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## **NORD STREAM 2**

- **ANALYSIS**  
East–West Divides and Nord Stream 2 2  
By Maria Shagina, University of Zurich
- **ANALYSIS**  
Unpacking the German Debate on Nord Stream 2 5  
By Robert Stüwe, University of Bonn
- **MAP**  
The Nord Stream 1 and 2 Pipelines 15

## East–West Divides and Nord Stream 2

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DOI: 10.3929/ethz-b-000476769

### Abstract

The contentious Nord Stream 2 pipeline has revived the fundamental differences of opinion that divided the allies during the Cold War and created new inter-European tensions. A closer look at the crises in the Western alliance occasioned by the Druzhba oil pipeline in the 1960s and the Yamal–Urengoi gas pipeline in the 1980s reveals the continuity of disagreements between Europe and the US, as well as showing similar patterns of weaponizing Western technology and sanctions. If history is any guide, lessons from the past might provide an indication of how to resolve the ongoing crisis over Nord Stream 2.

### Controlling East–West Trade

Since 1949, the West has sought to control the flow of technology to the Eastern bloc. The Coordinating Committee for Multilateral Export Controls (CoCom), an informal non-treaty organization established after World War II, became the main venue for the Western allies to balance economic benefits and security risks within East–West trade. Cooperation under CoCom was largely driven by Washington, while the control process was bound up with American national security. An embargo list was drawn up to deny or delay the export of dual-use goods to the East on national security grounds. Oil and gas equipment and technology was a crucial element of this intense power struggle.

At that time, there was already a tendency toward the weaponization of export controls. Although the Western allies agreed about the need for multilateral coordination of national security export controls, there were profound disagreements as to the scope of—and criteria for—these controls. The West Europeans viewed the CoCom embargo list in a narrow strategic sense: it should be applied only to those items with a direct military application for the Soviet Union. The US, by contrast, considered that the scope of export controls should be much wider, including any items that would significantly contribute to Soviet economic recovery (Mastanduno 1985, p. 510). These diverging views were particularly salient during the construction of two Soviet energy projects: the Druzhba oil pipeline and the Yamal–Urengoi gas pipeline.

In 1962, witnessing the spectacular rise in Soviet oil production, the US was determined to halt any technology exports to Moscow for the construction of the Druzhba oil pipeline, which would run from Western Siberia to Europe. Since Washington viewed trade between East and West with great suspicion, it pushed for the introduction of trade restrictions on large-diameter pipes and pipeline equipment. The embargo triggered major debates in the European Economic Com-

munity and NATO, where the British, French, and Italian administrations clashed with their US counterpart (Cantoni 2017, p. 135). U.S.–West German relations became particularly complicated after Washington approved grain sales to the Soviets and overruled the German proposal of a wheat embargo. As West Germany had little room for maneuver in foreign policy at that time, Bonn reluctantly joined the embargo and cancelled its lucrative contracts with major steel companies. The overall impact of the oil embargo was mixed. The Druzhba pipeline was delayed, but the Soviets managed to procure pipes from Britain, Sweden, and Japan, defying Washington (Stent 1982, p. 125). The 1962 embargo marked the politicization of economic ties and laid the foundations for divisions between the US and Europe, which would only get worse, as subsequent episodes of sanctions illustrate.

In the 1970s, the Nixon and Ford administrations pursued the strategy of détente, causing trade expansion to become entangled with the strategic embargo. U.S. policy shifted from trade denial to linkage: economic interdependence was believed to be the best tool of political leverage for influencing Soviet behavior. This shift in the U.S.' orientation had a significant impact on the calculations of other Western allies, who also sought to liberalize their trade ties with the Soviets. During that period, U.S. requests for CoCom exceptions grew steadily, from only 2 in 1962 to 1,050 in 1978. At the same time, conflicts between the allies increased, especially when the US denied requests for exceptions from others or significantly delayed approvals for the re-export of American-origin technology. Such behavior fostered a perception among Western Europeans that the US was abusing its dominant position to advance its own economic interests. As a result, Washington found it increasingly difficult to maintain multilateral coordination and achieve compliance (Mastanduno 1988, p. 261).

In the 1980s, the abandonment of détente led to yet another shift in U.S. policy on export controls.

