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RUSSIA'S EUROPEAN ENERGY CAMPAIGN: ASSOCIATED RISKS OF THE NORD STREAM 2 PIPELINE

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ASSOCIATED RISKS OF THE NORD STREAM 2 PIPELINE

RISK REPORT

Global Risk Intelligence

SEPTEMBER 19, 2019

Washington, D.C. · London · Dubai · Singapore

www.globalriskintel.com

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List of Abbreviations:

BCM	Billion Cubic Meters
EU	European Union
EUR	Euros
LNG	Liquified Natural Gas
SCC	Stockholm Chamber of Commerce
USD	United States Dollar

BOLTS: STRATEGIC, OPERATIONAL, FINANCIAL, COMPLIANCE.

TAGS: GAZPROM, NAFTOGAZ, RUSSIA, GERMANY, UKRAINE, USA, EUROPEAN UNION, NATURAL GAS, NORD STREAM, TURKSTREAM, BALTICS, BALTIC SEA, ENERGY DIPLOMACY, ENERGY WEAPONRY, HYBRID WARFARE, ENERGY DEPENDENCE, ENERGY RIVALRY, CORRUPTION, LNG, CLEAN ENERGY, CLIMATE CHANGE, ENVIRONMENTAL RISKS.

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Introduction: A Project of Great Significance

A great deal of controversy has surrounded the development of the Nord Stream 2 pipeline that will transport natural gas directly from Russia to Germany once completed (see Map 1). The debate surrounding this project has prompted rising tensions between some traditional European allies. The controversial pipeline has also brought forth a variety of concerns that include the future of European energy security, political corruption, and strategic military objectives. Part I of this report will provide an overview of the substantial demand for natural gas in Europe, strategies behind the U.S. and Russian energy campaigns, and why the Nord Stream Pipeline is such a controversial project. Part II will highlight the specific risks associated with a completed Nord Stream 2 pipeline and why some European stakeholders view the project as such a threat.

Part I: The Natural Gas Situation in Europe

Rising Demand for Natural Gas in Europe

The European Union (EU) as an economic bloc constitutes the second-largest economy in the global system, collectively accounting for approximately 22% of global GDP¹. As one of the most advanced and developed economic blocs on the planet, the EU requires a massive amount of energy. This energy comes from an array of sources, such as coal, solar, hydroelectric, nuclear, and natural gas. Natural gas in particular has become a source of contention as the energy source has become a field of competition for great power rivals. Europe has now found itself at the center of an energy rivalry between the United States and Russia.

This energy rivalry is not only caused by Europe's increasing demand for energy but also the historical means by which Europe has satisfied its energy needs. For much of the later 20th Century, Europe relied on numerous pipelines from the Soviet Union in order to fulfill its energy

¹ Gramer, R. (2017) Infographic: Here's How the Global GDP is Divvied Up, *Foreign Policy*. Available at: <https://foreignpolicy.com/2017/02/24/infographic-heres-how-the-global-gdp-is-divvied-up/> (Accessed: June 2, 2019).

requirements. Following the collapse of the Soviet Union, the infrastructure for these pipelines remained scattered across a number of former soviet states. Most notably, in Ukraine.

Since then, Europe's energy needs have steadily grown, yet natural gas still transits Soviet-era pipelines that draw from massive natural gas reserves in Russia. Receiving natural gas from Russia has become an increasing point of contention largely caused by Russia's methods of power projection, such as its annexation of Crimea, Ukraine in 2014. Furthermore, while economic growth has propelled the desire for gas, political shifts are driving this trend as well. Part of the demand for natural gas stems from rising concerns in Europe over climate change and the deleterious effects of carbon emissions. Consequently, governments across the EU have slowly tried to wean themselves off coal, a mainstay of European power generation for decades. As of 2017, roughly 20% of Europe's energy consumption is produced by coal². The UK has been experimenting with coal-free electricity and has been achieving record-breaking streaks in which coal has accounted for none of the UK's electricity needs³. While some European countries like Germany and Austria will retain a more limited use of coal in order to meet energy demands, pressure on political parties to eliminate the use of fossil fuels will likely diminish the use of coal over time. Thus, coal will likely become a less significant energy source for Europe over the next decades, with preference given to natural gas.

The energy density of coal means that efforts to replace it require the usage of equally energy-dense alternatives. Given the investments and timeframes necessary to build renewable energy sources in sufficient quantity, natural gas is one of the only viable option in the short-term and medium-term. In 2017, over 70% of Europe's natural gas was imported, and around 40% of this imported gas comes from Russia⁴. Thus, Russia's massive natural gas reserves have become a critical European energy source. Conversely, Russia's economic health is also reliant on sales of natural gas

² International Energy Agency (2019) Total Primary Energy Supply by source, Available at https://www.iea.org/statistics/?country=EU28&year=2015&category=Key%20indicators&indicator=TPE_SbySource&mode=chart&dataTable=BALANCES (Accessed September 17, 2019).

