

Nord Stream 2:

Opportunities and Dilemmas of a New Gas Supply Route for the EU

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Today, the pipeline project Nord Stream 2 represents the most politically contentious energy infrastructure project in the EU. Whereas politically supported by Germany, some countries have been calling for consideration of the envisaged pipeline as a “geo-political risk”. Jekaterina Grigorjeva (Jacques Delors Institut-Berlin) and Marco Siddi (The Finnish Institute of International Affairs) analyse opportunities and dilemmas of the envisaged supply route for the EU.

1 Does Nord Stream-2 Contradict the EU's Energy Union?

In September 2015, the Russian monopoly Gazprom signed a shareholder agreement with five European energy companies to build two pipelines shipping gas from Russia directly to Germany through the Baltic Sea. The project, called Nord Stream-2, would double the capacity of an already existing set of pipelines, bringing it from 55 to 110 billion cubic metres. This would allow Gazprom and its main customers in North-Western Europe, Germany in primis, to end the dependence of their gas trade on non-EU transit countries, namely Ukraine and Belarus.

However, Nord Stream-2 also seems to contradict the objectives of the EU's Energy Union. By further consolidating Russia's role as the EU's key gas supplier, the envisaged pipeline would not contribute to diversification of its supply sources. Furthermore, according to the Energy Union strategy, the EU has to move away from an economy driven by fossil fuels. The EU's 2030 climate and energy framework envisages a 40% cut in greenhouse gas emissions (compared to 1990 levels) and a target of 27% of energy produced from renewable sources. In this regard, additional gas supply capacity can be seen as undermining the Union's climate and energy goals.

Several East-Central European member states have come out strongly against Nord Stream-2, referring to geopolitical, economic and energy security motivations. In a nutshell, their argument is that Nord Stream 2 disregards the energy diplomacy and sanctions policy of the EU following Russia's aggressive policies in Ukraine (even though EU sanctions against Russia do not directly limit gas trade). Hence, it is argued that Nord Stream-2 should be regarded as a "geopolitical risk". Importantly, Nord Stream 2 implies the loss of revenues from transit fees for Ukraine and EU transit countries such as Slovakia, the Czech Republic and Poland.

2 The Politicisation of EU Legislation and its Risks

So far, the European Commission President Jean-Claude Juncker has refused to consider the project as a political issue and insisted that the legal compliance alone will be the base of the decision. As a result, an investigation into the compliance of Nord Stream-2 with European legislation was initiated. On the crucial question of whether the provisions of the Third Energy Package apply to the offshore part of the pipeline, different departments of the Commission could not speak with one voice.

Whereas the Legal Services argued that the EU energy market rules do not apply to the Nord Stream 2 pipeline expansion, the Directorate General for Energy expressed an opposite opinion. It is crucial that the EU energy legislation is respected. However, it is also important that it is implemented in a way that does not discriminate against certain actors and does not serve the purpose of simply hindering private endeavours. One example is the unbundling rule, which requires the separation of energy supply and generation from the operation of transmission networks. While the provision serves the purpose of opening the energy markets, in some cases its strict application simply leads to half-used pipelines when other market operators show no interest in buying unbundled shares.

This is very much the case of the OPAL pipeline, an onshore extension of Nord Stream-1, the full use of which is currently prevented on regulatory grounds. Opponents of Nord Stream-2 would like to see EU legislation implemented in such a way that it blocks the project. However, this approach would most likely lead to the increasing politicisation of EU energy legislation, as the prevailing logic of its implementation would be political rather than regulatory.

3 Command and Control vs. Free Market

The economic arguments of the Nord Stream-2 opponents certainly have some merit: there is no doubt that the current transit countries of EU-Russia gas trade will lose revenues if gas flows are redirected to a new route. The question, however, is whether the preservation of those revenues is an argument for stopping companies from building competing projects, and whether the EU should take a stance on the matter.

Any blocking action by the EU based on economic or political grounds would be at odds with the liberalisation of energy markets, which has been the EU's mantra thus far. Nonetheless, in the energy field, some East-Central European leaders occasionally appear keener on centralised regulation. This was also a feature of Donald Tusk's initial proposal for an EU Energy Union, which included the creation of a centralised EU gas purchasing authority. In this respect, the EU should clarify whether liberalisation remains the overarching principle of its energy policy.

4 Can Nord Stream-2 Benefit the EU as a Whole?

Whereas Nord Stream-2 is certainly of great advantage to Germany in the first place, its contribution to the security of supply of the EU is subject to several conditions. First, Nord Stream 2 could benefit the EU as a whole only if additional investments for delivering gas to Southern Europe are made. For example, in order to supply Italy, the Opal pipeline and the Czech transmission network need to be expanded, at a financial cost for European private and/or public actors. In addition, the Opal cap, which allows Gazprom to utilize only 50% of the pipeline capacity, would have to be lifted. Finally, in order to supply South-Eastern Europe additional large investments in interconnectors

would have to be made. As for the supply security of South-Eastern Europe, which is the most vulnerable region of the EU, a southern energy corridor would be more directly beneficial. Finally, bearing in mind the South Stream and Nabucco experience, Nord Stream-2 calls for a timely creation of a stable regulatory environment for new infrastructure from third countries on the EU territory, which is currently not given by the Third Energy Package. Large-scale investments, regardless of their origin, require certainty. A coherent regulatory framework for new infrastructure would benefit the EU as a whole, irrespective of the outcome of the Nord Stream-2 debate.

5 United in (Energy) Diversity

Given their different historical experiences and relations with Russia, the views of member states on the role of Russian gas in EU energy security may differ. The EU legislation (Art. 194 (2) TFEU) allows each member state to determine its preferred energy supply structure and differentiate its external suppliers accordingly. This implies that transition to a low carbon economy might take different paths depending on the country and region. In this context, the EU still does not have a clear position on the role of gas in the energy transition. Nevertheless, the Energy Roadmap 2050 of the European Commission strongly emphasizes gas as a transition fuel. Therefore, given the large share of coal in the energy mix of several Eastern and Central European countries, arguments against natural gas pipelines need to be put in perspective.

The strengthening of the internal energy market is essential to finding common ground among the member states in their perception of energy security and understanding of the energy transition. By expanding the interconnector capacity and further developing mechanisms for intra-EU solidarity, the relevance of external suppliers will diminish: no matter where it comes from, energy will be shipped where it is needed in the EU market.