

SIT Graduate Institute/SIT Study Abroad
SIT Digital Collections

Independent Study Project (ISP) Collection

SIT Study Abroad

Fall 2017

Russia's Northern Rook: Nord Stream 2 on the European Energy Chessboard

David E. Wilson

SIT Study Abroad, dwilson18@wooster.edu

Follow this and additional works at: http://digitalcollections.sit.edu/isp_collection

 Part of the [Economic Policy Commons](#), [Energy Policy Commons](#), [European Languages and Societies Commons](#), [International Business Commons](#), [International Economics Commons](#), [International Relations Commons](#), [Natural Resource Economics Commons](#), and the [Oil, Gas, and Energy Commons](#)

Recommended Citation

Wilson, David E., "Russia's Northern Rook: Nord Stream 2 on the European Energy Chessboard" (2017). *Independent Study Project (ISP) Collection*. 2754.
http://digitalcollections.sit.edu/isp_collection/2754

This Unpublished Paper is brought to you for free and open access by the SIT Study Abroad at SIT Digital Collections. It has been accepted for inclusion in Independent Study Project (ISP) Collection by an authorized administrator of SIT Digital Collections. For more information, please contact digitalcollections@sit.edu.

Russia's Northern Rook: Nord Stream 2 on the European Energy Chessboard

By David E. Wilson

November 21st, 2017 (Fall 2017 Semester)

School for International Training (SIT)
International Studies and Multilateral Diplomacy
Geneva, Switzerland

Dr. Gyula Csurgai, Academic Director

The College of Wooster, Class of 2018
Major in Global and International Studies, focus in Political Science

Abstract

The Nord Stream 2 pipeline proposes to connect Germany to the world's largest natural gas reserves in Russia, allowing the state-owned Russian energy behemoth Gazprom to double its export capacity through the 'Northern Corridor' transit route to Europe. This project has been the subject of sharp disapproval from Central and Eastern European countries, as well as the United States, which fear the prospect of increasing dependence on gas imports from a Russia perceived as politically aggressive and unreliable. This paper will identify the geopolitical and geoeconomic implications involved in the construction of Nord Stream 2 by adopting a geostrategic worldview of the competition over the lucrative EU energy market. The conclusions reached in this paper encourage the European Union to forge ahead in constructing Nord Stream 2, but also to prioritize investment in additional import infrastructure in order to facilitate a diversification of supply. Most importantly, this paper strongly urges increased EU solidarity in terms of energy policy cohesiveness to avoid a Russian exploitation of its dominant EU energy market share. This analysis is divided into three sections, considers perspectives gathered from a wide variety of secondary sources, and also incorporates opinions from five interviews conducted with selected contributing scholars in the Nord Stream and European energy security discourses. The first section of the paper will provide a general background to natural gas, the current EU-Russian energy relationship, and the origins of Nord Stream 2. The second section, the bulk of the study, contains a state-by-state analysis of the geopolitical interests of the three geostrategic players involved in the European energy contention, and also other European states which have voiced opposition to the Nord Stream 2 in order to defend their geopolitical interests. The third section will offer policy prescriptions to the actors involved in the situation. Finally, a brief conclusion will summarize the points made in this analysis and identify possible extensions of research on this topic.

Key Words: Nord Stream 2; geopolitics; geoeconomics; energy security; natural gas; European Union

Abbreviations

EU – European Union
 EC – European Commission
 US – United States
 FSU – Former Soviet Union (states)
 CEE – Central and Eastern Europe
 IEA – International Energy Agency
 EEZ – Exclusive Economic Zone
 SEM – Single European Market
 LNG – Liquefied Natural Gas
 Bcm – Billion cubic meters (related to amount of gas)
 Bcf – Billion cubic feet (related to amount of gas)
 Twh – Terawatt hours (related to amount of gas)

Acknowledgements

My sincerest thanks to everyone who made this incredible adventure possible for me. To my mother, father, and brother, I would never have been able to take this life-changing journey without your encouragement and support.

To my SIT faculty, thank you for all the effort you put into making this experience so incredibly valuable for the students. Thank you to Aline Dunant, whose kindness and accommodation helped me overcome any issues I had throughout the entire semester. Thank you to Dr. Csurgai and Dr. Matilla, for teaching me to look at the world in a way that will greatly benefit my academics and career ambitions. Thanks to my advisor Dr. Krain and other professors and back home, who helped through the unorthodox decision to study abroad in my senior year, and also helping me to select the perfect study abroad program.

Finally, a special thank you to Massimo de la Pietra for your generous hospitality that made my stay in Switzerland better than I could have ever hoped for.

I learned a great deal from accomplishing this project and I look forward to expanding it for my independent study at my home institute, the College of Wooster.

Table of Contents

Introduction... 5
Literature Review... 6
Research Methodology... 7
Analysis
Section 1: Background
1.1: <i>The Importance of Natural Gas</i> ... 8
1.2: <i>Overview of EU-Russian Energy Trade</i> ... 11
1.3: <i>Nord Stream</i> ... 13
Section 2: A Geopolitical Analysis of Nord Stream 2... 15
2.1: <i>EU Energy Security, Diversification, and Dependence on Russian Gas</i> ... 17
2.2: <i>Germany</i> ... 21
2.3: <i>Russia</i> ... 24
2.4: <i>The United States of America</i> ... 27
2.5: <i>Poland, Ukraine, and Central European Countries</i> ... 30
Section 3: Future Scenarios and Policy Recommendations... 34
3.1: <i>Germany's Leadership</i> ... 35
3.2: <i>Russia's Master Plan</i> ... 37
3.3 <i>The United States' Shift in Strategy</i> ... 38
3.4 <i>A Cohesive European Union</i> ... 39
Conclusion... 41
Bibliography... 43

Introduction

The EU energy market presents both Russia and the United States with the opportunity to pursue their geopolitical interests in Europe. The issue of energy security in the European Union is a paramount concern to all EU member states, as domestic production declines and import dependency on foreign suppliers climbs. With the European Union requiring highest import demand for energy resources in the world, Russia has enjoyed substantial economic gains from its monopoly on exporting oil and natural gas to the European energy markets. Now, the United States has attempted to challenge this Russian market domination with its liquefied natural gas (LNG) exports, coming from a booming shale gas sector. The most recent controversial development in this economic conflict is Russia's proposed Nord Stream 2 pipeline, running from Russia to the northern coast of Germany. This paper aims to dissect Nord Stream 2 in the context of the geopolitical and geoeconomic motives of three geostrategic actors, Russia, the United States, and Germany. Many pieces of academic literature have been published about the pipeline since its announcement in 2015, arguing over whether the pipeline is a commercially-based enterprise or a geopolitical strategy by Russia to increase EU dependence on its gas and circumvent eastern transit countries, most importantly Ukraine. The original objective to this essay was to discover which arguments in this debate held the most validity, and what that implied for EU energy security. Upon researching different perspectives and conducting five interviews with contributing scholars in the Nord Stream 2 discourse, the focus was adapted to provide a more nuanced understanding of the pipeline project in the broader geopolitical context of EU energy trade. By paying too much heed to inconsequential details of national politics, or by deliberately choosing to ignore the big picture of the geopolitical contest over the European Union between Russia and the United States, one fails to fully comprehend the significance of Nord Stream 2. Framing the project in either commercial or political terms only serves to further the geopolitical interests of an actor with stake in the

pipeline. Thus, the central argument to this geopolitical analysis fully accepts Nord Stream 2 as a commercially-based project, but also asserts that the geopolitical as well as the geoeconomic implications of the pipeline should not be ignored. This essay will rest on the assertion that a shift in the energy security paradigm occurred at the end of the Cold War that now causes states to favor geoeconomic considerations more heavily than the geopolitical, a framework described in detail at the beginning of the second section. Inspired by Zbigniew Brzezinski's *The Grand Chessboard*, the concept of the EU energy market will be occasionally depicted as a European geopolitical chessboard where Russia has the United States in check with the expansion of its Northern Corridor. By pivoting between analyzing Nord Stream 2 on a detailed, micro-level and this theoretical, geostrategic macro-level, policymakers can recognize each state's veiled motives, predict states' actions multiple steps ahead of the current situation, and craft better strategies to ensure the economic security for its state.

Literature Review

This paper's worldview is largely inspired by the 1997 book, *The Grand Chessboard*, authored by the former US National Security Advisor Zbigniew Brzezinski. Brzezinski's objective in writing the book was to formulate a geostrategy for the United States to maintain its primacy on the Eurasian landscape. His central thesis warns the United States to prevent a Eurasian power coalition with the capability to dominate the Eurasian landmass, challenging US pre-eminence. Quotes from the book are used to put the current power struggle over the EU energy market into a geostrategic context.

The Nord Stream 2 discourse features scholars with differing perceptions of the situation, with the disagreements largely occurring in how one views Russia as the primary energy supplier of the European Union. This study incorporated works from authors with both objective and subjective points of view on Nord Stream 2 in order to understand the facts behind the pipeline and also dissect the

opinions of actors with geopolitical stake in the project. Professor Andreas Goldthau at King's College in London provides a thorough objective analysis of Nord Stream 2 in his piece, "*Assessing Nord Stream 2: regulation, geopolitics & energy security in the EU, Central Eastern Europe & the UK.*" However, this study focuses mainly on supply and demand data rather than discussing global power dynamics, and disregards Germany and the United States. "*Nord Stream 2 – A Political and Economic Contextualisation*" by Kai-Olaf Lang and Kirsten Westphal provides another comprehensive approach to viewing Nord Stream 2 from multiple angles, but omits the United States as a relevant geostrategic actor. This paper differs from these analyses by assessing the situation in a broader geostrategic context and including recent developments affecting Nord Stream 2, namely the 2017 US sanctions against Russia.

For an understanding of the introduced concept of geoeconomics as the new primary driver of states' geostrategies, Christopher M. Dent's article, "*Economic Security*" covers the idea that economic strategies contribute to a state's security. Adnan Vatansever's "*Is Russia building too many pipelines? Explaining Russia's oil and gas export strategy,*" then articulates the idea that Russia's complex pipeline network is a geoeconomic strategy to protect its own economic energy security. Another article co-authored by Goldthau and Nick Sitter that guided ideas in this study is, "*Soft power with a hard edge: EU policy tools and energy security,*" which describes the methods employed by the European Union to use its Single European Market (SEM) as a strategic tool to further EU geopolitical interests and safeguard its energy security.