³ Cooper, R. (2019) UK breaks coal-free power record over bank holiday weekend, *Climate Action*. Available at <http://www.climateaction.org/news/uk-breaks-coal-free-power-record-over-bank-holiday-weekend> (Accessed June 2, 2019).

⁴ Eurostat (2018) Energy production and imports. Available at [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Main_origin_of_primary_energy_imports,_EU-28,_2007-2017_\(%25_of_extra_EU-28_imports\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Main_origin_of_primary_energy_imports,_EU-28,_2007-2017_(%25_of_extra_EU-28_imports).png) (Accessed September 17, 2019).

to Europe, which provides an explanation as to why Moscow is so determined to retain Europe as a buyer. Although Russia's reliance on its natural gas sector is detrimental for long-term domestic economic health, the country has few other options, thus Russia has prioritized the continued dominance of the natural gas market in Europe. The relationship between Russia and European countries, however, has been complicated by Russia's strategy for increasing its influence in the region.

Russia's Strategy and its Effects on Europe

Russia has pioneered the use of a strategy commonly referred to as "hybrid warfare" in order to impose its will on other countries. Hybrid warfare typically refers to alternative methods through which to achieve strategic goals as opposed to the use of conventional warfare tactics. Russia's use of hybrid warfare has included cyber tactics, election interference, misinformation campaigns, and in the case of Nord Stream 2, energy weaponry. The use of pipelines to control the flow of gas is a part of this strategy to pressure neighboring countries into complying with Russian interests.

As more avenues for receiving natural gas emerge, Russia hopes to maintain its role as Europe's primary source of natural gas, and to maintain the political leverage presented by such a position. Therefore, Russia has invested heavily in the development of the Nord Stream 2 pipeline. Upon completion, the pipeline will be able to transport up to an additional 55 billion cubic meters of natural gas to European markets each year. This pipeline is being built alongside the existing Nord Stream 1 pipeline which runs along the bottom of the Baltic Sea transporting natural gas directly from Russia's Narva Bay to Greifswald, Germany⁵. Notably, this Nord Stream Pipeline would bypass Ukraine, which has been the main route for Russian gas supplies to Europe⁶. Therefore, Nord Stream 2 would limit Ukraine's ability to collect revenue from gas transit fees, ultimately costing Kiev an

⁵ **The Pipeline at a Glance (2019), Nord Stream 2. Available at: <https://www.nord-stream2.com/en/pdf/document/198/> (Accessed: June 2, 2019).**

⁶ Ibid.

estimated USD 2 billion (EUR 1.78 billion) in transit costs⁷. This would, in effect, continue Russia's pressure campaign against Ukraine.

A number of key pipelines transporting Russian gas to Europe transit through Ukraine, a country with which Russia has been in a state of extended hostilities for the past several years. The agreements between Ukraine and the Russian national oil company, Gazprom, to transit gas through Ukrainian pipes will expire at the end of 2019. Russia had hoped to complete the Nord Stream 2 pipeline before the arrangements had ceased, but estimates suggest that work will not be complete by this time. A halt in gas delivery from Russia to Ukraine would sever key gas supplies to Europe and could leave many countries with severe energy deficits.

In 2009, Russia's Gazprom and Ukraine's Naftogaz signed a 10-year gas sales agreement. The two companies would later meet in court over gas distribution and payment issues. Gazprom claimed that Naftogaz owed billions of dollars (USD) in unpaid debts, while Naftogaz claimed that Gazprom had been charging an unfair price and had not provided the agreed-upon volume of gas. After four years of arbitration, the Stockholm Chamber of Commerce (SCC) ultimately decided in favor of Naftogaz⁸. As a result, Gazprom now legally owes Naftogaz around USD 2.56 billion, yet the Russian gas company appears determined to avoid payment. Believing that the SCC decided in favor of Naftogaz due to the deteriorating economic situation in Ukraine, Gazprom CEO Alexei Miller stated that he is "categorically against Ukraine's economic problems being solved at [Gazprom's] expense⁹." Furthermore, the current gas-providing arrangement that is set to expire at the end of 2019 is not expected to be renewed, meaning that Russian gas transit through Ukraine could end entirely in 2020. Ultimately, this natural gas issue is part of the broader political standoff between Ukraine and Russia.

⁷ De Maio, G. (2019) Nord Stream 2: A failed test for EU unity and trans-Atlantic coordination, *Brookings*. Available at: <https://www.brookings.edu/blog/order-from-chaos/2019/04/22/nord-stream-2-a-failed-test-for-eu-unity-and-trans-atlantic-coordination/> (Accessed: June 2, 2019).

⁸ Stockholm arbitration (2018), *Naftogaz Group*. Available at: <http://www.naftogaz.com/www/3/nakweben.nsf/0/E62D5C9B21795281C225834B00537D4E?OpenDocument&Expand=2&> (Accessed: June 2, 2019).

⁹ Garanich, G. (2018) Gazprom terminates gas supply contract with Ukraine's Naftogaz, *Russia Today*. Available at: <https://www.rt.com/business/420313-gazprom-naftogaz-gas-contract/> (Accessed June 3, 2019).