In response to the Soviet invasion of Afghanistan in December 1979, the Carter administration imposed a grain embargo and tightened restrictions on the export of advanced technology. Under the Reagan administration, U.S. politics became heavily geared toward security considerations. The US sought to tighten CoCom regulations, but the Europeans were wary of following suit. The allies did not impose any trade restrictions, but promised not to circumvent the standing CoCom embargo list (Blinken 1987, p. 90).

In response to Poland's declaration of martial law in 1981, the Reagan administration announced the introduction of economic sanctions against the Soviet Union. The Europeans failed to find clear evidence of Soviet involvement in the Polish crackdown and viewed the American measures as a pretext for targeting the Yamal–Urengoi gas pipeline. Often dubbed a “gas-for-pipes” deal, the gas pipeline aimed to supply Siberian gas to Europe in exchange for \$15 billion worth of heavy machinery and large-diameter steel pipes. The Europeans hoped this would ease high unemployment rates and diminish their energy dependency on the Middle East. Washington, meanwhile, saw it through a security lens: being supplied with Soviet energy made Europe vulnerable to a potential cut-off. The U.S.' primary concerns were similar to those voiced in 1962: any hard currency earned from the gas deal would generate financial support for the Soviet military (Blinken 1987, p. 60).

Unable to convince its European allies to abandon the project, the Reagan administration imposed extraterritorial sanctions on European companies involved in the provision of oil and gas technology. This round of sanctions was imposed under the Export Administration Act of 1979. The Act allowed the US to control the export of American goods and technology for reasons of national security and for considerations of foreign policy. Yet the move seemed to contradict the spirit of the law—namely, to address exceptional situations in American trade policy. Many legal experts warned that the national security provision was used as a pretext to justify extraterritorial sanctions (Blinken 1987, p. 115). The measures were strengthened by their retroactive effect: they voided valid contracts, leaving dozens of European companies blacklisted by the US.

Yet as the US adopted the policy of trade denial, there was a notable exception: agriculture. To cater to American farmers, the Reagan administration excluded grain exports from the restrictions. With agriculture exempted, the US bore much smaller relative costs than did its Western European allies. This unwillingness of the US to share the costs of its own sanctions triggered unexpected resistance from European allies, which ultimately predetermined the failure of sanctions (Martin 1992). The Reagan administration was compelled to

scrap the pipeline sanctions; as a face-saving solution, it was announced that the US and Europe would conduct studies about overall economic strategy toward the Soviet Union. However, these studies “did little to advance the debate in the West on the issue of energy dependence or to furnish meaningful guidelines for the future” (Blinken 1987, p. 121). Unsurprisingly, three decades later, these divisive issues have sparked another conflict within the alliance.

### Nord Stream 2

This time, the conflict revolves around the Nord Stream 2 pipeline, a Gazprom-led project that aims to bring 55 billion cubic meters of natural gas from the Yamal Peninsula to Germany. With Nord Stream 2, U.S. rhetoric about European energy security made a loud comeback, reviving transatlantic tensions and creating new inter-European divisions. The new lines of contention run through the former Soviet states and EU institutions. Central and Eastern European countries, in particular Poland and Ukraine, [view the geostrategic project as an existential threat to Europe's energy security and Ukraine's territorial integrity](#). The European Commission and the European Parliament have been similarly vocal in expressing opposition to Nord Stream 2, as the project does not comply with the EU's Third Energy Package, which seeks to liberalize EU energy rules through unbundling, third-party access, and transparent tariffs.

Since 2014, Washington and Brussels have successfully coordinated their sanctions responses to Russia. Due to Europe's considerable imports of Russian gas, there was a tacit agreement between the allies to exclude Russia's gas sector from the restrictions. In 2017, however, the coordination of measures came to a halt, while the gap between the US and EU sanctions widened considerably. With a near-unanimous vote, the U.S. Congress passed the Countering America's Adversaries Through Sanctions Act (CAATSA), which broadened and tightened the existing sanctions on Russia. The extraterritorial provisions targeted significant investments in the construction and modernization of Russian energy export pipelines, including Nord Stream 2. The latter was believed to have a detrimental impact on the EU's energy security and a destabilizing effect on Ukraine. The outcry from the German and Austrian governments was reminiscent of the 1980s. The German and Austrian foreign ministers threatened to use counter-sanctions if the pipeline was targeted. This diplomatic pressure seemed to work: the US included a coordination mechanism with allies and a grandfathering clause in the legislation, effectively excluding the pipeline from the sanctions.