Research Methodology

This paper relies on both quantitative and qualitative data extracted from a range of secondary sources in order to build an opinion-based geopolitical argument and back it up with statistics. The

quantitative data is taken from published reports detailing the world and EU natural gas markets, including the IEA's "*Key world energy statistics*" and the European Commission's "*Quarterly Report on European Gas Markets*" both published in 2017. Raw statistics from sources including *CIA World Factbook*, *BP's Statistical Worldview of Energy 2017*, and numbers from the official websites of Gazprom and Nord Stream AG are also incorporated.

As listed in the literature review section, this paper builds an argument based on the academic literature surrounding the Nord Stream 2 debate, the dynamics of the EU gas market, and theoretical geostrategic power competition to provide a multi-layered analysis. In addition, opinionated news articles and blog posts on these topics that support the thesis of this paper are cited. This qualitative data will be bolstered by the quantitative statistics in an attempt to reinforce the core assumptions of this paper.

Lastly, five interviews, four formal and one informal, were conducted with well-informed scholars specializing in different aspects of this multifaceted topic. Each interviewee retained the right to decline from being quoted in this paper and were informed of how their contribution would be utilized. Interviews were all conducted in Switzerland and the subjects included two university professors, one researcher at a security policy think-tank, one former Special Energy Counselor for the North Sea, and the Nord Stream AG company at its headquarters in Zug. This diverse array of backgrounds provided this study with multiple different perspectives on how to examine the Nord Stream 2 and were instrumental in formulating the key points of this study.

Section I: Background

1.1 The Importance of Natural Gas

According to the International Energy Agency (IEA), natural gas accounts for 22% of worldwide energy consumption, and constitutes one quarter of electricity generation.¹ Global gas demand is projected to continue to increase by approximately 1.6% for the next five years until 2022, while estimates forecast that the usage of other fossil fuels will wane in the coming decades.²³ Natural gas remains the only viable fossil fuel that will maintain a pivotal role in the future of the world energy mix, due to its numerous advantages over to the rest of the hydrocarbon family. Natural gas is an extremely versatile fuel source and is used for electricity generation, for domestic purposes, in the industrial and manufacturing sectors, and in transportation as vehicle fuel.⁴ Gas reserves are able to last in excess of 60 years, as opposed to a maximum of 40 years for oil.⁵ Most importantly, natural gas is the most environmentally-friendly fossil fuel, producing about half as much carbon dioxide as oil when burnt.⁶ Many environmentalists view natural gas as the crucial bridge between the dirty fossil fuels of the past and clean renewable energy sources of the future. During the next three decades, dirty petroleum products and coal will reach peak demand and subsequently become phased out to protect the environment in a new era scholars referred to as “The Great Transition.” During this time, natural gas demand will continue to grow past 2050, and potentially even beyond 2060 with the proper investment and innovation, according to the World Energy Council.⁷ The World Energy Council puts great emphasis on ensuring that natural gas maintains a substantial share of the global energy mix past 2060 until the transition to renewable sources can be realized.⁸ This is an achievable goal given the large

¹ “Natural Gas,” *International Energy Agency*.

² “Importance of Natural Gas,” *Hazira LNG & Port*.

³ See figure 1.1.1

⁴ “Uses,” *NaturalGas.org*, September 20, 2013.

⁵ “Natural Gas,” *Hazira LNG & Port*.

⁶ *Ibid.*

⁷ “The Role of Natural Gas (Perspective from the 2016 World Energy Scenarios),” *World Energy Council*, November 2017.

⁸ *Ibid.*

abundance of proven natural gas reserves located mainly in the Middle East, North Africa, Russia and the United States. Natural gas will thus serve as the primary catalyst to bring about a new era of energy consumption, largely based on efficiency and environmental protection.

International gas markets throughout the world have significantly expanded in the wake of technological innovations that have provided massive increases in the world energy supply. The IEA's *Market Report Series: Gas 2017* details the state of the natural gas industry: "The natural gas market is undergoing a fundamental transformation... Heavily oversupplied markets, the ongoing shale-gas revolution in the United States... and the fast-growing LNG trade are disrupting traditional gas business and pricing models. This is forcing market players to redefine their strategies and explore new markets."⁹ In a world no longer characterized by scarce energy resources, suppliers are now competing against one another in a struggle to export their natural resources to the most lucrative markets. Gas pipeline networks have evolved in recent decades to facilitate trade between states with large resource endowments and those with the highest import demand. A prime example of this relationship is

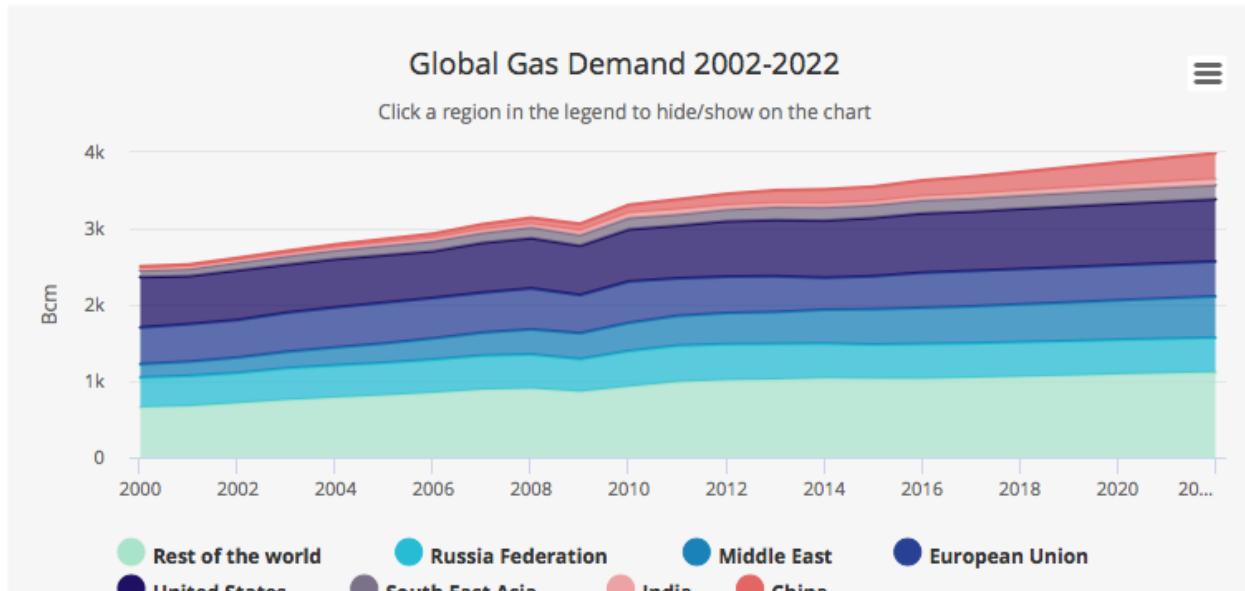


Figure 1.1.1: Global Gas Demand 2002-2022 (Source: International Energy Agency)

⁹ "Market Report Series: Gas 2017," *International Energy Agency*, 2017. Online.

between Russia and the European Union. Russia possesses about a quarter of the world's proven gas reserves, and the European Union imports the most natural gas out of any market in the world - at approximately 420bcm in 2016. To put this into perspective, the next largest gas importer is Japan, which imports just a fraction of this amount, at 124.7bcm.¹⁰ The European Union now enjoys an oversupply in the world's energy resources while Russia competes to maintain its dominant market share of EU imports.

1.2 Overview of EU-Russia Gas Trade

Figure 8. EU imports of natural gas by source, 2014-2017

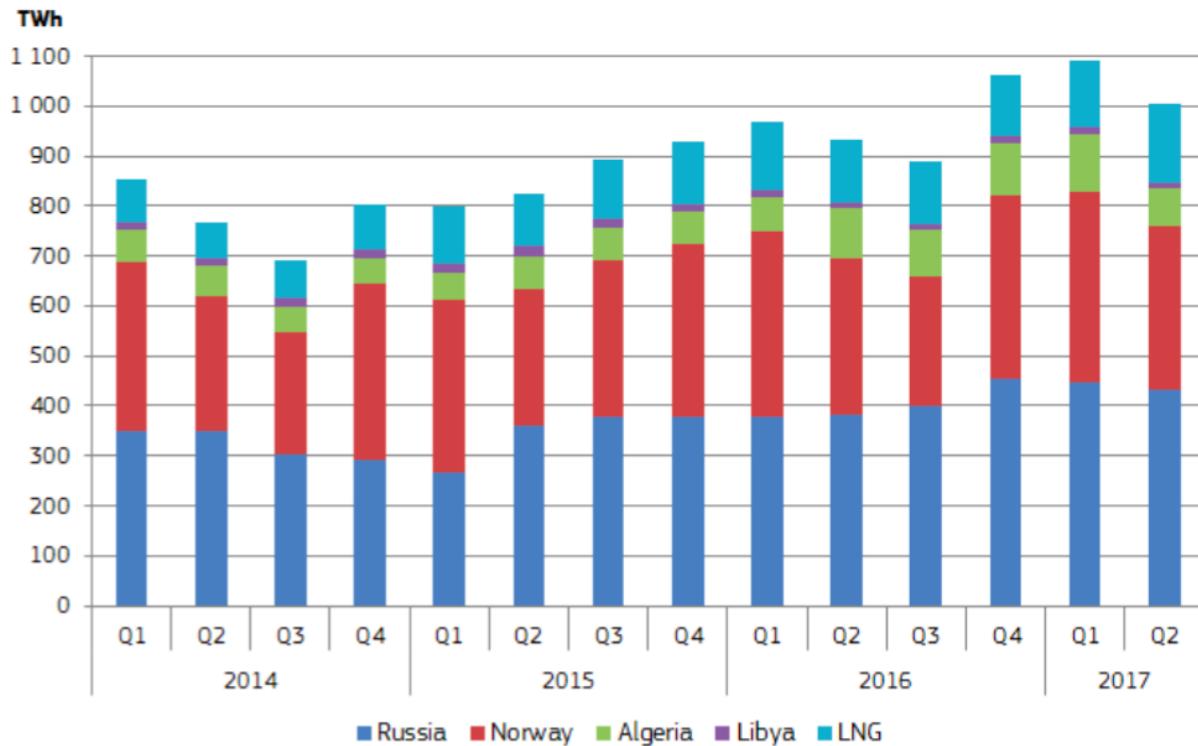


Figure 1.2.1: EU imports of natural gas by source, 2014-2017, measured in TWh (Source: *European Commission Quarterly Report on the Gas Market*, 2017)

¹⁰ "Country Comparison: Natural Gas – Imports," *The World Factbook*, U.S. Central Intelligence Agency.