Given the corroding relationship between Moscow and Kiev, Russia has all the more reason to complete the Nord Stream 2 pipeline to Germany, which would allow them to circumvent Ukraine in the natural gas field. Germany, looking to fulfil its energy needs, has supported the completion of the project. German advocates of the Nord Stream 2 project argue that the pipeline would be beneficial for the security of Germany's energy market and its potential role in determining gas prices in Europe¹⁰. This decision, however, has caused some considerable intra-EU tensions. There are strong fears from many European states that the pipeline will support Russia's strategic ambitions and allow for the use of natural gas as a political weapon. In March 2016, the Czech Republic, Hungary, Poland, Slovakia, Romania, Estonia, Latvia, Lithuania, and Croatia – all highly dependent on Russian gas – signed a petition against Nord Stream 2, thus highlighting the perceived threat to their energy security¹¹.

Nord Stream 2 AG, a subsidiary of Gazprom, has full ownership over the pipeline project. The five European companies investing in the Nord Stream 2 project are Royal Dutch Shell, Austria's OMV, France's Engie, and Germany's Uniper and Wintershell. Despite the fact that France's Engie is invested in the project, France and Germany have periodically sparred over the controversial pipeline. Tensions eased, however, in August 2019, when EU member states proposed an amendment to the EU gas directive that would ensure the rules governing the EU's internal gas market apply to gas transmission lines between member states and a third party such as Russia¹².

Italy has also voiced concerns regarding the Nord Stream 2 project. Italy's supply of natural gas is largely delivered through Ukraine and was set to benefit significantly from the completion of the

¹⁰ De Maio, G. (2019) Nord Stream 2: A failed test for EU unity and trans-Atlantic coordination, *Brookings*. Available at: <https://www.brookings.edu/blog/order-from-chaos/2019/04/22/nord-stream-2-a-failed-test-for-eu-unity-and-trans-atlantic-coordination/> (Accessed: June 2, 2019).

¹¹ Sytas, A. (2016) EU leaders sign letter objecting to Nord Stream-2 gas link, *Reuters*. Available at: <https://www.reuters.com/article/uk-eu-energy-nordstream/eu-leaders-sign-letter-objecting-to-nord-stream-2-gas-link-idUKKCN0W11YV> (Accessed: June 2, 2019).

¹² Council of the EU (2019) Gas directive: Council agrees negotiating mandate, *European Council*. Available at <https://www.consilium.europa.eu/en/press/press-releases/2019/02/08/gas-directive-council-agrees-negotiating-mandate/> (Accessed September 18, 2019).

South Stream pipeline, which was blocked by the EU Commission¹³. Italy has accused the EU Commission of applying double standards by not rejecting the North Stream 2 pipeline and favoring German interests¹⁴. The EU Council has established that gas pipelines with non-EU countries must comply with EU gas rules, yet the Nord Stream 2 pipeline may be subject to an exemption to these rules, as was the case for Nord Stream 1.

Although Russia's South Stream project has been blocked, a separate pipeline project known as Turkstream would further Russian dominance over the European natural gas market. When completed, Turkstream will directly connect Russian gas reserves to a gas transportation network in Turkey, transporting 31.5 billion cubic meters (bcm) per year through two parallel pipelines along the bottom of the Black Sea¹⁵ (see Map 3). This project would thus grant Moscow greater strategic influence and further isolate Ukraine from a key sector of its economy.

Political fractures brought on by the debate surrounding the Nord Stream 2 project have had adverse effects on the relationship between the United States and Europe¹⁶. This particularly refers to the impaired relationship between the United States and Germany. Due to the political leverage afforded to Russia by the project, President Donald Trump has accused Germany of being completely dependent on Russian natural gas and has threatened to sanction the German companies involved in the project¹⁷. Regardless of these threats, Germany has shown steadfast support for the completion of the pipeline, insisting that the need to satisfy rising energy demand is worth the risks.

¹³ **South Stream bilateral deals breach EU law, Commission says (2013)**, *EURACTIV*. Available at: <https://www.euractiv.com/section/competition/news/south-stream-bilateral-deals-breach-eu-law-commission-says/> (Accessed July 17, 2019).

¹⁴ **De Maio, G. (2016) A Tale of Two Countries: Italy, Germany, and Russian Gas**, *Brookings*. Available at: https://www.brookings.edu/wp-content/uploads/2016/08/fp_20160818_demaio_tale_of_two_countrie.pdf (Accessed June 2, 2019).

¹⁵ **The TurkStream Pipeline (2019)**, *TurkStream*. Available at: <http://turkstream.info/project/> (Accessed July 8, 2019).

¹⁶ **De Maio, G. (2019) Nord Stream 2: A failed test for EU unity and trans-Atlantic coordination**, *Brookings*. Available at: <https://www.brookings.edu/blog/order-from-chaos/2019/04/22/nord-stream-2-a-failed-test-for-eu-unity-and-trans-atlantic-coordination/> (Accessed: June 2, 2019).

