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# The Nord Stream Gas Pipeline Project and its Strategic Implications

NOTE





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# **The Nord Stream Gas Pipeline Project and its Strategic Implications**

## **NOTE**

### **Abstract**

The Nord Stream Gas Pipeline (NSGP) project is revealing of the current tensions in relations between the EU and Russia. It highlights the problem of bilateral deals undermining a common EU approach towards Russia. Poland and the Baltic States have been vociferous in their criticism of Germany signing this deal with Russia which they allege is hugely expensive, damaging to EU solidarity, and could have security implications. The appointment of the former German Chancellor, Gerhard Schroeder, to chair the supervisory board of Nord Stream has also attracted criticism. The Nordic states have emphasized the importance of environmental issues. The European Commission has supported the deal as part of the Trans European Networks (TENS) and as part of the EU's efforts to diversify energy supplies. Russia has promoted the deal as ensuring long-term gas supplies to Europe. The NSGP is supposed to deliver 25% of the additional gas import needs of EU25 in 2015.

There are many other concerns relating to the NSGP covering political, legal, economic and security issues. The NSGP is in many ways a reflection of EU-Russia relations, revealing the many different interests involved on the EU side. The wider issues include whether the EU can agree on a) an internal energy policy b) an external energy security policy c) a common approach towards Russia.

This document was requested by the European Parliament's Committee on Petitions.

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## Introduction

Few major infrastructure projects have aroused so much controversy as the Nord Stream Gas Pipeline (NSGP) project in the Baltic Sea. In the 1990s a Russian-Finnish feasibility study about a Baltic Sea pipeline considered a number of possible routes and concluded that the currently envisaged route was the most feasible way to transport gas from the world's largest reserves to Western Europe. In 2004 Russia secured German support for the proposed pipeline and an agreement was signed by the partners in September 2005 in the presence of President Vladimir Putin and Chancellor Gerhard Schröder. Nord Stream has been included since 2000 under the TEN-Guidelines (confirmed in 2006) and, in this sense, it is a contribution to a common European Energy policy.

The company Nord Stream, registered and with its headquarters in Switzerland, was established to implement the project, in cooperation with the Russian state-owned company Gazprom, which retains a 51% majority stake-holding in the enterprise, while German energy companies (Wintershall and E.ON Ruhrgas) and one Dutch company (N.V. Nederlandse Gasunie) are minority shareholders. The fact that Schröder became the Chair of Nord Stream's Supervisory Board soon after leaving office aroused much controversy.

## The NSGP Project

Two parallel pipelines are to be built on the seabed beginning close to the Russian town of Vyborg and ending near the German town of Greifswald. It is planned to locate a 30m x 30m service platform some 70km from the Swedish island of Gotland. Nord Stream will run through the Exclusive Economic Zones of Russia, Finland, Sweden, Denmark and Germany as well as through the territorial waters of Russia, Denmark and Germany. It will have an off-shore length of 1198km and have a capacity of up to 55 billion m<sup>3</sup> per year. It will bring gas from the Yuzhno-Russkoye oil and gas reserve, the Yamal Peninsula, Ob-Taz bay and the Shtokmanovskoye fields. The estimated costs are at least €5 billion.

The project is currently awaiting the Environmental Impact Assessments and approvals from involved countries. The first pipeline is due to be laid during 2008-2010 with first gas deliveries starting 2010. The pipeline will have a transport capacity of around 27.5 billion cubic metres of natural gas per annum. The second line will be laid during 2011-2012 with deliveries starting in 2012. It will have a similar transport capacity. In December 2005, Gazprom started construction of the 917 km long onshore pipeline link Gryazovetz – Vyborg in Babayevo, 351 km east of St. Petersburg. This link will connect the existing gas lines from Siberia to the St. Petersburg Region and Nord Stream. Two on-shore connections from Greifswald to the south and west of Germany with a total length of 850 km will be built by WINGAS and E.ON Ruhrgas. The design option envisages pipelines with an outside diameter 1220 mm, design pressure up to 220 bar, without midway compression, but with a service platform for maintenance and security purposes.