In 2019, the U.S. Congress renewed its attempt to halt the pipeline. This time, the sanctions went beyond

oil and gas technology to target the shipping industry. As part of the U.S. National Defense Authorization Act (NDAA) 2020, the Protecting Europe's Energy Security Act (PEESA) sanctions targeted pipe-laying vessels involved in the construction of Nord Stream 2. Insurance, reinsurance, and underwriting services for such vessels were prohibited. Given the dominance of the U.S. dollar, no company with a US nexus would want to provide those services and expose itself to U.S. sanctions. As a result, the sanctions threats were sufficient to deter Western companies, including the Swiss-Dutch pipe-laying company *Allseas*, from participating in the project. By December 2019, construction was de facto suspended, but Russia was determined to seek alternative vessels and contractors to complete the remaining section of the pipeline.

Moscow's attempts to complete construction caused the US to renew its sanctions offensive. For example, the U.S. State Department decided to remove the grandfathering clause from the CAATSA guidance, exposing investments and agreements regarding the provision of goods and technology that were made prior to August 2017. A group of U.S. senators sent a threatening letter to the German port of Sassnitz-Mukran, the logistical hub of the Nord Stream 2 pipeline, warning that there would be "crushing legal and economic sanctions" if the port's managers continued to support the project. The letter had an explosive effect: instead of deterring the Germans, it outraged and united them across the political spectrum. German officials were determined to stick to the project; some politicians even called for counter-sanctions to be issued. Despite differences of opinion as to the necessity of the controversial pipeline, Brussels and Berlin were united in their protests against U.S. extraterritorial sanctions as an illegal instrument under international law.

The poisoning of Russian opposition leader Alexey Navalny has upset the configuration of the pipeline's supports and opponents once again. Although the German government had been adamant that Nord Stream 2 is a pure "commercial project," in the wake of the Navalny affair Berlin began to reconsider its position. Facing increasing domestic and international calls to suspend the project, the German government for the first time acknowledged the geopolitical implications of the pipeline. German chancellor Angela Merkel said, through her spokesman, that "it's wrong to rule anything out." German Foreign Minister Heiko Maas echoed that sentiment, saying that the Kremlin's reaction to Navalny's poisoning might determine whether Germany would continue to back the pipeline. As Navalny recovered, pressure to halt the pipeline dissipated. The Merkel government's attempts to resolve the issue at the European level proved to be futile. EU High Representative Josep

Borrell shrugged off responsibility for halting the project: "Once again, this is something that is outside of the possibilities of the European institutions. [...] But it is something that is up to the Member States that have been pushing for this infrastructure to be built." With that, Berlin retreated to its status quo, the position that Nord Stream 2 and the Navalny case should be decoupled, deepening rifts within the EU.

Meanwhile, with strong bipartisan support, the US expanded its sanctions, going beyond pipe-laying vessels. As part of the NDAA 2021, the Protecting Europe's Energy Security Clarifying Act (PEESCA) included penalties on parties involved in a wide range of pipe-laying activities, targeting insurance and certification companies as well as services for technology upgrades. The amended provisions were retroactive to the date of the NDAA 2020's enactment. Despite Washington's hawkish rhetoric on the pipeline, the legislation included a number of mitigating provisions. For example, any government entity from the EU member states, Norway, Switzerland, or the UK that was not operating as a business enterprise was exempted from the sanctions. PEESCA also required consultations with the Western allies before the imposition of the outlined measures.

With the election of the Biden administration, repairing transatlantic relations has become the main priority for Washington. Although Nord Stream 2 is still considered "a bad deal for Europe," imposing extraterritorial sanctions is no longer seen as an acceptable solution. While support for Europe's and Ukraine's energy security remains a top priority for the US, leading with diplomacy instead of coercion is seen as the only way forward.

In an unexpected historical twist, the same Antony Blinken who warned about the dangers of sanctioning the allies over the Siberian pipeline has become the key figure for resolving the ongoing alliance crisis over Nord Stream 2. In the spirit of Blinken's book *Ally versus Ally*, the Biden administration signaled to Germany that the US is willing to drop the sanctions in exchange for a package deal. The deal should include assurances from Germany about Europe's plans to reduce its energy dependence on Russian gas and to keep Ukraine connected to European gas infrastructure. It is unclear whether the offered deal will assuage U.S. concerns about European energy security, but it is certain that this administration views extraterritorial sanctions as a last resort for addressing the fundamental differences between the allies. As Blinken noted three decades ago, "by promoting a more harmonious alliance, rather than one divided over an issue as fundamental as East-West trade relations, the West will be in a better position to meet the challenges posed by its adversaries" (Blinken 1987, p. 157). It remains to be seen which lessons the allies will draw from past mistakes: whether the US and

EU can fundamentally agree on what constitutes energy dependency, whether Germany is willing to abandon its unilateral energy policy and shift it to the European level,

and how the allies can ensure that the interests of Central European countries and Ukraine are not circumvented.