¹⁷ **Diamond, J. (2018) NATO summit: Trump accuses Germany of being a 'captive of Russia'**, *CNN*. Available at: <https://www.cnn.com/2018/07/11/politics/trump-germany-russia-captive-nato/index.html> (Accessed July 17, 2019).

U.S. Natural Gas Strategy in Europe

The United States is in stark opposition to the Nord Stream 2 pipeline for two main reasons. First the U.S. maintains the belief that completion of the pipeline would allow Russia significant leverage over Europe that could be exploited. Second, the U.S. stands to gain a great deal economically if Europe were to turn to American supplies of liquid natural gas (LNG) instead.

The Trump administration views the American natural gas boom as a means to reduce European allies' energy reliance on what are perceived to be rival actors. Given the centrality of European states like Germany and France in NATO, it is a strategic concern of the United States that many European countries rely on Russian natural gas. In order to shift their consumption towards other sources, the U.S. has begun calling on European allies to increase the purchasing of U.S. LNG. This policy is also intended to counter Russia's hybrid warfare strategy and prevent any weakening of the ability of key NATO members to counter Russia, should the need arise. This strategy is bolstered by the acknowledgement of many European countries that relying on only one source of energy is a serious energy security concern, and that it is their interest to begin consuming American gas to maintain a diverse supply of natural gas. Further demonstrating U.S. interests in this matter, the American Ambassador to Germany, Richard Grenell, issued letters to several Germany companies working on the project, warning them of the potential sanctions¹⁸.

While many European countries have a strong interest in having diversified sources of energy, Germany seems well positioned to maintain its course. Thus far, Germany has remained undeterred by threats of sanctions and appears poised to see out the completion of the Nord Stream 2 project. Advocates for the project would say that the benefits outweigh the risks associated with the project. Further investigation, however, will determine the validity of such claims.

¹⁸ Janjevic, D. (2019) US Ambassador Richard Grenell threatens German firms over Russian pipeline, *Deutsche Welle*. Available at: <https://www.dw.com/en/us-ambassador-richard-grenell-threatens-german-firms-over-russian-pipeline/a-47062540> (Accessed June 2, 2019).

Part II: Associated Risks of the Nord Stream 2 Pipeline

Gazprom and Energy Weaponry

Beyond providing Europe with an increased supply of natural gas, the Nord Stream 2 pipeline will have far-reaching strategic implications for the region. Ultimately, Russia will use Gazprom as a tool through which to implement foreign policy and achieve strategic geopolitical ambitions. Russia's control and manipulation of abundant natural gas reserves in order to realize foreign policy goals can be referred to as "energy diplomacy" or "energy weaponry" depending on one's perspective. What is quite clear is that Gazprom and its access to natural gas are utilized by Russia to create diplomatic leverage over its European neighbors. While Europe's growing population is increasing the demand for natural gas from abroad, the debate on where this supply should come from has been ongoing for over a decade. The construction of the Nord Stream 2 pipeline directly from Russia to Germany has amplified this debate. The Nord Stream 2 project poses a series of risks to Europe that can be broken down into a few categories.

Risks Posed by Nord Stream 2

1. Undermining Europe's Efforts to Gain Energy Independence
2. Violating EU Legislation
3. Weakening Longstanding Alliances
4. Normalizing Relations Amid Ongoing Conflict
5. Enabling Hybrid Warfare
6. Aggravating Military Tensions in the Baltic Sea
7. Facilitating Political Corruption
8. Subjecting European Companies to American Sanctions
9. Environmental Risks

10. Threatening Gas Shortages

1. Undermining Europe's Efforts to Gain Energy Independence

Many who criticize Germany's decision to support the Nord Stream Project suspect that Germany will become dependent on Russian natural gas. Germany would argue that North Sea Deposits are depleting, natural gas from alternative sources like the United States or Qatar is more expensive, and both Algeria and Libya are too politically unstable to be reliable partners¹⁹. The completion of Nord Stream 2, however, would grant Moscow stronger leverage for political blackmail over Berlin.

With a combined capacity of 110 bcm per year, it is estimated that Nord Stream 1 and 2 would transmit over 70% of Russia's gas supply to the EU directly into Germany²⁰, which would run counter to the Energy Union's objective of diversifying the source and supply of natural gas²¹. Furthermore, Europe has largely viewed Russian involvement in European affairs with heavier scrutiny following Russia's annexation of Crimea in 2014. While Russia has long been a critical supplier of natural gas to Europe, its role as the dominant supplier is no longer resolute. Alternative suppliers threaten Russia's natural gas dominance, making the completion of Nord Stream 2 even more important for Russian interests.

Through the implementation of Nord Stream 2, Gazprom has already incurred a great deal of investment from companies like Royal Dutch Shell, Austria's OMV, France's Engie, and Germany's

¹⁹ Kamran, G. (2019) Has the EU Managed to Bury the Nord Stream 2?, *Katehon*. Available at: <http://katehon.com/article/has-eu-managed-bury-nord-stream-2> (Accessed June 2, 2019).