The pipeline is subject to the Environmental Impact Assessment (EIA) in accordance with international (Espoo Convention) and national legislation in the concerned countries. Only states whose Exclusive Economic Zones or territorial waters the pipeline passes through have the ability to veto the project. Other neighbouring countries, such as Poland or the Baltic States, are entitled to hear the report, but have no veto powers. However, they (so called "Affected Parties") are participating in regular consultations in the framework of the Espoo Convention. In this framework they are being continuously informed by the

developer and they have the opportunity to raise possible concerns and to issue statements on the project.

The pipeline will cross the so-called exclusive economic zones (EEZ) of Finland, Sweden and Denmark. According to international law, the EEZ is subject to a specific legal regime. This does not however mean that a coastal state could easily, that is, for political reasons, veto the NSGP. All states enjoy such freedoms as laying submarine cables and pipelines in each other's EEZ and placing equipment there associated with the operation of these infrastructures. Yet in so doing, such states "shall have due regard to the rights and duties of the coastal State and shall comply with the laws and regulations adopted by the coastal State". It is worth noting here that in 2007 Nord Stream approached Estonia and applied for permission to investigate a possible route alignment in Estonia's EEZ. The application was rejected by the Estonian government after a lively public political debate.

## **The Arguments**

The supporters of the NSGP argue that it is a major Russian-EU infrastructure project which will bring increased energy security for Germany in particular and for the EU as a whole by adding capacity and an additional transit route. The many thousands of kilometres of existing submarine gas pipelines in the world are evidence that offshore solutions are an internationally accepted alternative to onshore gas pipelines. The NSGP would also lessen the very real danger of tanker collision in the crowded Baltic Sea. For transporting the same amount of energy through the Baltic Sea by ship one would have to employ 500-600 LNG tankers or 160-170 oil tankers annually.

For others, however, it signals a decline in energy security as it adds to the EU's energy dependence on Russia. Some fear that Russia could use the pipeline to blackmail other transit countries such as Poland and Ukraine in the future. Some interpret it as a tool for Russia to play-off EU Member States against each other, and as a particular expression of the growing bilateralism in Germany's relations to Russia.

## **EU Views**

The European Union declared the project to be part of the Trans-European Network Energy Guidelines ('TEN-E') in 2000. This status was reconfirmed in the mid-2006 review<sup>1</sup> Energy Commissioner, Andris Piebalgs, has spoken in favour of NSGP. "I see this pipeline as very positive for the supply security of Europe. The more possibilities we have for the transport of gas, the better. The more pipelines we have, the securer is the supply. The question is only that in the course of construction all the relevant environmental factors will be respected, but that too I see positively."<sup>2</sup>

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<sup>1</sup> Commission memo:

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/304&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>2</sup> Speech at the Ost-West Wirtschaftsklub in Munich, 13.10.2006

## Poland

Poland in particular has complained that Germany did not consult it before taking the decision. Should a new gas pipeline be needed, Poland would have preferred an onshore pipeline through its territory, which it claims would have been, economically, more logical. The underlying reason for this criticism is that current gas pipelines to Western Europe go through either the Ukraine or Belarus and Poland. The current Polish threat analysis – shaped by the traditional mistrust of both Russia and Germany – is that the NSGP will make it possible for Russia to cut off gas supplies to Poland in political crisis situations, enabling it to by-pass (and thus ‘isolate’ Poland) while still feeding Germany with gas.

In April 2006, Radek Sikorski, then defence and now foreign minister, stated that “Poland has a particular sensitivity to corridors and deals above its head. That was the Locarno tradition, and the Molotov-Ribbentrop tradition. That was the 20<sup>th</sup> century. We don’t want any repetition of that.”<sup>3</sup> The Kremlin reacted by characterising the Polish attitude as “hysterical” while the German government called it an “absurd comparison” and the EU Commission called it “unhelpful”. In a letter to the Financial Times on May 29, 2007, by the Polish Minister of National Defense and two others, Nordstream was described as “the most outrageous attempt by Mr Putin to divide and damage the EU, it would be an economic and geopolitical disaster for the Union.”<sup>4</sup> The letter refers to the project being initiated by Gerhard Schröder with no consultation of his EU partners and called the project economically “absurd”.