The nexus of the EU-Russian relationship is the energy factor, specifically natural gas trade. Russia is Europe's predominant energy supplier,¹¹ and the EU is reciprocally Russia's most important customer for its hydrocarbon exports, which comprise approximately 70% as the heart of the Russian economy. In 2016, 39.7% of the natural gas the European Union consumed was imported from Russia, representing a .6% increase from the previous year.¹² Russia produced 579.4bcm of gas in 2016 and exported 190.8bcm through its pipelines, with 142.9bcm going to the European Union.¹³ Nearly three-quarters of Russian gas exports are directed towards the European market, indicating Russia's heavy economic reliance on the European Union. According to Eurogas, EU gas demand is expected to have increased by about 6% in 2016 from the year before to around 447bcm, following a previous rise of 4% in 2015.¹⁴ This is due to the recent decline of EU domestic energy production, and is expected to fall by 50% within the next 20 years, forcing the EU to rely even more heavily on imports. Norway, the second largest gas supplier to the EU, has begun to cut its gas exports to the EU due to the depletion of its supply and its prioritization of domestic consumption.¹⁵ Challenges including political corruption and lack of infrastructure prevent other supplies, such as the North Africa, Middle East, and Caspian Sea regions, from providing the European Union with sufficient gas quantities. Thus, a mutual dependence between the European Union and Russia has formed, creating a dynamic some scholars have termed an "energy security dilemma."¹⁶ The prosperity of European Union energy imports and Russian gas exports hinge on one another, and both actors have begun to take proactive steps to reduce the dependence on each other, in turn making the other less secure. Russia has pivoted to the east for

¹¹ See figure 1.2.1

¹² "EU imports of energy products - recent developments," *Eurostat*.

¹³ "BP Statistical Review of World Energy June 2017," *BP*, 2017.

¹⁴ "Eurogas: Gas demand in EU rises for the first time in four years, according to new Eurogas data," *4-traders*, March 30, 2016.

¹⁵ Matt Slowikowski, "Can Norway Supply Europe With Gas Long-Term?," *OilPrice.com*, September 4, 2016.

¹⁶ Andrew Judge, Thomas Maltby, and Jack D. Sharples, "Challenging Reductionism in Analyses of EU-Russia Energy Relations," *Geopolitics* 21, no. 4 (2016), published online September 29, 2016,

markets for its oil and gas exports, while the EU has looked toward suppliers in the Caspian Sea region as well as the emerging United States liquefied natural gas (LNG) supply for future long-term sources that can balance its imports from Russia. The fact remains, however, Russia and the European Union will remain tied together through each country's respective energy-related needs, and gas trade between the two is expected to increase in the coming years.

1.3 Nord Stream

To facilitate Russian-EU cooperation, Moscow's 51% state-owned energy behemoth Gazprom is investing in pipeline projects in both Northern and Southern Europe to provide the capacity for increased gas exports to the EU. The most controversial project is the Nord Stream 2, an offshore pipeline proposed to run through the Baltic Sea starting at the Ust-Luga port in Russia, home to the largest gas fields in the world, and emptying in the northern coastal town in Greifswald, Germany.¹⁷

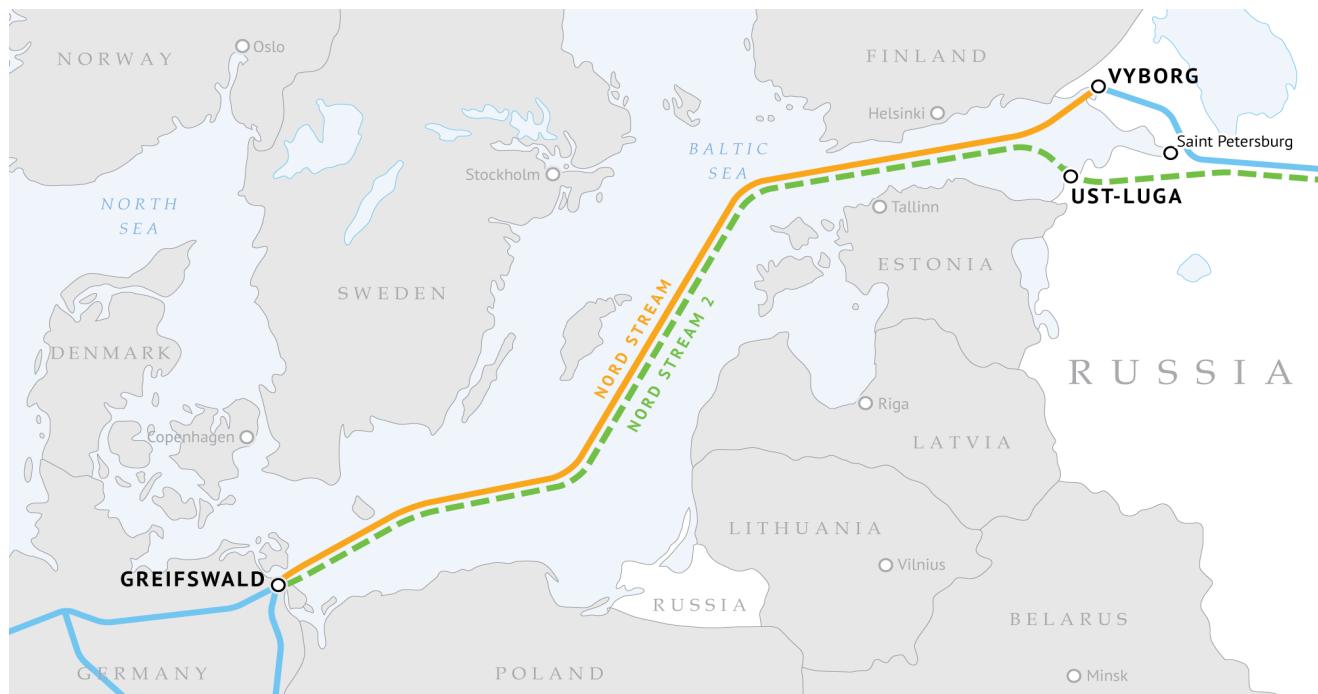


Figure 2.3.1: Northern Corridor transit route, consisting of two parallel Nord Stream lines with an export capacity of 110bcm. (Source: Gazprom, *Nord Stream 2: Significance*)

¹⁷See figure 1.3.1.

The pipeline was declared in 2015 after Germany and Russia found the first Nord Stream to be a success.

The original Nord Stream line was established and functional at the end of 2012, consisting of a twin set of pipelines that combined for a capacity of 55bcm of gas. Nord Stream 2 will run parallel to its predecessor, adding a third and fourth pipeline to the route and doubling the export capacity of the line to 110bcm of gas.¹⁸ The Nord Stream route defines the ‘Northern Corridor’ of the Baltic Sea, and with the construction of Nord Stream 2, the offshore transit route could facilitate well over half of Russia’s gas exports to the European Union. Nord Stream runs 1,224 kilometers long and stretches through the territorial waters and/or the exclusive economic zones (EEZ) of Russia, Finland, Sweden, Denmark, and Germany.¹⁹ The pipelines are also of geographical relevance to Poland and Baltic states Estonia, Lithuania, and Latvia. Gazprom is the sole shareholder of the privately-funded project, but has received considerable investment from European companies, including German Uniper and Wintershall, Austrian OMV, British Shell, and French ENGIE, each contributing 950 million euros.²⁰ The Nord Stream line is said to have minimal environmental impact on the Baltic Sea, with a monitoring system in place to detect any threat to the Baltic ecosystems.²¹

The project has caused major divide within the EU between western and eastern countries, which possess differing perspectives on Russia’s role as the primary EU energy supplier. It has also drawn international pressure from the United States, which has repeatedly urged the EU to reduce its dependence on Russian gas. Nord Stream 2 faces many obstacles in the way to its realization, and carries with it strong political, geopolitical, and geoeconomic implications. Nord Stream 2 has been criticized by a wide range of countries who decry the pipeline as contradictory to the EU internal energy

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ “Shareholder and Financial Investors,” *Nord Stream 2*.

²¹ “Environment,” *Nord Stream 2*.

market and fear it will increase the Union’s dependence on Russian gas. Poland has been the most vocal about its opposition to the Nord Stream pipeline. Perhaps most importantly, Nord Stream 2 faces skepticism from the European Commission (EC) in Brussels regarding the legality of the project and its effect on the internal European energy market. The Commission aims to establish a cohesive Energy Union within Europe characterized by competitive prices and limited foreign imports.

Section II: A Geopolitical Analysis of Nord Stream 2

In order to fully comprehend Nord Stream 2 in the context of global power dynamics, one must understand the shift in the paradigm of security that has unfolded since the end of the Cold War. As explained in Christopher M. Dent’s article, *Economic Security*, “the growing interest in economic security analysis should be understood in a post-Cold War context, centering on the respective shifts from geopolitics to geoeconomics, from military superpowers to economic superpowers, and hence from politico-ideological competition to economic competition.”²² In the realm of energy security, the invention of new technologies in the past three decades has led to the discovery of vast amounts of energy materials in the earth, a drastic change in an environment once characterized by states quarrelling over a scarcity of natural resources. Today, markets are the means through which an international actor can sell its surplus natural resources to guarantee its economic security and prosperity. The European Union, a region with a very limited capacity to produce its own energy for consumption, now enjoys the upper hand in this new concept of economic energy security. As Professor Samuele Furfari put it, “the new energy situation is that we have passed from the supply market to a client market, and that is a big change. It’s why the price of oil will fall and continue to be flat.”²³ The geopolitical struggle of

²² Christopher M. Dent “Economic Security”

²³ Samuele Furfari, Informal Interview

securing scarce energy materials has been rendered obsolete, and the situation has now reversed into a geoeconomic contest where countries with abundant energy assets will compete for commercial gain by attracting the best markets, thus fortifying their economic security.²⁴ With the change in paradigm comes an entirely new set of strategies for countries to utilize in pursuit of commercial advantage. Some of these include economic sanctions, intensive lobbying, state support to its national and private businesses, and hidden protectionist measures.²⁵ Most importantly for this paper, structured systems of market laws and regulations have become an important economic security tool for energy consumers to force foreign suppliers to adhere to the rules that benefit the market and shield against exploitation.