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## ANALYSIS

### Unpacking the German Debate on Nord Stream 2

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DOI: 10.3929/ethz-b-000476769

#### **Abstract**

The planned Nord Stream 2 (NS2) gas pipeline connecting Germany and Russia is a controversial issue in German political discourse. Even though criticism of the climate impact and security implications of proceeding with Nord Stream 2 tend to dominate the debate, vested interests in government and business have so far successfully defended the project. The poisoning of Alexei Navalny has not led the German government to block the pipeline. However, the case had a substantial discursive impact in Germany, as it made the media more sensitive to Ukraine’s security interests and to climate policy considerations. On the latter point, two controversies in early 2021 serve as cases in point: first, the revelation concerning the German government’s offer to import LNG from the US on preferential terms if the US would repeal sanctions; and second, the public outcry over Mecklenburg-Vorpommern’s controversial state “Climate Foundation,” which has been accused of greenwashing the pipeline. Looking ahead, this article holds that Russia and Germany need to look beyond Nord Stream 2 to the hydrogen trade as a potential point of common interest, at least in a world where Russian troops have left Ukraine.

#### **A Brief History of Nord Stream 2**

The plans to build the natural gas pipeline Nord Stream 2 (NS2) across the Baltic Sea, which are progressing toward

completion, have grown into a matter of enormous political contention between Germany, on the one hand, and the EU institutions, Ukraine, and the United States, on

the other. Yet NS2 will first and foremost be a direct link between Germany and Russia. If completed, NS2 will stretch from Vyborg in the St. Petersburg region to the German coastal resort Lubmin, a distance of about 1,230 kilometers. Two parallel pipelines on the seabed will carry up to 55 billion cubic meters (27.5 billion cubic meters per pipeline) of natural gas per year.

The Memorandum of Understanding that launched the project was signed in June 2015, more than a year after Russia's annexation of Crimea, by the company's shareholders: Gazprom (Russia), OMV (Austria), ENGIE (France), Shell (the Netherlands and the United Kingdom), and Wintershall and Uniper (Germany). In 2016, following a dispute with the Polish competition law watchdog—whose approval was needed to uphold the joint venture between Gazprom and its partners, some of which do business in Poland—Gazprom became the exclusive shareholder in NS2, with the remaining firms signing on as investors (Seddon 2016).

Gas relations between Germany and Russia have a long history, dating back to an agreement in the 1970s to construct the first major gas pipeline (see, for example, Bösch 2013). Over the years, energy relations have expanded. Germany has become dependent on Russia for up to 40 percent of its gas imports (Lokshin 2018). NS2's annual capacity alone would meet more than half of Germany's gas consumption needs (Neumann et al. 2018, p. 592).

Pipelines are the key infrastructure for gas imports to Germany and the rest of the EU. The most notable of these are Transgas, built in the 1970s; Yamal, built in the 1990s; and the first Baltic Sea link, Nord Stream 1 (NS1), finalized in 2011. Even though pipeline projects—particularly Russian pipelines—are no stranger to controversy, as the U.S. pipe embargo initiated by then-President Ronald Reagan in 1981 shows (Perović 2017, p. 27), the political battle around NS2 stands out. Like NS1, it increases Russia's capacity to export gas without pumping it through a transit country—such as Poland, Belarus, or Ukraine—first. Yet NS2 has become a much more controversial project, for two main reasons: the geopolitical context in the wake of Russia's annexation of Crimea; and the opposition of new players, especially Ukraine and Poland, with backing from the United States, the European Commission, the European Parliament, and 15 EU member states.

While Russia considers the project important mainly for the political reason that it will ease dependence on Ukraine, the German government—along with the German Association of Energy and Water Industries (BDEW)—tends to see the pipeline primarily as an economic project (BDEW 2017). Thus, for Germany, the political nature of NS2 is less clear. This paper will analyze the German debate on the project, considering the dominant arguments around Nord Stream 2 in political and media discourse.