²⁰ Hall, J. (2019) Weaponising Energy: Nord Stream 2, *Wavell Room*. Available at: <https://wavellroom.com/2019/01/24/weaponising-energy-nord-stream-2/#easy-footnote-bottom-5-12004> (Accessed June 3, 2019).

²¹ Austrevicius, P. (2016) Nord Stream 2 pipeline would defeat purpose of Energy Union, *The Parliament*. Available at: <https://www.theparliamentmagazine.eu/articles/feature/nord-stream-2-pipeline-would-defeat-purpose-energy-union> (Accessed July 17, 2019).

Uniper and Wintershell²². By encouraging substantial investment, Russia hopes to make the Nord Stream 2 project too important to fail. With so much invested, it is highly unlikely that Germany would look elsewhere to supply its natural gas needs.

2. Violating EU Legislation

Critics of Nord Stream 2 project would argue that the project is directly opposed to the EU's Energy Union Goals which stipulate the need for source and supply diversification²³. Furthermore, the 2009 EU Gas Directive along with competition rules defined in the EU's Third Energy Package require that pipelines not be owned directly by gas suppliers²⁴. In essence, these regulations are intended to:

- a) Prevent network operators from favoring their own energy production and supply companies
- b) Remove conflicts of interest between suppliers and transmission system operators
- c) Ensure that one company cannot fill more than half of the pipeline's capacity

Ultimately, these regulations have only delayed the project. Gazprom has exploited loopholes through which to bypass EU legislation, such as creating a subsidiary company, Nord Stream 2 AG, to complete the pipeline²⁵. Germany has also sought an exception to the rule from the European Commission. Such exceptions were granted for the completion of the first Nord Stream pipeline.

²² Hall, J. (2019) *Weaponising Energy: Nord Stream 2*, *Wavell Room*. Available at: <https://wavellroom.com/2019/01/24/weaponising-energy-nord-stream-2/#easy-footnote-bottom-5-12004> (Accessed June 3, 2019).

²³ Third Energy Package (2015), *European Commission*. Available at: <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation/third-energy-package> (Accessed July 17, 2019).

²⁴ Questions and Answers on the third legislative package for an internal EU gas and electricity market (2011), *European Commission*. Available at: http://europa.eu/rapid/press-release_MEMO-11-125_de.htm?locale=en (Accessed June 2, 2019).

²⁵ Kamran, G. (2019) *Has the EU Managed to Bury the Nord Stream 2?*, *Katehon*. Available at: <http://katehon.com/article/has-eu-managed-bury-nord-stream-2> (Accessed June 2, 2019).

3. Weakening Longstanding Alliances

The debate surrounding the Nord Stream 2 pipeline and Germany's dependence on Russian natural gas has created substantial disagreement between NATO allies, specifically Germany, France, Poland, and the Baltic States. With the completed pipeline, Poland will lose out on transit fees for sending Russian gas to Europe²⁶. Some allies have also questioned why Germany supports Nord Stream 2 but was opposed to continuation of the South Stream project. Disagreements over potential repercussions resulting from the pipeline's completion have left countries like Estonia, Latvia, Lithuania, and Poland questioning Germany's commitment to supporting their longstanding alliance. Some European politicians have accused Germany of addressing energy needs at the expense of its allies. The controversy also includes parties affected by Russian occupation – Ukraine and Georgia – which are both part of the EU's Eastern Partnership initiative. Succinctly stated, infighting amongst European and NATO allies is beneficial to Russia.

4. Normalizing Relations Amid Ongoing Conflict

Russian President Vladimir Putin no longer hides the fact that Russia has annexed parts of Ukraine and Georgia. Many have questioned Germany's decision to pursue an additional direct pipeline from a country that is engaged in ongoing conflict with Ukraine.

Furthermore, one key purpose of the Nord Stream 2 pipeline is to deprive Ukraine of its position as a gas transit hub. By completing the pipeline, Russia could send an additional 55 billion cubic meters to central Europe without passing through Ukraine²⁷, thus benefiting Russia both financially and strategically. By circumventing Ukraine, the Nord Stream 2 pipeline acts as a method of hybrid warfare, further explaining why Germany has received heavy criticism for supporting such a project.

²⁶ Dempsey, J. (2016) Germany Dump Nord Stream 2, Carnegie Europe. Available at: <https://carnegieeurope.eu/strategiceurope/62567> (Accessed September 3, 2019).

²⁷ The Pipeline at a Glance (2019), Nord Stream 2. Available at: <https://www.nord-stream2.com/en/pdf/document/198/> (Accessed: June 2, 2019).

5. Enabling Hybrid Warfare

For many critics of Gazprom, supporting the Nord Stream 2 project is equated with supporting Russia's hybrid warfare efforts in Europe. Rather than engage in power competition directly, Russia has deployed several different methods of countering its rivals, such as cyber warfare or election tampering. Russia has already used covert military operations to advance aspirations in Ukraine. Geopolitical leveraging of energy is another tool at Moscow's disposal. Through the direct transit of natural gas from Russia to Germany, Nord Stream 2 will limit the flow of gas through Ukraine, effectively using Gazprom to weaken its opponent and to achieve strategic and political goals without military operations.