Another key development in this new paradigm articulated by Dent is that armed conflict between militaries is no longer feasible between the developed countries, due to the vastly unmatched Western military capabilities and the emergence of nuclear weapons, and instead has been replaced with economic warfare.²⁶ However, while commercial considerations will now often outweigh the political in the absence of traditional warfare, geopolitical interests will always be intertwined with the geoeconomic and they remain an important factor in global power dynamics,. In the debate over Nord Stream 2, those looking to frame the project exclusively in either a geopolitical or commercial context must shift their understanding of the energy security paradigm to one that fits the new international order of geoeconomics. Thus, this paper fully accepts the claim that Nord Stream 2 itself is mainly driven by commercial aspirations on the German and even on the Russian fronts. However, Nord Stream 2 is also the most recent strategic move by Russia in a geoconomic game against the United States for the prize

²⁴ Geopolitics, in this analysis, is differentiated from geoeconomics and broadly refers to the strategies employed by a state to gain political and economic advantages in relation to its geographical setting. Geoeconomics, on the other hand, refers to the economic methods a state uses to achieve its geopolitical interests.

²⁵ Gyula Csurgai, “Geoconomic strategies and economic intelligence,” *Advances in Geoeconomics*, ed. J. Mark Munoz (Routledge, 2017).

²⁶ Economic warfare refers to conflicts where states use tools to intentionally weaken the economies of their opponents in order to coerce them into conceding to foreign policy demands.

of the EU energy market. Zbigniew Brzezinski, in his book *The Grand Chessboard*, quotes former Russian Vice President Aleksandr Rutskoi who said soon after the collapse of the Soviet Union, “Whoever becomes the master of [Eurasia] will become the master of the world.”²⁷ This section will analyze the political and economic geostrategies used by the main players vying for influence on the European energy chessboard within the context of the Nord Stream 2 project.

2.1 EU Energy Security, Diversification, and Dependence on Russian Gas

Following the gas crisis of 2009 between Moscow and Kiev, when the Kremlin decided to cut off gas supplies through Ukraine to Europe, the European Commission enacted the Third Energy Package in support of the internal energy market in Europe. The Package was the third in a set of liberalization directives initiated in the 1990s that aimed to gradually open the European electricity and natural gas markets to competition. In essence, these sets of laws and goals for the energy aspect of the Single European Market (SEM) aim to integrate EU interstate supply routes to enhance energy security and market competition.²⁸ These energy market rules aim to mitigate the potential for any foreign monopoly to exploit the SEM by employing antitrust investigations and enacting laws on third party access to onshore EU pipelines.²⁹ In addition, energy policymakers have hoped to phase out long term contracts with foreign suppliers in favor of diversified transactions between public and private European energy companies in order to stimulate internal market growth.³⁰ This use of internal regulation to force foreign suppliers to play by the rules of the market represents a geo-economic strategy in the European internal market that will safeguard it from monopolies and produce the most favorable outcomes in

²⁷ Zbigniew Brzezinski, *The Grand Chessboard: American Primacy And Its Geostrategic Imperatives*, (New York, NY: Basic Books, 1997), 111.

²⁸ Andreas Goldthau and Nick Sitter, “Soft power with a hard edge: EU policy tools and energy security,” *Review of International Political Economy* 22, no. 5 (2015): 941-965,

²⁹ “Market legislation,” *European Commission*, European Union, accessed November 21, 2017.

³⁰ *Ibid.*

energy trade with suppliers. Through the diligent implementation of these laws to increase the functionality of the SEM, European energy consumers would be able to enjoy competitive gas prices, a diverse range of suppliers, and heightened economic energy security.

Thus, in the past three decades, there is no doubt that the European energy market has become more interconnected than ever, especially cross continental Western to Central

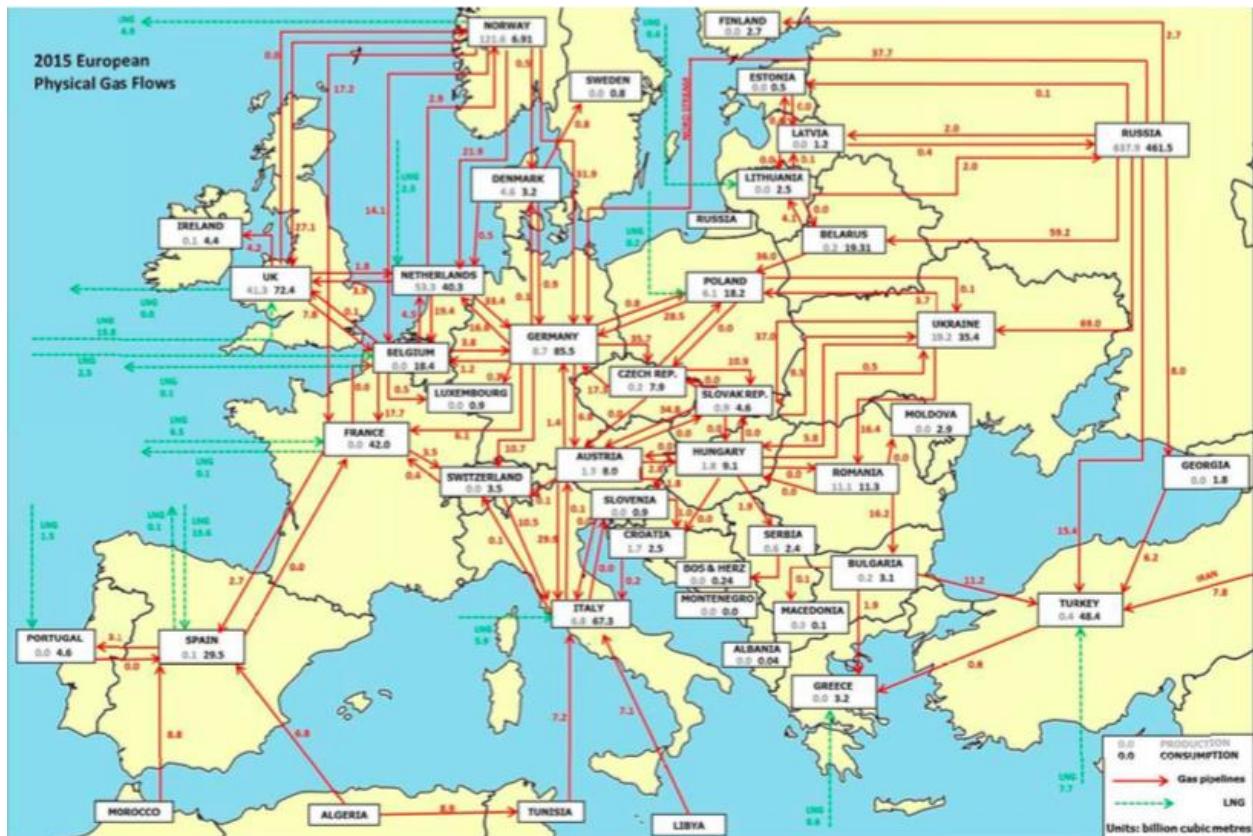


Figure 2.1.1: Map of European Pipeline Gas Flows. (Source: Nord Stream AG, Company Presentation)

and Eastern European (CEE) countries.³¹ The ability of Western European states to efficiently transfer gas to its eastern counterparts will help buffer supply shocks and promote competition between private European energy companies. The addition of Nord Stream 2 will double the capacity for gas supply in the ‘Northern Corridor’ of the Baltic Sea, allowing European private companies to take advantage of

³¹ See figure 2.1.1

heightened supply and in turn, European consumers will enjoy decreased prices. In an interview with Severin Fischer, a Senior Researcher in the Global Security Team at the Center for Security Studies in Zürich, he explained that the European Union's market advantage gives it the upper hand in gas trade, saying, "a single infrastructure project in the size of no more than 13 percent of the EU's total yearly consumption in 2015 cannot threaten the EU as a whole. This favorable gas position rather forces suppliers to enter into a price competition that will be for the benefit of European gas consumers."³²

However, opponents of the Nord Stream 2 continue to highlight the ominous threat of another Russian abuse of its geopolitical gas leverage, writing off the pipeline as a misguided project that will dangerously increase the European Union's dependence on imports from Gazprom. In reality, these anti-Russian sentiments have been rendered obsolete by the changing geoeconomic dynamics of energy security. Russia depends more heavily on its oil and gas exports to the EU than the EU does on Gazprom; approximately two thirds of Russia's fossil fuel exports are directed toward the EU. This Russian dependence was exemplified in the 2009 Ukraine gas cutoff, when Gazprom suffered a loss of approximately \$1.5 billion USD.³³ For a state-owned company that was named the 'most profitable' in 2012 for accumulating over \$40 billion USD in profits, this may not seem like a substantial amount - but the situation has changed for both Gazprom and the Russian economy. In 2013, Gazprom accounted for 8% of Russia's entire GDP, and following the Kremlin's annexation of Crimea in 2014, the energy giant's net profit fell an estimated 70%,³⁴ due to a combination of factors including a depreciated ruble, plummeting oil prices, and economic sanctions from the European Union and the United States. At the end of 2016, Russia's economy finally returned to a positive growth rate after seven consecutive

³² Severin Fischer, Formal Interview.

³³ Andreas Goldthau, "Assessing Nord Stream 2: regulation, geopolitics & energy security in the EU, Central Eastern Europe & the UK," *European Center for Energy and Resource Security* (London, UK: King's College, 2016).

³⁴ Ivana Kottasova, "Russia's Gazprom: Profits plunge 70%," *CNN*, March 13, 2015.

quarters of contraction, but still faces challenges from the lingering effects of these pitfalls.³⁵ Therefore, with a struggling Russian economy, another state-ordered gas cutoff would likely bear insurmountable losses for Russia's top revenue producing company. Furthermore, Moscow can no longer afford to misuse its dominant market share of EU energy imports and it further risk losing credibility as a reliable supplier, especially considering the European Union has already begun investing in diversifying its energy suppliers. The energy security paradigm has been reversed, with the Russian supplier now catering to the demands of the EU importer in a desperate struggle by Gazprom to maintain its share of its most important source of revenue.

While the geoeconomic aspects of the EU's gas relations with Russia are the primary driving factor in the construction of the Nord Stream 2, one cannot discount the politically charged context of the proposed pipeline. Nord Stream 2 is the first large-scale infrastructural project since the Kremlin's intervention in Ukraine and its disruptive behavior in the war in Syria. Western opponents such as the United States fear that building the Nord Stream 2 pipeline will serve to finance Russia's aggressive foreign policy and allow it to circumvent the sanctions implemented to curb this behavior. Once the Ukrainian gas transit route has been mostly dried out by Gazprom's expanded pipeline options, the question of Moscow's adjusted geopolitical strategy in eastern Ukraine looms as an important political development. In addition, political unrest within the EU itself detracts from Nord Stream 2's appeal, with European Commission President Jean-Claude Juncker saying he has a "strong preference for pipelines that unite rather than for pipelines that divide."³⁶ Whether the project goes against the core principles of the European bloc's energy union to diversify suppliers remains a strictly political debate causing divisions between European countries with differing perspectives and interests. It is indeed true

³⁵ Olga Tanas, "Russian Economy Crawled to Growth with Recession in Rearview," *Bloomberg Markets*, March 31, 2017.