## Nord Stream 2 as an Economic and Strategic Project for Russia

Even though Russian Foreign Minister Sergei Lavrov has repeatedly highlighted the economic and commercial character of the project (see, for example, Sputnik News 2016), there is ample reason to assume that NS2—along with its Black Sea counterpart Turkish Stream—is a political tool to make Ukraine unnecessary to transit Russian gas, which would undermine Ukraine's bargaining position vis-à-vis Russia in the military conflict between the two countries. Lavrov himself politicized NS2 in 2020 by characterizing the pipeline as a “matter of honor” (TASS 2020) for Germany in the face of efforts by the United States to publicly humiliate it. In this way, Lavrov subtly sought to fuel the traditional anti-American sentiment in Germany that was evoked by U.S. sanctions against NS2.

German and Central European political scientists generally agree that the Kremlin has a second strategic objective for NS2: to make German industry and politicians dependent on Russian businesses close to President Vladimir Putin (Umland 2020, p. 297; Meister 2019; Umbach 2018). Prominent Russian experts, however, deny and seek to disprove such claims, arguing that the primary purpose of NS2 is simply to meet Western economies' demand for gas and condemning the U.S. and Polish governments for politicizing NS2 (e.g., Zhiznin; Timokhov 2019, p. 26).

Yet whether NS2 is seen as a political project or an economic one, it certainly serves as a vehicle for executing Russia's transit diversification strategy away from Ukraine and Poland (Yafimava 2011). Moreover, as Gazprom is a state-controlled export monopoly, I argue that political and economic interests have to be understood as intertwined.

## Nord Stream 2: Economic Pros and Cons in the German Debate

In Germany, the debate on importing natural gas from Russia has various dimensions. What first comes to mind is the economic case on which the shareholder, Gazprom, and its fellow investors ENGIE, OMV, Shell, Wintershall, and Uniper have built the project from the beginning. This narrative holds that increasing the supply of gas to Germany would make it possible to reduce prices for industrial consumers and households, allowing Germany to further diversify its gas imports. Presently, deliveries come from the Netherlands (which will stop production in 2022), Norway, and Algeria, as well as via Liquefied Natural Gas (LNG) ships from Qatar, Nigeria, the United States, and Australia. This broad array of import sources is due to the status of the European internal gas market as a buyer's market with a high level of connectivity, which has been facilitated by the implementation of projects within the EU's energy union strategy for political and market integration, adopted in 2015 (ZEI Monitor 2014–2019).

Given this point of departure, it is hardly surprising that the German government and NS2 lobbyists promoted NS2 chiefly as an economic enterprise that would ease the country's planned halt of nuclear power generation in 2022 and planned coal phase-out in 2036. Even though German Chancellor Angela Merkel conceded the political implications of NS2 in 2018 (Ballin, Kersting and Stratmann 2018), she always returns to her "commercial-only" narrative, as for instance in the famous annual summer press conference in Berlin (Pancevski 2020).

Part of the economic case for NS2 is that the pipeline may help guarantee energy security until solar, wind, and hydrogen power take over—an argument often echoed by the economics section of the *Frankfurter Allgemeine* (Záboji 2020). A meta-study carried out by the Institute of Energy Economics (EWI) at the University of Cologne (Scharf, Arnold, and Lencz 2021) reveals the complexity of making demand forecasts for Germany for the medium to long term:

- a) In scenarios where German greenhouse gas (GHG) emissions are reduced by up to 70 percent by 2030 compared to 1990 levels (the German 2030 target is 55 percent), the effect on natural gas demand is not clear; on average across the scenarios, natural gas demand remains roughly at current levels, depending on the extent to which coal/oil is replaced by natural gas.
- b) In scenarios that reduce GHG emissions more than 70 percent compared to 1990 (the German 2050 target is between 80 percent and 95 percent), natural gas consumption is projected to decline significantly.
- c) Only scenarios that entail large-scale application of carbon capture storage technology predict constant natural gas demand while meeting long-term climate goals. Media reports that raise questions about the availability of sufficient green hydrogen to replace natural gas entirely could support the view that there will be stable gas demand (Stratmann 2021).