6. Aggravating Military Tensions in the Baltic Sea

The creation of Nord Stream 2 will also involve military considerations. Russia's \$12 Billion investment would provide them with an excuse to increase naval activity in the Baltic Sea to protect the pipeline²⁸. Consequently, increased Russian naval activity in the Baltic Sea would further stress the already troubled relationships between Russia and the Baltic States among others. Furthermore, increased Russian naval activity in the Baltic Sea is likely provoke a response from NATO.

NATO members also fear that Russia could use the opportunity to deploy intelligence gathering capabilities such as listening and monitoring technology in the Baltic Sea²⁹. This fear is not unsubstantiated given that Kaliningrad, Russia's European enclave bordering the Baltic Sea is situated between two NATO allies, Lithuania and Poland. Kaliningrad's strategic location allows Russia to place military equipment close to the center of Europe. Tactically placed observation technology would could allow Russia to gain valuable information on its eastern European neighbors.

²⁸ Nord Stream 2 (2019), Gazprom. Available at: <http://www.gazprom.com/projects/nord-stream2/> (Accessed July 17, 2019).

²⁹ Hall, J. (2019) Weaponising Energy: Nord Stream 2, *Wavell Room*. Available at: <https://wavellroom.com/2019/01/24/weaponising-energy-nord-stream-2/#easy-footnote-bottom-5-12004> (Accessed June 3, 2019).

7. Facilitating Political Corruption

It is well understood that Gazprom CEO Alexei Miller maintains strong ties with Russian President Vladimir Putin³⁰ and that the actions of Gazprom are largely controlled by the Russian government. Companies in cooperation with Gazprom are at a high risk of becoming complicit in corruption-related activities. Gazprom has been accused of three forms of corruption³¹:

- a) Transfer pricing - regularly altering pricing agreements with Ukrainian gas companies.
- b) Asset stripping - selling of assets without regard for company's future.
- c) Kickbacks - illegal payment intended as compensation for favorable treatment or other improper services.

Additionally, Gazprom's notable lack of transparency and alleged money laundering schemes creates a precarious atmosphere through which to conduct business. While Gazprom may possess the largest natural gas reserves on the planet³², it lags behind the United States in exporting liquid natural gas (LNG)³³, and is accused of employing corrupt means in order to maintain its status as a dominant natural gas supplier.

8. Subjecting European Companies to American Sanctions

As previously mentioned, the United States is adamantly opposed to Nord Stream 2 and has threatened sanctions against companies involved in the project. Simultaneously, the United States has a vested interest in selling its own liquid natural gas to European countries. Consequently, Russia is attempting to lock down the European gas market before U.S. companies have a chance

³⁰ **Putin's Inner Circle in Turmoil Following Corruption Scandal (2018)**, *Warsaw Institute*. Available at: <https://warsawinstitute.org/putins-inner-circle-turmoil-following-corruption-scandal/> (Accessed June 2, 2019).

³¹ **Aslund, A. (2008) Russia Energy and the European Union: Perspectives on Gazprom**, *Peterson Institute for International Economics*. Available at: <https://www.piie.com/publications/papers/aslund0508.pdf> (Accessed June 2, 2019).

³² **About Gazprom (2019)**, *Gazprom*. Available at: <http://www.gazprom.com/about/> (Accessed June 2, 2019).

³³ **Statista (2019), Major liquefied natural gas exporting countries in 2018**. Available at <https://www.statista.com/statistics/274528/major-exporting-countries-of-lng/> (Accessed September 17, 2019).

to supplant Russian supplies³⁴. If carried out, the sanctions proposed by the United States could damage broader U.S.-EU relations.

9. Exacerbating Environmental Risks

The controversy over Nord Stream 2 also highlights a considerable environmental risk. Europe as a whole is moving toward becoming a more energy efficient continent by reducing dependency on coal for its energy needs. A relatively cheap and plentiful alternative to coal is natural gas. Thus, the controversy surrounding Nord Stream 2 should not discourage Europeans from the pursuit of more favorable energy sources. Alternatively, states should seek to diversify access to clean energy sources. Maintaining the status quo could have severe impacts on the environment in the long-term.

10. Threatening Gas Shortages

Lastly, there is the threat of gas shortages. Russia has cut off its supply of natural gas to Ukraine on a number of occasions due to payment issues and gas pricing³⁵. The legality of who owes what to whom has been the subject of heated debate between Gazprom and Naftogaz for years. Regardless of fault, the reduction of gas flows from Russia has had serious tangible consequences. In the winter of 2009, 18 European nations experienced a two-week drop in gas supplies in after Gazprom shut down Ukrainian transit³⁶. Representatives of Gazprom argue that the gas reductions were intended to target Ukraine, yet the chain of events had far-reaching effects nonetheless. There are growing fears that Russia could take similar action in the future and would have ample ability to do so with

³⁴ Hall, J. (2019) *Weaponising Energy: Nord Stream 2*, *Wavell Room*. Available at: <https://wavellroom.com/2019/01/24/weaponising-energy-nord-stream-2/#easy-footnote-bottom-5-12004> (Accessed June 3, 2019).