In a statement on 23 April 2007, the Polish Minister of Economy, Piotr Wozniak, said that as the route of the pipeline passes through Poland’s economic zone, Nord Stream would have to act in accordance with the provisions of the Polish law. “Unless Nord Stream complies with all the regulations concerning the procedures under the Espoo Convention, inter alia, if the outcome of the environmental impact assessment is not positive, the construction of the gas pipeline will not commence”.

Actually the zone referred to is a grey zone of unresolved sea borders between Poland and Denmark, which is under jurisdiction of both countries. It is worth noting that recently the pipeline has been rerouted to run north of Bornholm. By this decision, it maintains an even bigger distance to munition dumping grounds, a move welcomed by the Danish authorities, and avoids the disputed area between Bornholm and the Polish coast.

## Germany

The German decision to go ahead with the project was based on concerns about possible disruption in transit countries eg Belarus and a desire to ensure long-term security of gas supplies. Chancellor Schroeder pushed the pipeline deal through with the support of all parties. He later was subject to intense criticism for taking a position soon after leaving office as chairman of the supervisory board of Nord Stream. There was some speculation when Angela Merkel took office that she would cancel the deal but there was no change in the German position. The German government maintain that they invited Poland to participate in the project but Warsaw refused. Nord Stream also maintains that Wingas (a BASF subsidiary) has offered to connect the Polish gas grid to the Opal pipeline, which will receive supplies from Nord Stream, but this offer was not taken up by the Polish side. There has been widespread irritation in Berlin at Polish behaviour and rhetoric although

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<sup>3</sup> This was the infamous quotation widely reported as Sikorski’s exact words at a transatlantic conference in Brussels on 30 April 2006.

<sup>4</sup> <http://www.ft.com/cms/s/db259cf2-0cb7-11dc-a4dc-000b5df10621.html>

some admit that the German government could have handled the issue in a more skilful manner. The visit to Berlin in mid December by the new Prime Minister, Donald Tusk, seems to have softened the Polish position.

### **Finland**

Both Finland's President and Prime Minister have explicitly declared their political support for the project. In an interview with Deutsche Welle on 4 May 2007 President Tarja Halonen said that the main Finnish concerns about the pipeline were environmental rather than political. She added that she thought these concerns could be dealt with. Mr Vanhanen has stated that : "First, we need a new gas pipeline between Russia and Central Europe. (...)At the same time it constitutes a part of our strategic partnership with Russia – this is the most important argument. (...) I do not understand what these security concerns could really be."<sup>5</sup>

### **Sweden**

Sweden's Environmental Protection Agency has asked the consortium to investigate further routing possibilities. Swedish environmental groups are especially concerned that the pipeline passes too closely along the marine reserve near Gotland, a small island in the central Baltic Sea. They say the construction work could stir up toxins long dormant at the bottom of the sea and harm the flora and fauna living in the waters surrounding the Swedish island. Gotland's local fisheries also fear the pipeline could interfere with their fishing nets although their position too has softened after a recent seminar in Malmo with the fishermen. The greatest concern is over tons of chemical weapons left over from World War II at the bottom of the sea. Besides environmental concerns, some Swedish politicians fear it may be used for espionage (see below). Responding to these concerns, Nord Stream has offered the Swedish authorities unlimited access to all installations.

### **Denmark**

Denmark has expressed its concerns about the project's impact on Bornholm island but now the pipeline will be routed north of the island which meet's Copenhagen's requirements.