These scenarios rarely appear in Germany's media discourse, not least because key NS2 proponents consider the pipeline essential to meeting an alleged jump in demand for gas and counterbalancing the decline in EU production (Schäfer, Mehren, and Seele 2018).

Instead of discussing such evidence-based scenarios, policymakers and industry representatives supportive of NS2 tend to echo those experts—like Manuel Frondel from the RWI-Leibniz Institute for Economic Research—who underline the need for NS2 as part of the transition to renewable energy (Koch 2021). Indeed, the most widespread justification for the project is that gas is a "general bridge fuel," as Andreas Kuhlmann of the German Energy Agency (dena) contends (Kloth 2021a). The International Energy Agency makes a similar argument (IEA 2020), a fact that gives this argument a higher degree of authority than if it had been limited to pipeline proponents.

The "bridge fuel" argument as it relates to NS2 and natural gas is most prominently disputed by Claudia Kemfert, the head of the energy department at the German Institute for Economic Research (DIW Berlin), who contends that it instead impedes the expansion of renewable energies (Kloth 2021b). Pushing back on those who hype NS2 as a lifeline to Germany's *Energie-wende*, DIW Berlin argues that natural gas is no longer needed to secure the energy transition, seeing it as inferior to cheaper coal in the short term and to a combination of renewable energies and storage technologies in the long term (Neumann et al. 2018, p. 596).

Environmental pressure groups support Kemfert's point. The WWF and NABU, for instance, have warned that the pipeline's planned operational life of 50 years contradicts the goals of the Paris Climate Agreement and has the potential to negatively impact the fragile biodiversity of the Baltic Sea (Bauchmüller 2018). In the media, climate economists and environmentalists' political objections and concerns have received more extensive coverage in center-left outlets such as the national daily *Süddeutsche Zeitung* (Bauchmüller 2021; Burghardt 2021; von Eichhorn 2021; Burghardt 2018; Götze and Kozyreva 2017) and *Deutschlandfunk Radio* (Höhne 2020; Kemfert 2019; Götze 2017; Haselmann 2017) than in the centrist conservative *Frankfurter Allgemeine* (Mihm 2018; Wieduwilt 2018; Müßgens 2017; Kafsack 2016), which has predominantly run brief reports on the legal action being taken by environmentalists. However, it took until 2020, when the Mecklenburg-Vorpommern state government decided to greenwash NS2 by establishing a "climate foundation" that would supply construction material for the pipeline, for climate-related arguments to become mainstream.

Another popular argument for NS2 is that halting the pipeline would be fatal to Germany's economic welfare, as it would artificially reduce the supply of inexpensive pipeline gas before alternatives are available. This would lead consumers' gas and electricity prices to skyrocket, causing job losses. This argument—put forward by Oliver Hermes, President of the German Eastern Business Association Ostausschuss (2021)—disregards the fact that Nord Stream 2 will likely divert existing Russian gas volumes from the Ukraine transit corridor to the Baltic Sea in order to supply the European market, even though NS2 would also tap a new Russian source: the gas field Bovanenkovo in Russia's Yamal Peninsula, which contains an enormous 4.9 trillion cubic meters of gas reserves.

According to Marc-Oliver Bettzüge, Director of the Institute of Energy Economics (EWI) at the University of Cologne, existing import capacity will likely be sufficient to meet gas demand in the EU (Bettzüge 2020). Thus, NS2 is not of existential economic importance to either Germany or Europe. Nor does it pose an existential risk

to the security of German supply, as the European Court of Justice will likely limit the maximum capacity of connecting pipelines such as EUGAL, just as it did by capping Gazprom's share of Nord Stream 1's onshore gas link, OPAL (General Court of the EU 2020). Therefore, the Russian energy monopoly will struggle to create a one-sided economic dependency to the detriment of Germany by flooding the market. As for short-term supply security, it is quite striking that gas sources within the EU are completely neglected by cheerleaders and opponents of NS2 alike. The German debate contains virtually no discussion of tapping gas fields in the Eastern Mediterranean (eg., Cyprus) or in Romania's Exclusive Economic Zone in the Black Sea. This is particularly odd considering that Romania might replace the Netherlands as the EU's largest natural gas exporter from 2025 if the Neptune offshore field, with a volume of 42 to 84 billion cubic meters, comes on stream as planned (Elliott 2021).