³⁶ Gabriela Baczynska and Alissa de Carbonnel, "EU's Juncker says doubts over Nord Stream 2 pipeline plan 'beyond legal,'" *Reuters*, June 16, 2016.

that Nord Stream 2 will be yet another existing pipeline for Russian gas imports, and does not correspond with the EU's goal of investing in infrastructure that allows for the diversification of suppliers. This issue will be analyzed toward the end of the paper in the policy and recommendations section.

2.2 Germany

Germany has adamantly backed the Nord Stream 2 project as an exclusively commercial enterprise that will increase continental European energy security through the additional influx of cheap gas in the SEM. At the same time, Germany, having the potential to become the future leader of the European Union, is the most vocal proponent of EU integration and cohesiveness. Following the United Kingdom's 2016 decision to exit the European Union, Germany's robust export-oriented economy has become the locomotive of European commercial activity. Germany benefits greatly from its massive exports to its neighboring EU member states, enjoying a free market for sales, a common currency that benefits it, and a system of regulations that protects its industry, all under EU principle. However, Brzezinski warns in *The Grand Chessboard*, "if the unification and enlargement of Europe should stall, there is some reason to assume that a more nationalist definition of Germany's concept of the European 'order' would then surface, to the potential detriment of European stability."³⁷ Germany faces diverging geopolitical objectives with the preservation of its national economic security with the Nord Stream 2 project, which has challenged its interests of promoting EU solidarity. Germany's somewhat contradictory motivation to politically back the Nord Stream 2 project, while certainly based in commercial interests, nonetheless carries with it political consequences and geopolitical implications.

³⁷ Brzezinski, *The Grand Chessboard*, 73.

As it has done with the Nord Stream line, Germany will now look to the east and attempt to collaborate and ease tensions with its old adversary, Russia, under the new geoeconomic energy paradigm. Without the threat of military intervention, Germany no longer sees Russia as a strategic threat, but rather as an economic partner that can supply cheap gas to fuel Germany's dynamic commercial activities. Russia depends both on exporting gas to Germany more than it does to any other European country: Germany was Russia's third largest trade partner in 2016, while Russia ranked only as Germany's thirteenth. Germany had a nearly 5 billion euro trade deficit with Russia in 2016, implying the Russian import market is relatively insignificant for Germany's export-oriented commercial interests.³⁸ On the other hand, Germany was Europe's top gas consumer in 2016 at 38 million tonnes oil equivalent, a 9.2% increase from the previous year.³⁹ According to BP, Russia supplied Germany with 46bcm of pipeline gas in 2016, the top destination for Gazprom exports in Europe.⁴⁰ These statistics elucidate the mutual dependence these two countries share with each other in terms of energy trade, and with the construction of Nord Stream 2 establishing Germany as the EU hub for Russian gas, this Moscow-Berlin economic partnership will undeniably become vastly more important for the broader Russian-EU relationship. coming months will be a telling indicator of the true geopolitical power of Germany.

³⁸“Foreign trade: Ranking of Germany's trading partners in foreign trade,” *Statistisches Bundesamt (Destatis)*, October 24, 2017.

³⁹ “BP Statistical Review June 2017,” *BP*.

⁴⁰ *Ibid.*

The Nord Stream 2 pipeline will flow directly into Germany's northern border and deposit cheap natural gas, which will trickle down into the downstream markets in the European Union. The onshore OPAL and EUGAL (in development) extensions of the Nord Stream line connect Germany to the existing pipeline grid between Eastern and Western Europe, efficiently spreading gas throughout the European Union. This pipeline network will position Germany as the main EU energy distributor and



Figure 2.2.1: OPAL and EUGAL onshore extensions
(taken from the Internet, Interfax.com)

further cement Germany as the key political and economic cog of the European Union. However, Germany must still be cautious in its dealings with Gazprom, as the OPAL line has been harshly criticized for providing Gazprom control over onshore gas transit in Germany. The German energy regulator attempted to exempt OPAL from regulation, claiming third party access was required for the proper functioning of the transit pipeline.⁴¹ The EC has begun to investigate OPAL to determine whether it is in breach of the laws of the EU internal energy market. The EUGAL extension, on the

⁴¹ Reuters, “Germany rules favorably on OPAL gas pipeline,” February 25, 2009.

other hand, has not received criticism because Gazprom will not have control over its transit functions. Both extensions possess the capability to transit gas into lines that could reach the easternmost point of Europe. The politicized nature of the proposed pipeline network resulting from contrasting European views of Russia as a reliable energy supplier has thrust Germany into a position to receive major political backlash from the project's opposition. Germany is now forced to find a balance between its commercial interests and its political reputation within the European Union. The finesse in which Germany balances its ongoing energy flirtations with Moscow with its role as the leader of the European Union will surely influence EU solidarity and perhaps the future of Ukraine.

2.3 Russia



In an interview with Toralf Pilz, a former German Special Energy Counselor for the North Sea, he stressed the importance of remembering the breakup of the Soviet Union when assessing the modern day energy puzzle. Prior to the end of the Cold War, Moscow had employed a geopolitical strategy by constructing and owning pipelines running through FSU states in an effort to control them. Pilz mentioned that once the FSU countries became independent, they crafted their own energy policies and enjoyed the inherited Soviet-installed pipeline infrastructure. Most significant was Moscow's forfeiture of Ukraine at the end of the Cold War, which implied major geopolitical consequences for Russia's connection to Europe. The Soviet Union's complex pipeline network spanned through many of its surrounding satellite states and most of them convened in Ukraine before entering Europe (see Figure 2.3.1). Brzezinski describes Ukraine, "a new and important space on the Eurasian chessboard, is a geopolitical pivot because its very existence as an independent country helps to transform Russia. Without Ukraine, Russia ceases to be a Eurasian empire. Russia without Ukraine can still strive for imperial status, but it would then become a predominantly Asian imperial state..."⁴² This holds true today as Ukraine represents an entire pipeline network Russia can no longer fully utilize in its relations with Europe.

Some opponents of Nord Stream 2 have questioned Russia's need for additional pipelines, arguing that Russia's current export infrastructure is already sufficient to cater to Europe's energy demand. Considering Ukraine's unreliability as a transit route, increasing European import demand for energy, and the overall increase in competition from alternative energy sources such as US LNG and Caspian Sea gas, Gazprom's heavy investment in pipeline infrastructure projects reflects both commercial and geopolitical interests. Russia plans to reduce dependence on gas transit through Ukraine via the Nord Stream 2 pipeline, doubling the capacity of the Northern Corridor transit route and

⁴² Brzezinski, *The Grand Chessboard*, pg 46

providing flexibility of which export routes Russia selects. As the sole shareholder of Nord Stream 2, Gazprom will fund half of the 8 billion euro project cost, receiving the other half in funds from European energy company investments.⁴³ In case Nord Stream 2 faces complications that delay its construction, Russia has proposed another pipeline called the TurkStream that transits Turkey into southern Europe, replacing the abandoned South Stream project cancelled in 2014. TurkStream will cost an additional 11.4 billion euros, though it is uncertain what fraction of this Gazprom will cover.⁴⁴ These massive investments in energy infrastructure in the Northern and Southern Corridors underline Russia's geoeconomic strategy of expanding its choice of export routes in order to promote its economic energy security.

Russia's ulterior motive behind the construction of Nord Stream 2 is the direct connection with Germany. From a commercial standpoint, Giacomo Luciani, a professor at the Graduate Institute of Geneva and a leading expert on the geopolitics of energy, put it best. He explained, "to understand the attitude of Gazprom, you must take into account the fact that it wants to integrate downstream as close as possible to the final consumer. They do not want to sell gas early on in the supply chain. That justifies Nord Stream because they want to get directly into Germany, because Germany is its single most important client. It wants to have a personal relationship that is not interfered with by any EU concern or institution, something that Brussels cannot influence."⁴⁵ When Gazprom exports through pipelines traversing Ukraine, it racks up transit fees passing through multiple countries en route to the biggest consumer, Germany. By building a direct pipeline to Germany's northern shore, it can sell gas at the technical EU border and avoid the scope of EC legal jurisdiction that constrains its onshore networks. On the geopolitical level, Germany's significant dependence on gas imports combined with

⁴³ Nord Stream AG, Formal Interview

⁴⁴ Reuters Staff, "Russia's Gazprom estimates TurkStream costs at 11.4 bln euros," *Reuters*, August 10, 2015.

⁴⁵ Giacomo Luciani, Formal Interview

its newfound nationalist swagger has provided Russia with a window of opportunity to appeal to a rising world power that could assist in the expulsion of American primacy on the eastern Eurasian continent. Russia and Germany both recognize the potential for their strategic partnership in supporting the others' economic security. As Russia pivots to the east, Russia will attempt to forge a symmetrical partnership as Germany with China, fueling and trading with the rapidly developing Chinese economy. Russia sees itself as the catalyst of a Eurasian trifecta with Germany and China, the world's most explosive economies linked up via cheap pipeline gas to the world's largest fields of natural resources. This exact power coalition is the precise threat that Brzezinski devotes *The Grand Chessboard* to as a warning for the United States. Thus, Russia aims to use the expanded Nord Stream line as a fueling cable to one of two economic powerhouses in pursuit of a return to its former imperial glory.

2.4 *The United States of America*

The rapidly expanding LNG market will be altered dynamically in the coming years with the addition of exports coming from the US shale industry, which will account for 40% of the world's extra gas production to 2022.⁴⁶ From exporting next to nothing, more than half of the projected US gas production increase will be used for LNG exports, catapulting the United States to become one of the top LNG producers in the world in just a few short years.⁴⁷ A few months ago, the United States shipped the first crate of LNG to a terminal in Poland, a symbolic message from one of the most vocal countries in favor of reducing its energy dependence on Russia. In addition, Lithuania and Croatia have also begun to develop new LNG terminals in anticipation of gas coming from across the Atlantic.⁴⁸ Despite these positive developments, US LNG faces stiff competition against cheap and accessible

⁴⁶ "Natural Gas," International Energy Agency.

⁴⁷ Jude Clemente, "U.S. Exports Of Liquefied Natural Gas Deserve Policy Support," *Forbes*, October 15, 2017.

⁴⁸ Robbie Gramer, "First U.S. Natural Gas Shipped to Poland," *ForeignPolicy.com*, June 8, 2017.