### **Estonia**

Estonia has been opposed to the project for political and environmental reasons. Some would argue, however, that it was contradictory to ask for the most environmental friendly route, but to deny the necessary permit for conducting the respective research. During 2007 Nord Stream engaged in an extensive dialogue with Estonia on all levels, including four meetings on the ministerial level and numerous consultations on the working level with authorities, politicians, media, economy and civil society. Estonia is considering passing a bill to extend its territorial waters in the Gulf of Finland from 3 to 12 nautical miles.

### **Latvia**

Latvia has kept a low profile in terms of public statements on the NSGP. It is currently considering various options for the future of its energy supplies.

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<sup>5</sup> Interview with the Estonian daily Eesti Päevaleht during an official visit to Estonia, published 14. September 2007.

## **Lithuania**

Lithuania has also made few public statements except to express concern about the possible environmental dangers.

## **Environmental Issues**

The major areas of concern here have focussed on bird-life habitats, fishing stocks, and on the fact that the seabed is already highly contaminated. As such, the envisaged construction work could disturb these pre-existing harmful sediments spreading them into the environment and making the water even more polluted. In general then it seems that the environmental risks lie in the construction phase rather than the operational phase.

One specific issue here is that of the chemical and conventional munitions on the seabed, dumped there during and after WW's I and II. In its 1994 report, HELCOM identified that about 40,000 tons of chemical munitions lay on the seabed. The conclusion was that "the risks which are connected with recovery of chemical munitions are high. The Group therefore recommends that chemical munitions from the Helsinki Convention Area are not recovered."

According to Nord Stream, the NSGP route has been planned so that it does not cross the known dump sites, while more detailed investigations of this issue by the company itself will be conducted in 2007.

## **Strategic and Security Issues**

Polish and Baltic security concerns focus on two issues. First, the NSGP might encourage Russia to blackmail other states. For example, what would happen if Russia cut off the gas via land transit routes? Partly in response to this concern Germany has proposed an EU energy solidarity clause. Defenders of the project also argue that Russia has been a reliable supplier of gas to Europe for forty years, even during the Cold war, so why should it seek to disrupt supplies now? After all Russia is as dependent on its exports to Europe as vice versa. A related issue concerns the possible reduced transit fee income for Poland and Ukraine as a result of the NSGP. Both concerns underline the importance of the EU agreeing a common energy policy which ensures security of supplies for all member states.

The second aspect, the military-security dimension of the NSGP, was first brought up by Russia itself. President Putin said in a TV interview in October 2006 that the Russian fleet's "role is to protect our economic interests in the Baltic Sea region [...] Protecting the Northern European Pipeline, which brings energy resources to our Western European customers, is one of our most important priorities." As Nord Stream has spoken out strongly against any speculation that the pipeline, or the platform, would make a plausible object for terror attacks, it has nevertheless remained somewhat unclear against what kind of threat Russia and/or the company is preparing.

Putin's statement, however, raised concerns in Sweden in particular that the Russian navy will reactivate its patrolling activity close to the Swedish coastline, where the service platform is to be erected. According to Nord Stream, the platform is needed for "maintenance and service of the pipelines, including launch and reception of testing and

diagnostic equipment, control of gas parameters, and placement of isolation equipment (valves)".

A new dimension to such concerns was added by a 2006 report from the Swedish Defence Research Agency, written by Robert Larsson. It speculated that the platform and the pipeline itself "could be used as sensor platforms and by that serve intelligence purposes and give Russia a competitive intelligence edge in the Baltic Sea."<sup>6</sup> The object of this intelligence and early warning would be Sweden, the Finnish Navy, or NATO submarines and surface vehicles in the area. In November 2006, the then Swedish Minister of Defence Mikael Odenberg agreed: "The Russians will be able to exploit it as a platform for intelligence collection. This is a problem."<sup>7</sup>

In an interview to Swedish Radio in February 2007, the Russian Ambassador to Sweden Alexander Kadakin commented on this ongoing Swedish debate rather undiplomatically. He noted that, "I cannot understand what kind of an idiot could report his superior such a thing", and if Russia wanted to spy on Sweden, no platform is needed as "it is already possible for us today, over satellites in real time, to read the number plate of each car in Stockholm."<sup>8</sup>

