Nord Stream 2 does 'not operate in a legal void', the Commission still hopes for 'a specific regime which will apply key principles of EU energy law' to the pipeline. The Council of the EU is expected to decide in autumn 2017 whether or not to authorise the Commission to negotiate such a regime with Russia; 13 Member States are in favour of EU-level talks, but Germany opposes them.

A deeply divisive issue, on both sides of the Atlantic

A European Parliament resolution adopted in October 2016 describes Nord Stream 2 as harmful to energy security, diversification and European solidarity. In June 2016, European Commission President, Jean-Claude Juncker, warned that the pipeline would hurt European consumers and energy companies.

Among EU Member States, opposition comes from, on the one hand, countries traditionally suspicious of Russia, such as Poland and the Baltic states, and on the other, those such as Slovakia and Hungary, which could lose their status as transit countries – together with the associated transit fee revenue and leverage over Gazprom. In March 2017, eight EU governments warned against 'potentially destabilising geopolitical consequences'. In the United States, similar concerns have been expressed by senior figures in the administration. In addition, in June 2017 the US Senate adopted a bill under which sanctions could be extended to companies supporting Russian energy export pipelines (however, despite bipartisan support, it is still far from certain whether the bill is backed by President Trump or if it will become law).

Nord Stream's most vocal supporter is Germany, whose energy sector will benefit if the country becomes the main entry point for Russian gas. In June 2017, Germany and Austria issued a joint statement denouncing the above-mentioned US Senate bill as unacceptable interference in European energy matters, motivated by a desire to ensure US energy sector jobs by promoting US LNG at the expense of Russian gas.