Russian pipeline gas, and the Nord Stream 2 presents Washington with an ominous foreboding of Gazprom's fastened monopoly on the European energy market. While the Kremlin owns a controlling 51% of Gazprom's shares, the United States lacks a nationalized energy company through which it can direct its natural gas supplies. From the perspective of American gas companies, prices in the European market are currently less favorable than those created by the growing demand in the Asia-Pacific region, and until this changes, US LNG exports will likely be shipped eastbound instead. Thus, the United States faces challenges from Moscow in its future plans to forge an energy relationship with Europe, and will have to strategically decipher how to penetrate Gazprom's control of the EU energy market.

The United States has long been averse to any sort of EU-Russian cooperation, dating back to the Ronald Reagan administration chastising the European Union for purchasing Soviet gas and oil.⁴⁹ After the fall of the Berlin wall, as explained by Zbigniew Brzezinski in his book, *The Grand Chessboard*, the United States' main geostrategic imperative was to prevent the emergence of an alliance between two great powers on the Eurasian continent that would deteriorate US influence in the European Union.⁵⁰ That coalition today would likely consist of a national interest-focusing Germany extending a partnership with an energy resource-rich Russia. To prevent this geopolitical coalition, the United States needed to push for the expansion of both the European Union, in order to create a unified Europe able to act as an economic and security actor on its own, and NATO, so that the trans-Atlantic alliance would remain intact and sustain American primacy. At the time of *The Grand Chessboard*'s publication in 1997, Brzezinski had little concern that such a power coalition would emerge to challenge America's domination for quite some time, but he warned that, "it would require not only a massive mishandling by America of its European policy but also a dramatic reorientation on the art of the key European

⁴⁹ Madalina Sisu Vicari, "How Russian Pipelines Heat Up Tensions: From Reagan's Battle Over Yamal To The European Row On Nord Stream 2," *Vocal Europe*, April 21, 2016.

⁵⁰ Brzezinski, *The Grand Chessboard*, 198.

states.”⁵¹ Less than thirty years later, it seems that American-European relations have begun to slide in the wake of major political upheavals, including Brexit, the election of Donald Trump, and an unanticipated resurgence of Russian power.

Ukraine, a geopolitical pivot state on the European landscape, represents an opportunity for the United States to restrain a German-Russian alliance from being actualized. When Moscow annexed Crimea in 2014, the United States along with the European Union responded with joint sanctions to punish Russia’s aggressive foreign policy. Neutralizing the conflict in Ukraine is of utmost importance to Washington policymakers, who want to prevent Russia from regaining control over its former satellite state and using it to become geostrategically closer to Western Europe. A Moscow-controlled Ukraine would give Gazprom access to the significant Ukrainian pipeline infrastructure previously forfeited following the breakup of the Soviet Union. If Russia can exert its influence through Ukraine, it advances closer to the possible seduction of a geopolitical relationship with Germany. While the West has collaborated effectively to respond to the Ukraine crisis, the United States must tread carefully in how it pushes back against Russia, as the risk of collateral damage to its European allies threatens to jeopardize the stability of the trans-Atlantic partnership.

The 2014 sanctions against Russia displayed a close partnership between two Western allies, sensitive of the others’ interests and conducive to each actor’s ambitions in the eastern European region. However, despite careful planning, the European economy suffered a loss of approximately 90 billion euros in the two years that followed, due to a counter embargo from Russia on the EU agriculture industry.⁵² A sharp change in US policy occurred in 2017 when Congress voted unanimously to pass the, “Countering America’s Adversaries Through Sanctions Act,” in further response to the Ukraine

⁵¹ Brzezinski, *The Grand Chessboard*, 56.

⁵² “Economic impact on the EU of sanctions over Ukraine conflict,” *European Parliament*, European Union, October 2015.

crisis and in light of the accusations of Russian meddling in the 2016 US Presidential election. These sanctions broadly targeted any foreign investors in the development and maintenance of Russian pipeline projects, including the Nord Stream 2.⁵³ This unilateral action sparked outrage from European companies, especially German firms,⁵⁴ with ties to Russian energy developments. Much to Washington's dismay, the European and Russian economies are strongly intertwined in matters of energy security, arguably the most important concern of EU officials. The United States cannot continue to wage economic warfare against Russia without impacting European companies, especially those in the energy sector. Russia has used its monopoly on the European energy market as a hostage shield against US countermeasures to its foreign policy in Ukraine, and while not proven, perhaps allowed Moscow to meddle in the 2016 US election. The United States has zero economic leverage in preventing the Nord Stream 2 pipeline from being constructed, but this did not stop Congress from taking a rash shot at Germany's precious energy infrastructure project with Russia. Continuing on this path of economic warfare against a retaliatory Russia will only serve to backfire against US geostrategic interests in the form of exacerbated resentment from a European ally with an important future export market and precariously overlapping interests with Moscow.

2.5 Poland, Ukraine, and Central Eastern Europe

Some CEE countries largely see Nord Stream 2 as the means through which Russia can circumvent the onshore transit routes in their territory and escape paying them substantial pipeline transit fees. Others support Nord Stream 2 because they are geographically close to Germany, the source of the gas. However, rerouting Gazprom's export options with Nord Stream 2 would allow

⁵³ Yasmeen Serhan, "Why Europe Opposes America's New Russia Sanctions," *The Atlantic*, August 2, 2017.

⁵⁴ "Germany Urges EU To Fight Back Against Russia Sanctions Bill," *RadioFreeEurope/RadioLiberty*, August 1, 2017.

Russia to redirect gas flows away from Ukraine and increase its political leverage in the armed conflict on Ukraine's eastern territory. This paper does not pay credence to the claim that Nord Stream 2 would threaten Central Eastern Europe's energy security, due to the advancements made in the interconnectivity of Europe's internal energy transit system.⁵⁵ These politically-charged fears are vastly overstated and should not carry substantial weight in the energy security dimension of the Nord Stream 2 discourse. This section will analyze the geopolitical and geoeconomic strategies employed by CEE countries to protect their commercial interests against the threat of an expansion of the Northern Corridor transit route.

Despite sharing its western border with Germany, Poland's geopolitical and commercial interests will be undermined by the construction of Nord Stream 2. As the acting ringleader of Nord Stream 2 opposition efforts, Poland denounces the pipeline as a geopolitically motivated Russian strategy to ditch the Ukraine transit route and increase EU dependence on Russian gas via Germany.⁵⁶ The economic relationship between Germany and Russia has caused frustration for Poland, complaining that the Nord Stream 2 is the latest example of Germany pursuing its own national economic interests at the expense of its eastern neighbors.⁵⁷ The Yamal pipeline, running from the east in Russia to the west of Europe, passes through Poland and serves as a source of revenue from transit fees paid by Gazprom. Warsaw sees Berlin's Nord Stream 2 efforts as insensitive to the commercial interests of its country, and has consequently taken steps safeguard its interests. For example, earlier this year, Polish state-run energy company PGNiG successfully blocked a deal giving Gazprom increased access to the OPAL extension of Nord Stream, triggering a response from Gazprom to cut gas flow through OPAL by 30 percent.⁵⁸

⁵⁵ Refer back to figure 2.1.1 for more information on this argument.

⁵⁶ Łukasz Wojcieszak, "Nord Stream 2 Pipeline. Role of German-Russian Energy Cooperation for Poland," *American Journal of Sociological Research*, 7, no. 3 (2017): 85-89, doi:10.5923/j.sociology.20170703.01.

⁵⁷ Ibid.

⁵⁸ Reuters, "Gazprom cuts flows via OPAL gas pipeline after Polish challenge upheld." February 1, 2017

While the European Commission investigates the OPAL pipeline to see if it breaches EU law, Poland will continue to lobby extensively to reduce Gazprom's access to OPAL. If Gazprom continues to exploit its percentage of access of OPAL to hurt Poland, the Commission will likely take note of this and side with the affected EU member state. Poland has invested in the construction of its own LNG terminals in the hopes to enter into a long term LNG import contract with the United States once its contract with Gazprom expires in 2022. As a member of the Three Seas Initiative, a coalition of countries which all depend heavily on Russian gas, Poland assumed a leadership role in the diversification of gas supply by being the first EU country to import a shipment of LNG from the United States.⁵⁹ Poland could potentially stand as a rival gas hub to Germany if it can successfully manage to foster an energy relationship with the United States, but it would require an ambitious commitment to continued infrastructural investment and a decrease in trans-Atlantic LNG import prices. Nevertheless, the geo-economic strategies used by Poland to weaken Gazprom's influence in the EU gas transit system and increase EU diversification of energy supply will undoubtedly strengthen the economic energy security of the European Union.

Ukraine is perhaps the country with the most at stake with the construction of the Nord Stream pipeline. Ukraine collects about \$2 billion USD annually in transit fees from Russia, a major source of revenue for the corruption-ridden country.⁶⁰⁶¹ The loss of these profits would be detrimental to Naftogaz, the state-owned Ukrainian energy company which alone accounted for 16% of the country's budget revenues in the first seven months of 2017.⁶² Following the annexation of the Crimean Peninsula by Russia in 2014, the Russian-Ukrainian relationship has been at the center of European politics, causing waves of sanctions targeting the Russian economy coming from the United States and the

⁵⁹ oilprice.com, "Poland Seeks to become EU's Gas Hub," July 12, 2017.

⁶⁰ Nikolas K. Gvosdev, "2019 Could Be a Very Bad Year for Ukraine," *The National Interest*, October 2, 2017.

⁶¹ See figure 2.3.1

⁶² Kenneth Rapoza, "On Russian Gas Front, Germany Does Ukraine No Favors," *Forbes*, August 4, 2017.

European Union. Opponents of the pipeline point out that Russia's ability to transport double amounts of gas through the Nord Stream 2 addition will allow Russia to entirely cut Ukraine out as a transit route, severely impacting Ukraine's political leverage against its aggressive neighbor. Recently, the European Commission has begun negotiations with Russia and Gazprom to make Nord Stream 2 conditional on a guarantee from Russia of some amount of continued gas exports through Ukraine.⁶³ How this political discourse will unfold will be of great consequence to the future of the construction of Nord Stream 2 and Russian-Ukrainian relations.⁶⁴

The Baltic states, Estonia, Latvia, and Lithuania, are geographically isolated from the European Union, possessing relatively independent natural gas infrastructure that once "energy islands."⁶⁵ They rely almost entirely on imports from Gazprom pipelines through Belarus, and worry that Russia could cut off supply at any time once Nord Stream 2 is constructed. However, similarly to Poland, the Baltic republics have begun to liberalize their gas markets, and Lithuania already has invested in and developed an LNG import terminal. With an interconnected European energy market, the three Baltic states have the means to promote energy security both independently and with other EU member states.