Nord Stream's deputy technical director Dirk von Ameln in turn announced, at the beginning of June 2007, that the Swedish Coast Guard would be the only authority to protect the platform against possible threats, and other Swedish authorities would be "more than welcome" to inspect it.<sup>9</sup>

A report by the Finnish Parliament in July 2007 concluded that "the increased Russian military activity in the Baltic Sea has not been caused by the Baltic Sea gas pipeline". The Finnish military have also dismissed the idea that the pipeline could pose a military threat.<sup>10</sup>

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<sup>6</sup> Robert Larsson, *Nord Stream, Sweden and the Baltic Sea Security*, an updated version March 2007 to be found at <http://www.foi.se/upload/english/reports/foir2251.pdf>, quotations from p. 8.

<sup>7</sup> Quotations from *The Copenhagen Post* 17-23 November 2006, p. G16, "The spy who came in with the pipeline" by Kevin McGwin; see also *Svenska Dagbladet* 14 November 2006, p. 14, "Plattform kan bli spionbas, Sveriges regering befarar att Östersjöledningen kan skapa säkerhetspolitiska konflikter" [The platform could become an espionage base. The Swedish government is afraid of that the Baltic Sea Pipeline could create security policy conflicts], to be found also at [http://www.svd.se/dynamiskt/inrikes/did\\_14058690.asp](http://www.svd.se/dynamiskt/inrikes/did_14058690.asp)

<sup>8</sup> Swedish Radio/Ekot, 13 Februari 2007, to be found (in Swedish) at <http://www.sr.se/cgi-bin/ekot/artikel.asp?Artikel=1198646> This statement created a totally opposite effect as the Ambassador had probably thought, that is, a very angry response from the Swedish media and politicians, who interpreted the Ambassador's statement threatening and humiliating and so that he had called the politicians of the Parliament's Security Committee as "idiots", see for instance "Ambassadören: [Ordföranden av riksdagens försvarskommitté Ulrica] Messing - en idiot, [Ambassador: [the Chairperson of the Security Committee Ulrica] Messing - an idiot"] *Expressen* 15 february 2007, to be found at <http://www.expressen.se/1.558113>

<sup>9</sup> "Nord Stream har inget att dölja" [Nord Stream has nothing to hide], by Dirk Von Ameln, *Svenska Dagbladet* 4 June 2007, p. 5.

<sup>10</sup> Report of the Finnish Parliament, UaVM, 7/2007; interview Finnish TV, 5.12.07

## **Conclusion**

Overall, the public process surrounding the BSGP is a good example of how not to make policy. In the early stages, there was a lack of transparency and a lack of consultations. This seems now to be improving and to date there have been many formal consultations with Baltic Sea states under the Espoo convention. These have been both at the official level and with numerous political groups and civil society organisations. Indeed, the obligations under the Espoo convention are to a large extent a guarantee of transparency. Nord Stream itself attempts to be transparent with a multi-lingual website and news of its affairs. But much effort will be required and a further raft of confidence building and transparency measures will be needed to turn this essentially Russo-German project into a truly European one.

Although one should not dismiss the strategic and security concerns of some circles it would be unreasonable to argue that the project should be stopped because of some future hypothetical threat. There is growing awareness in Moscow that Russia's reputation as a reliable energy supplier would be fatally damaged if there was any attempt to use the BSGP for political-security purposes. The EU is already looking to diversify its energy supplies and will also be monitoring closely any attempts by Russia to use the BSGP for political purposes.