### Justifying the Project Despite Political Tensions

Despite rising political tensions, numerous political and business stakeholders in Germany continue to stress the project's economic nature. This is surprising for two reasons. First, Russia has long used the gas tap to exert political pressure, including cutting off supplies to Ukraine in 2006 and 2009 for nonpayment of debts. Second, the Kremlin has displayed an aggressive posture beyond Russian borders in recent years. It has intervened covertly in Ukraine, conducted cyberattacks on the Bundestag, engaged in the war in Syria, supported far-right parties in the EU, and carried out assassinations in the UK and Germany. This highly problematic foreign policy track record has prompted journalists to investigate the motives of the NS2's key stakeholders. Why do they continue to support the project?

Former Chancellor Gerhard Schröder, the chairman of the board of Nord Stream AG, has been one of the most consistent lobbyists for the project. His efforts may have been critical to getting NS2 this far. At the same time, however, Schröder also made the project more controversial by intensifying his ferocious public campaign even after the attack on Navalny.

Schröder, who advocates for Gazprom's interests with key fellow social-democratic decision-makers in Berlin and Brussels, has found support among those SPD members who want their leaders to appease Russia out of nostalgia for the party's old "Ostpolitik." His efforts tend to be quite effective, as he is often introduced as a former chancellor and not as a business representative (see, for example, Handelsblatt Online 2021). Schröder's continued influence on the SPD also strengthens the hand of parliamentary faction leader Rolf Mützenich and party co-president Norbert Walter-Borjans, both of whom seek a rapprochement with the Kremlin.

This has had the effect of tying the hands of social-democratic foreign minister Heiko Maas, who had to backpedal on a threat to halt the pipeline that he had made in September 2020 after the poisoning of Navalny (Brössler 2020). Instead, Maas began to warn of the "geostrategic consequences" of isolating Moscow economically, saying that doing so would push Russia into closer economic and military cooperation with China (Leithäuser 2021). Striking a similar tone, German President Frank-Walter Steinmeier equated halting NS2 to cutting all energy ties between Russia and the EU. In an interview with the German daily *Rheinische Post*, he stated that "after the enduring deterioration of relations in recent years, energy relations are almost the last bridge between Russia and Europe. Both sides have to think about whether to completely demolish this bridge without replacement. In my opinion, burning bridges is not a sign of strength" (Bundespräsidialamt 2021).

In the same interview, Steinmeier went so far as to invoke Germany's historical guilt, referring to the 80<sup>th</sup> anniversary of the German extermination war against the Soviet Union. This statement attracted harsh criticism, as it suggested that the Soviet Union's war dead came only from Russia, when in fact Belarus and Ukraine suffered the highest losses as a proportion of their respective populations (Veser 2021). For Ralf Fücks (2021), co-founder of the think tank Liberal Modernity and old hand of the Green Party, Steinmeier's elevation of NS2 to a *raison d'état* project gives the pipeline far greater status than it deserves. Yet the President's choice reveals the deeper truth that NS2 has become the symbol of the German–Russian special relationship, a tangled web of economics, politics, and sentiment.

German media outlets have also investigated the long personal friendship between Nord Stream 2 CEO Matthias Warnig and Vladimir Putin (see, for example, Brüggemann 2020 or Schuller 2019), homing in on Warnig's entanglement with Russian state companies. In a similar vein, they have occasionally highlighted discursive links between German business leaders and the Kremlin. Russia's goal of bypassing Ukraine and Poland, for example, is often shared by stakeholders in the German energy industry. Wintershall Dea CEO Mario Mehren, for instance, has repeatedly echoed the Russian government's claim that NS2 would eliminate supposed transit risks via Ukraine (Bauchmüller 2016), implausibly claiming that Ukraine's interests can be accommodated (Flauger and Hubik 2017). The business magazine *Capital* subsequently condemned Mehren's statement as ignorant (Ziesemer 2017).

### A Stronger Political Case Against the Pipeline After the Attack on Navalny?

German horror over Russian secret service agents' poisoning of Alexei Navalny marked a turning point for

NS2. This did not determine the fate of the pipeline, but it has probably given the pipeline's opponents the upper hand in public discourse. As will be shown through an exploration of the parliamentary and media debate, Navalny's poisoning has further eroded German policymakers' trust in commitments made by Putin, prompting them to consider making NS2 conditional on political concessions by the Russian government.