Other states including the landlocked CEE countries Slovakia, Hungary, and the Czech Republic import 95, 89, and 99 percent of their annual natural gas consumption from Russia, respectively.⁶⁶ Situated between the Czech Republic to its north and Hungary to its south, Slovakia rejects the Nord Stream 2 as it echoes Poland and Ukraine on losing substantial transit fee revenue.⁶⁷ However, Hungary

⁶³ Maroš Šefčovič, "EU offers Russia, Ukraine mediation in talks on gas transit after 2019," interview by *Interfax-Ukraine*, May 10, 2017.

⁶⁴ Samuel R. Schubert, Johannes Pollak, and Elina Brutschin, "Two futures: EU-Russia relations in the context of Ukraine," *European Journal of Futures Research* 2, no. 1 (2014): 52,

⁶⁵ Bryza, M. J., & Tuohy, E. C. (2013). Connecting the Baltic states to Europe's gas market. *International Centre for Defense Studies*.

⁶⁶ J. Jordan Burns, "Pulling the Plug on Europe's Energy Dependence," *American Security Project*, August 1, 2017.

⁶⁷ Neftegaz.ru, "Slovakia to lose big over Nord Stream 2 pipeline: expert"

and the Czech Republic have taken a different approach than the Nord Stream 2 naysayers and have recently began to cooperate with Russia in terms of agreements to purchase both natural gas and nuclear technology. The geopolitical rationale behind these countries' sudden enhancement of economic ties with Russia is that the landlocked states cannot develop an LNG terminal and are forced to rely on traditional pipeline infrastructure. Furthermore, Hungary is relatively southern compared to its CEE counterparts, and gas coming from TurkStream would be easily accessible, just as how Nord Stream gas for the Czech Republic would be readily available on its northwestern German border. Interestingly, countries at risk of losing transit fees or not situated geographically near one of the two sea corridors of gas transit have been the voices spearheading the claim that Russia is an unreliable gas supplier and thus should cancel the Nord Stream 2 project, for the safety of the entire European Union.

Section III: Future Scenarios and Policy Recommendations

This third and final section will offer opinion-based recommendations to the main geostrategic players in the European energy game on how to proceed in the Nord Stream 2 dialogue. Despite the upheaval of the previous international order with the geoeconomic shift in paradigm, energy relations still remain a crucial aspect to the welfare of a nation, evidenced by the incident in Ukraine and the economic warfare between the United States and Russia. In the European energy chess game, Moscow and Washington will continue to butt heads in the attempt to be the primary gas supplier to Europe, and use this influence to exert primacy in the region. Nord Stream 2 will grant Russia further security in Gazprom's current monopoly on the European energy market, to the detriment of Central and Eastern Europe, as well as US interests in its relations with the European Union and trans-Atlantic LNG exports. In this context, policy prescriptions for dealing with both the Nord Stream 2 and the energy war for

Europe will be tailored to Germany, Russia, the United States, and the European Union, analyzed as a singular geopolitical actor.

3.1 Germany's Leadership

Article 194.2 of the Treaty on the Functioning of the European Union (TFEU) clearly bestows Germany the right to determine its “conditions for exploiting its energy resources, its choice between energy sources and the general structure of its energy supply.”⁶⁸ Thus, it is in Germany’s best geostrategic interest to build Nord Stream 2 with the Russian energy champion Gazprom, despite protests from its eastern neighbors. The European Union is indeed facing difficulties in terms of cohesiveness, but with the legal authority Germany possesses to take advantage of the Northern Corridor project, Berlin can use its newfound energy status to cement its position as the leader of the European Union. Furthermore, against the warnings of many anti-Nord Stream 2 scholars, Germany should use the pipeline project as a means of pulling Russia closer into the European Union, as opposed to fearing a Kremlin manipulation of its gas monopoly. This strategy will require the delicate handling of the appeasement of Central and Eastern European countries, who will likely never diverge in their negative perceptions of an aggressive Russia. An essential way in which Berlin can maneuver this is by acting as the primary negotiator with the European Commission on forcing a mandatory quota of Gazprom gas exports through Ukraine following the construction of Nord Stream 2. This will eliminate the argument made by opponents that Russia’s sole focus in developing the Northern Corridor is to circumvent Ukraine and neighboring CEE countries. Russia will have no choice but to comply with these terms, but may counter-negotiate with its qualms about Ukrainian misconduct as a gas transit state. In addition, Germany should also begin to invest in LNG infrastructure of its own, or at least heal its strained

⁶⁸ <https://www.duo.uio.no/bitstream/handle/10852/45348/Masteroppgave-Victoria-Tmmeraas-Berg.pdf?sequence=1>

relations with Poland so that the two countries could be a centralized European landing point for US LNG exports. In theory, this could spark a price war between the United States and Russia where the two rivals try to compete for European gas imports. Pitting Russia against the United States in a race to profit from gas exports to the EU is completely within the realm of Germany's power, because the two rival powers need Germany as a strategic ally.

If the Germans succeed in the construction of Nord Stream 2, the EU will move closer to becoming a truly German-dominated bloc. In the wake of Brexit, the key political advocate of the United States no longer has a say in internal EU affairs, further supporting the case for a strengthened and unified coalition of European countries with the capacity to stand alone in matters of security and foreign policy. Germany faces challenges in the CEE region however, namely an increasing Russian sphere of influence, which makes the idea of EU solidarity more important than ever. Since Nord Stream 2 does not coincide with this objective, Germany should spearhead the development of the SEM to guarantee energy security for its eastern cohorts. On the Russia front, a somewhat deepened partnership with the Kremlin will only serve Germany's diplomatic ambitions in solving the Ukraine crisis. Russia cannot threaten the energy security of Europe while being in the headlock of a German-dominated, cohesive European Union, and Berlin should exploit this. In addition, German flirtations with Russia will be contributing to the European Union's geopolitical benefit by balancing the power between Moscow and Washington. By playing the two actors off of each other, Germany can position the European Union in the center of a race between two great powers vying for influence in a pivotal region, and use this favorable dynamic to profit on reduced energy prices from both countries. With Nord Stream 2, Germany could become a global powerhouse with its economy serving as the cornerstone to a unified European Union.

3.2 Russia's Master Plan

Russia's geopolitical position on Nord Stream 2 is obvious: fortify its EU market share with Nord Stream 2, maintain credibility as a reliable supplier of gas, deepen relations with an increasingly nationalist Germany, and use its geopolitical clout to stifle US primacy in the European Union. A geoeconomic strategy for Russia to achieve its goals and cover space on the European energy chessboard is to continue to deepen its ties with the CEE countries Hungary and the Czech Republic, who will be loyal consumers of Russian gas without the potential for importing LNG. Creating economic ties with these countries will also serve to further Russia's geopolitical interests by increasing the number of pro-Russian voices in the European Union. Once US LNG exports start to penetrate Europe, Russia will want to have a grip on as many EU consumers as it can in order to keep its gas flowing through the internal market in large quantities at affordable costs. This will make it difficult for private energy companies in the United States to compete with cheap pipeline gas prices, and they might turn to focus on Asian-Pacific markets instead. Keeping its options open, Russia should also make an eastern pivot to Asia and hasten the construction of its pipeline infrastructure to Chinese and other lucrative Asian energy consumers. In case Nord Stream 2 falls through, Russia will need another market to fall back on while the European Union simultaneously searches for a diversified source of supply.

It is absolutely essential that Russia treads very carefully and refrains from angering EU member states by punishing them with reduced gas flows, like its actions against Poland in the OPAL line. Russia does not have political capital to spare in the European Union and each aggressive foreign policy measure against the interests of the EU will place increased stress on Germany trying to bridge Europe to the Russian natural gas reserves. A close relationship with Germany would be invaluable for the interests of Russia on multiple levels. With the German economy as a stable, loyal customer for Gazprom, Russia can develop this relationship in pursuit of its grand scheme to become the fuel source

to two of the world's most dynamic economies in China and Russia. If Nord Stream 2 succeeds, Russia should make efforts to cease conflict with Ukraine in order to begin a cooperative alliance with the leader of the European Union, as the country would lose geopolitical relevance.

3.3 The United States' Shift in Strategy

Brzezinski eloquently sums up the US position, "the issue of how a globally engaged America copes with the complex Eurasian power relationships- and particularly whether it prevents the emergence of a dominant and antagonistic Eurasian power- remains central to America's capacity to exercise global primacy."⁶⁹ Thus, the United States must take on a more nuanced approach of dealing with Russia that involves close collaboration with its European allies. This implies that the United States needs to stop unilaterally targeting Russia's infrastructural projects with Europe, including Nord Stream 2. Rather than targeting Russian-EU energy operations, the United States needs to lobby for investment in increased LNG infrastructure in European countries to facilitate future trans-Atlantic energy trade. This means reaching out to countries on the coast of Europe, with conducive geographical settings similar to Lithuania, Croatia and Poland, the three main investors in LNG infrastructure. The United States should strongly support the Three Seas Initiative and form domestic policies that facilitate energy trade with coastal European countries, going so far as considering an export subsidy on LNG to Europe. European countries that could be potential investors in LNG infrastructure in southern Europe could be Italy and Greece, who currently have four and one existing terminal, respectively. Both are situated on the southern side of Europe, opposite of Nord Stream 2's starting flow. On the eastern side of Europe, Bulgaria and Romania have coasts on the Black Sea where LNG infrastructure could be established. The United States must race Russia to lobby these southern European countries to build

⁶⁹ Brzezinski, *The Grand Chessboard*, xiv

LNG terminals before the TurkStream pipeline is constructed and operational. Most importantly, the United States should persuade Germany to invest in LNG infrastructure on its northern coast in order to get a slice of the key gas distributing country in Europe. In addition, a core strategy voiced by Brzezinski in the 1990s for the United States in Europe to counter Russian influence still stands true: to incessantly promote EU integration and continue to voice support for sustaining the NATO security alliance. A united and strong European Union could potentially pose a rivalry to US power, but it would be instrumental in avoiding a Eurasian coalition of power between Germany and Russia. NATO is significant both in maintaining US influence from across the Atlantic and fixing the conflict in Ukraine, a geopolitical focal point on the European landscape. The future of NATO is at jeopardy with European countries feeling more used than supported following the wars in Iraq and Afghanistan, but it is imperative for the United States to diplomatically maintain the security dimension to trans-Atlantic relations in order to contain an aggressive Russia. The United States failing to see the value in sustaining this security relationship with Europe would be a major strategic blunder for the White House and would severely erode US primacy in Eurasia.