## **Annex A: Nord Stream Structures**

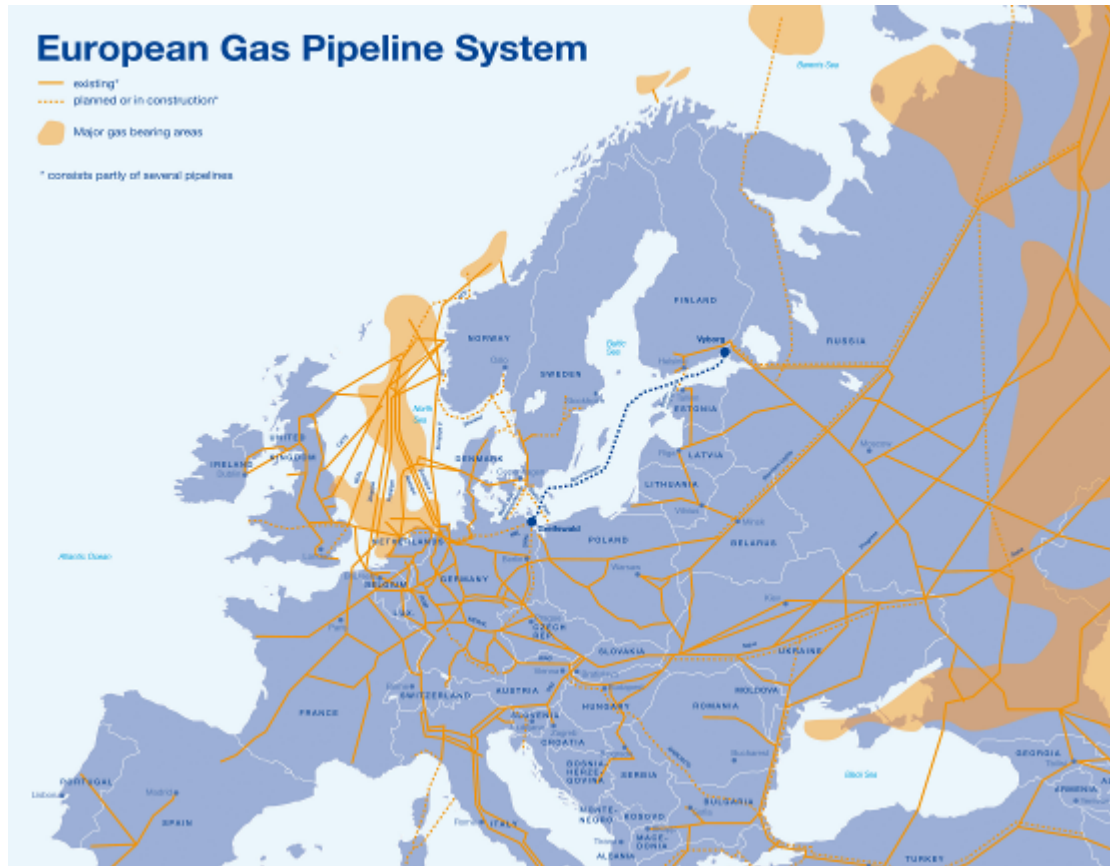
The Russian-German joint venture "Nordstream AG" was established in December 2005. The component companies are:

- OAO Gazprom (51%) <http://www.gazprom.com/>
- E.ON Ruhrgas (20%) <http://www.eon-ruhrgas.com>
- Wintershall AG/ BASF AG (20%) <http://www.wintershall.com>
- NV Nederlandse Gasunie (9%) <http://www.nvnederlandsegasunie.nl/>

### **Nord Stream Management:**

- Supervisory level:
  - Shareholders Committee (Gazprom 4 seats, E.ON 2, Wintershall 2)
  - Chair: Gerhard Schröder
- Management level:
  - Managing Director: Matthias Warnig, Chairman of the Board of Directors of Dresdner Bank ZAO in the Russian Federation
- Headquarters: Zug, Switzerland. Branch office: Moscow

## Annex B: Useful Maps



### Planned Nord Stream routing



## Routing around Bornholm island



- Planned Nord Stream pipeline
- Optimised route
- Formerly planned route
- Pipeline of the European natural gas network
- Pipeline planned or in construction
- Territorial border
- EEZ border
- EEZ border (not official)

## DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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