³⁵ Martin, W. (2015) *Russia just froze Ukraine's gas supply in what could be really bad news for Europe*, *Business Insider*. Available at: <https://www.businessinsider.com/gazprom-cuts-off-gas-supplies-to-ukraine-2015-11> (Accessed June 3, 2019).

³⁶ Mirovalev, M. (2019) *Russian gas pipeline divides the West and 'punishes' Ukraine*, *Al Jazeera*. Available at: <https://www.aljazeera.com/ajimpact/russian-gas-pipeline-divides-west-punishes-ukraine-190604115459499.html> (Accessed July 1, 2019).

control over the flow of an additional 55 billion cubic meters of natural gas. While alternative sources of natural gas do exist, the time it could take to arrange a secondary supply may be costly. Furthermore, some European countries have limited natural gas reserves that would prove insufficient during an extended energy crisis. For many in Europe whose homes rely on natural gas for heating, this issue can be a matter of life and death.

Is Russian Leverage Weakening?

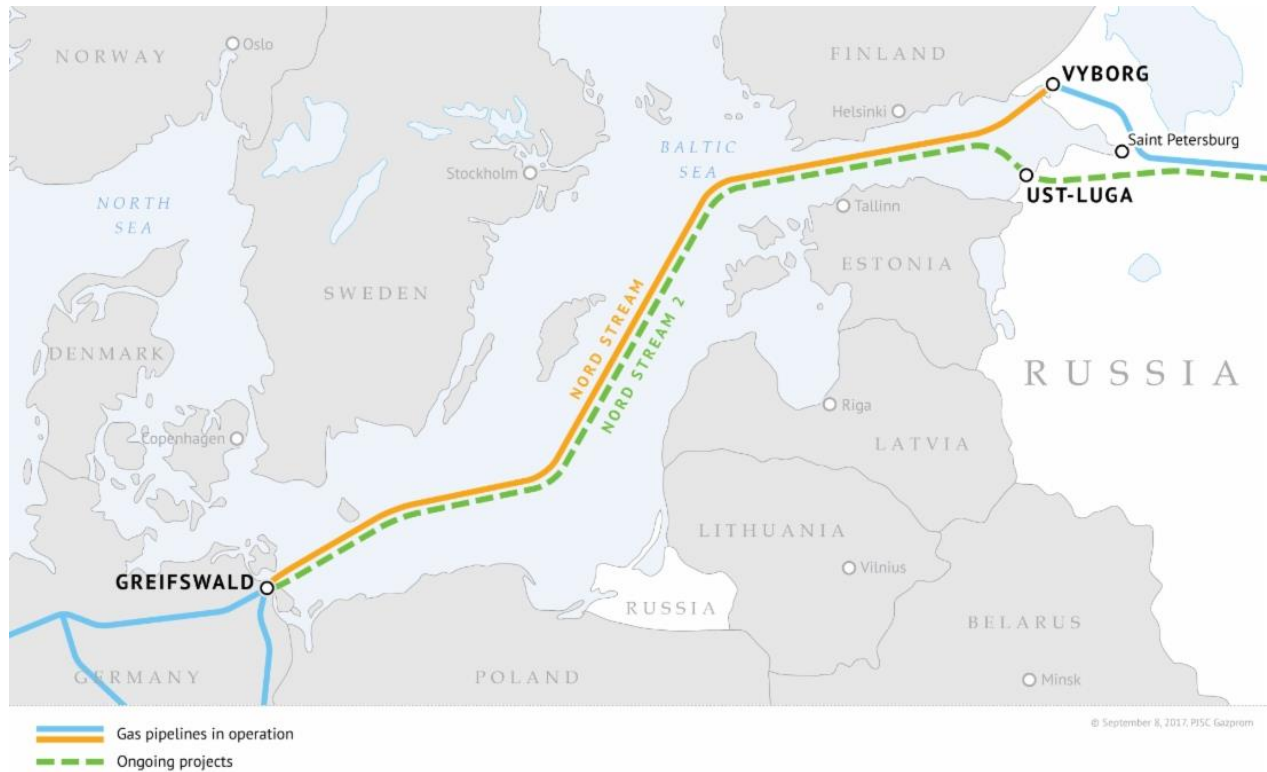
Europe's increasing population may be raising the demand for clean energy, yet this does not necessarily guarantee the continuation of Russian dominance as an energy supplier. Alternative sources of gas from the U.S. and Turkish companies will curb some of this demand. Furthermore, Russia's actions in Ukraine and elsewhere on the globe have given many states in Europe a justification for sourcing their natural gas needs elsewhere. It appears that tables have turned, leaving Russia dependent on European consumers of natural gas. Failure to complete the Nord Stream 2 pipeline would mark a substantial loss for Russia and Gazprom.