3.4 A Cohesive European Union

In the contemporary energy security paradigm, markets use regulation as a geoeconomic tool to force suppliers to play within a structure of laws and principles that benefits the consumers. This legal weapon is the key to the European Union's maximization of benefits from the Russia-US clash over the EU market. Gazprom will hire and dispatch more lobbyists to sway the European Commission's perspective in favor of Nord Stream 2, while the United States will attempt to politically back the pipeline's opponents to bring the project to a halt. In the bombardment of geoeconomic tools coming from the east and the west, the European Commission must remain steadfast in selecting the best option

for the entirety of the Union. From this evidence presented in this paper, that would encourage the Commission to give the green light on the Nord Stream 2, vastly increasing Europe's supply of Russian gas. To prevent a monopoly, the Commission was right to engage Gazprom in an anti-trust investigation in 2012, which lead to the raid of offices in ten EU member states amid concerns of their contractual relations with the Russian energy giant.⁷⁰ If the EU finds Gazprom in breach of its legislation, the company would face enormous fines of nearly 10 percent of its annual turnover.⁷¹ If the European Union takes on Russia in energy relations, it must be prepared to stringently regulate Gazprom's behavior, and aggressively constrain the ability of not just Russian, but all foreign exporters to find loopholes in the SEM.

The other priority for the European Union must be to commit to diversifying import options from various suppliers across the globe. It would be a grave mistake for the European Union to feel disincentivized with the addition of Nord Stream 2 and rely on its chokehold on Russian gas reserves for an extended period of time. This is a valid concern of Eastern European opponents of the Nord Stream 2, fearing that such a bountiful supply of cheap gas would create a sense of complacency within Western Europe. Surely, the European Union will invest heavily in renewable energy sources, with the Paris Accord motivating almost every nation on the planet to prioritize environmental impact when choosing its preferred energy source. But while gas becomes the transition fuel defining the next half century, Europe must invest not only in renewable, but LNG infrastructure with the predicted boom in LNG export capacity around the corner. Not only will this provide Europe with a safety net against Gazprom imports, but it will further invigorate the profitable Russia-US geoeconomic export rivalry, and potentially add to the game other suppliers of gas that would further increase competition in the SEM.

⁷⁰ Judge, Maltby, Sharples, “*Challenging Reductionism in Analyses of EU-Russia Energy Relations.*”

⁷¹ Ibid.

Thus, the primary objective for the European Union is to set aside national interests, coalesce into a singular decision-making body, and craft policies that benefit the Union as a whole.

Conclusion

For a multitude of reasons, the European landscape has retained its geopolitical significance since the end of the Cold War, just as Brzezinski postulated. The three “geostrategic players” active on the European chessboard, Russia, Germany, and the United States, are currently engaged in a geoeconomic contest to secure commercial profit driven by an oversupply of natural resources. One can picture this situation as an energy-themed game of geopolitical chess, where Russia aims to put the United States in check with the construction of Nord Stream 2, Russia’s ‘rook’ in the Northern Corridor of gas transit. Nord Stream 2 represents the most recent major collaborative strike engineered by Germany and Russia to accrue both geopolitical and geoconomic standing in the playing field, undermining the objectives of the United States. The construction of Nord Stream 2, in sum, will elevate Germany’s geopolitical and economic status as the EU champion, allow Russia to bypass a tumultuous and costly Ukrainian transit route while securing its share of the remunerative EU energy market, but hinder US aspirations to become a major supplier of LNG to the European Union.

Future geopolitical analyses in the realm of energy security in the European Union would benefit from avoiding focusing on trivial political details and instead painting a portrait of the geopolitical Eurasian arena where geostrategic actors have collided since the genesis of the new international order. This study would welcome a parallel analysis of Russia’s other rook, the developing TurkStream pipeline in the Southern Corridor of Europe, with the assessment of Turkey as a new geostrategic actor vying for influence in the EU energy market. As the Nord Stream 2 discourse continues, updated

analyses of actions with geopolitical implications would continue to shed light on the possible geostrategic interests of the aforementioned political actors.

Bibliography

- Berg, Victoria Tømmeraas. "Can a united Europe end Russia's energy stranglehold? An assessment of the potential for European Union countervailing power in EU-Russian gas trade." Master's thesis, University of Oslo, 2015. <https://www.duo.uio.no/bitstream/handle/10852/45348/Masteroppgave-Victoria-Tømmeraas-Berg.pdf?sequence=1>
- "BP Statistical Review of World Energy June 2017." *BP*. 2017. <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf>.
- Bryza, M. J., & Tuohy, E. C. (2013). Connecting the Baltic states to Europe's gas market. *International Centre for Defense Studies*.
- Brzezinski, Zbigniew. *The Grand Chessboard: American Primacy And Its Geostrategic Imperatives*. New York, NY. Basic Books, 1997..
- "Country Comparison: Natural Gas – Imports." *The World Factbook*. U.S. Central Intelligence Agency. Accessed November 21, 2017. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2252rank.html> .
- Csurgai, Gyula. "Geo-economic strategies and economic intelligence." *Advances in Geoeconomics*. Edited by J. Mark Munoz. Routledge, 2017.
- Dent, C. M. (2001). 'Economic security. *Contemporary security studies*.
- Dudek, J., & Piebalgs, A. (2017). Nord Stream 2 and the EU regulatory framework: challenges ahead.
- "Economic impact on the EU of sanctions over Ukraine conflict." *European Parliament*. European Union. October 2015, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI\(2015\)569020_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf).
- Erlanger, Steven, and Neil MacFarquhar. "E.U. Is Uneasy, and Divided, About U.S. Sanctions on Russia." *New York Times*. July 25, 2017. <https://www.nytimes.com/2017/07/25/world/europe/eu-uneasy-about-impact-of-new-us-sanctions-on-russia.html> .
- "EU imports of energy products - recent developments." *Eurostat*. European Union. Last modified April 2017. http://ec.europa.eu/eurostat/statistics-explained/index.php/EU_imports_of_energy_products_-_recent_developments.
- "Eurogas: Gas demand in EU rises for the first time in four years, according to new Eurogas data." *4-traders*. March 30, 2016. <http://www.4-traders.com/news/Eurogas-Gas-demand-in-EU-rises-for-the-first-time-in-four-years-according-to-new-Eurogas-data--22089698/>.
- Fischer, Severin. "Nord Stream 2: Trust in Europe." *Policy Perspectives* 4, no. 4 (March 2016). <http://www.css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/pdfs/PP4-4.pdf> .
- Furfari, Samuele. Informal Phone Interview. .
- Goldthau, Andreas. "Assessing Nord Stream 2: regulation, geopolitics & energy security in the EU, Central Eastern Europe & the UK." *European Center for Energy and Resource Security*. London, UK: King's College, 2016. <https://www.kcl.ac.uk/sspp/departments/warstudies/research/groups/eucers/pubs/strategy-paper-10.pdf>.
- Goldthau, Andreas and Nick Sitter. "Soft power with a hard edge: EU policy tools and energy security." *Review of International Political Economy* 22, no. 5 (2015): 941-965. <https://doi.org/10.1080/09692290.2015.1008547>.
- Fischer, Severin. Formal Interview.
- "Importance of Natural Gas." *Hazira LNG & Port*. Accessed November 21, 2017. http://www.haziralngandport.com/natural_gas.htm.
- Judge, Andrew, Thomas Maltby, and Jack D. Sharples, "Challenging Reductionism in Analyses of EU-Russia Energy Relations." *Geopolitics* 21, no. 4 (2016): 751-762. Published online September 29, 2016. <https://doi.org/10.1080/14650045.2016.1222520>.
- Kottasova, Ivana. "Russia's Gazprom: Profits plunge 70%." *CNN*. March 13, 2015. <http://money.cnn.com/2015/03/31/investing/russia-gazprom-profit/index.html>.
- Lang, K. O., & Westphal, K. (2017). Nord Stream 2: a political and economic contextualisation.
- Luciani, Giacomo. Formal Interview.

“Market legislation.” *European Commission*. European Union. Accessed November 21, 2017.
<https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>.

“Market Report Series: Gas 2017.” *International Energy Agency*. 2017. http://www.iea.org/bookshop/741-Market_Report_Series_Gas_2017.

“Natural Gas.” *International Energy Agency*. Accessed November 21, 2017. <https://www.iea.org/topics/naturalgas/>.

“Nord Stream 2: Significance.” *Gazprom.com*. Accessed November 21, 2017.
<http://www.gazprom.com/about/production/projects/pipelines/built/nord-stream2/>.

Nord Stream AG, Formal Interview.

Pilz, Toralf. Formal Interview.

“Putin says Russian economy needs to do more.” *New China (xinhuanet.com)*. October 25, 2017. http://news.xinhuanet.com/english/2017-10/25/c_136703368.htm. . . .

“The Role of Natural Gas (Perspective from the 2016 World Energy Scenarios).” *World Energy Council*. November 2017.
<https://www.worldenergy.org/publications/2017/the-role-of-natural-gas-perspective-from-the-2016-world-energy-scenarios/>.

Schubert, Samuel R., Johannes Pollak, and Elina Brutschin. “Two futures: EU-Russia relations in the context of Ukraine.” *European Journal of Futures Research* 2, no. 1 (2014). <https://link.springer.com/article/10.1007/s40309-014-0052-7>.

Serhan, Yasmeen. “Why Europe Opposes America's New Russia Sanctions.” *The Atlantic*. August 2, 2017.
<https://www.theatlantic.com/international/archive/2017/08/why-europe-opposes-the-uss-new-russia-sanctions/535722/>.

Sheppard, David, and Henry Foy. “US and Russia step up fight to supply Europe’s gas.” *Financial Times*. August 3, 2017.
<https://www.ft.com/content/352f4cac-6c7a-11e7-b9c7-15af748b60d0>.

“US sanctions are 'trade war' on Russia, says PM Medvedev.” *BBC News*. August 3, 2017. <http://www.bbc.com/news/world-europe-40809715>.

Vatansever, Adnan. “Is Russia building too many pipelines? Explaining Russia's oil and gas export strategy.” *Energy Policy* 108 (September 2017): 1-11. <https://doi.org/10.1016/j.enpol.2017.05.038>..

Wojcieszak, Łukasz. “Nord Stream 2 Pipeline. Role of German-Russian Energy Cooperation for Poland.” *American Journal of Sociological Research*, 7, no. 3 (2017): 85-89. doi:10.5923/j.sociology.20170703.01.