Conclusion

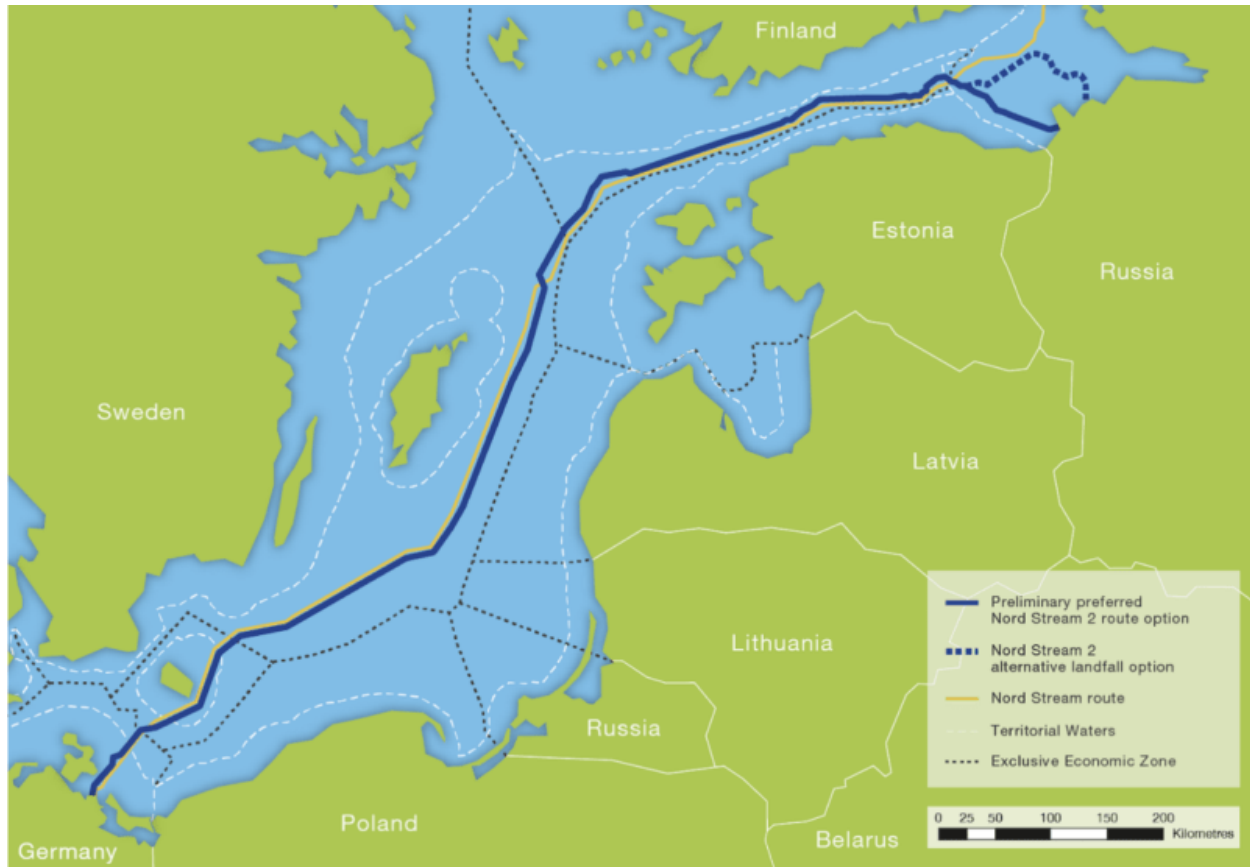
Competition for resources has always been a key factor in geopolitical conflict. The context in which Nord Stream 2 is being constructed, however, has created a situation that includes significant risk and opportunity. Ultimately, the controversy surrounding the pipeline is due to the contentious nature of the source of the natural gas, Russia. Gazprom's record of corruption along with Russia's military involvement in Crimea have made European countries far more skeptical of the purpose behind the pipeline. It should also be noted that both Russia and the United States are seeking to strengthen their strategic leverage through the sale of natural gas. European countries are well aware of the need to diversify sources of energy supply, understanding that the simplest and cheapest option also comes at the cost of significant political risk. No option for European natural gas customers seems without issue. Europe could benefit from diversifying its energy supply and purchasing LNG from the United States, yet the Nord Stream 2 project is already well underway, and retrogression would come at great cost to the companies involved. Moreover, the threat of U.S. sanctions may have a counterproductive effect on negotiations between Washington and Berlin.

Regardless of one's opinion of the Nord Stream 2 pipeline, what remains certain is that the completed project will not be without consequence. While Nord Stream 2 will bring in a much-needed supply of natural gas to the heart of Europe, the project also increases dependency on Russian gas, enables the use of natural gas as political leverage, aggravates existing tensions, and risks exacerbating the ongoing conflict in Ukraine.

Figures



Map 1: Nord Stream and Nord Stream 2 (Available at: <http://www.gazprom.com/projects/nord-stream/>)



**Map 2: Territorial waters of the Baltic Sea (Available at:
<http://www.gazpromexport.ru/en/projects/5/>)**



Map 2: Turkstream (Available at: stream/http://www.gazprom.com/projects/turk-stream/)



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