There are two variants of this idea. The first, advocated by the liberal Free Democratic Party (FDP 2021), is to halt construction and use the moratorium to press for changes to Russian foreign policy. The second is to complete the pipeline and impose a shutdown mechanism to stop gas imports via NS2 if Russia does not keep its promise, made in the December 2019 transit contract with Ukraine, to pump 65 billion cubic meters (bcm) of gas through Ukraine's gas transportation system in 2020 and 40 bcm per year over the following four years, with the possibility of extension beyond 2024 (Astrasheuskaya, Chazan and Olearchyk 2019). According to Wolfgang Ischinger, Chairman of the Munich Security Conference, such an emergency brake would both pass the buck to Putin and make Kiev, Warsaw, Brussels, and Washington more confident in Germany (Ischinger 2021). The second scenario might politically be more face-saving for Germany if coupled with strong support for Ukraine's hydrogen sector and the agreement with the Biden administration of a pause—instead of a lift—of U.S. sanctions to assuage the concerns of a U.S. Congress suspicious of a non-automatic shutdown mechanism (Pagung 2021).

This debate highlights that the Navalny case caused experts and parts of the political establishment to lose trust in Russian commitments. Since Navalny's transfer to Berlin, his detention in Moscow, and the subsequent street protests from Kaliningrad to Vladivostok have reached a large TV audience in Germany, a harsher tone on NS2 has crept into the debate. In parliament, the Green Party has again started using NS2 to sow doubt about the SPD's commitment to fighting climate change. Focusing their attack on the SPD allows the Greens to lure younger, climate-conscious voters, who overwhelmingly reject fossil fuel projects.

Revelations by the German weekly *Die Zeit* that Finance Minister Olaf Scholz (SPD) had offered the Trump Administration a billion-dollar deal to encourage LNG deliveries from the United States to Germany in exchange for Washington lifting its sanctions (Stark 2020) further enhanced support for the Greens. Strikingly, *Die Zeit* ran the story in September 2020, yet the debate only gained momentum after the German NGO Deutsche Umwelthilfe leaked Scholz's original letter to the U.S. government in February 2021 (see, for example, MDR 2020). The revelations about this proffered package deal to the benefit of NS2 might once again politicize

the German debate over the pipeline, due in large part to the widespread (if inaccurate) public perception that LNG imports from the US are being forced upon Germany. In reality, however, it would be difficult to grant preferential treatment to American LNG over global competitors: import terminals in the EU are subject to the bloc's competition rules and are thus just as open to tankers from private Russian companies like Novatek as they are to American ships—or, for that matter, those from Qatar, Nigeria, Algeria, or Australia (Brüggemann 2019). Germany does not currently have its own LNG terminal but accesses other import points within the EU, which provide 15 percent of the bloc's total gas imports (Holz and Kemfert 2020).

At the same time, the Greens are visibly reluctant to attack Merkel over NS2, as the Chancellor tends to be popular among Green voters. This unwillingness to bite allowed Merkel to avoid NS2 as a campaign issue prior to the federal election in 2017, with the result that her support for the pipeline was rarely drawn into the public spotlight.

Even if the Navalny case has strengthened the critics of NS2, supporters of the pipeline can still be found across party lines. They form a rather odd implicit coalition: CDU party leader Armin Laschet, the Social Democrats, the socialist Die Linke, and the far-right AfD. Laschet—a known political enemy of the AfD—sees NS2 as an economic project independent of Navalny's poisoning (see his interview with *Frankfurter Allgemeine* of January 23, 2021). The SPD similarly views the project as part of its strategy to secure the energy transition and relations with Moscow. Die Linke's leadership is split: party godfather Gregor Gysi is sowing doubt regarding the Russian government's responsibility for poisoning Navalny, while faction leader Dietmar Bartsch tends to side pragmatically with the SPD on NS2 in order to keep the door open for future mutual governing coalitions (von Salzen 2020). For leading members of the far-right AfD, support for NS2 is in line with their established strategy of directly courting the Russian leadership's favor by stressing their ideological affinity for Putin and their objections to EU sanctions policy—a stance that has been rewarded with high-profile diplomatic receptions in Moscow (Schmidt 2020).

### Germany in the Power Struggle between Russia and the United States on Nord Stream 2

This U.S.–Russia antagonism on NS2 has led to a power race the scope of which is hardly reflected in the German political debate. The relationship between LNG imports and NS2 is widely covered. Meanwhile, little attention has been paid to the fact that the United States promotes additional European LNG imports via the Three

Seas Initiative (3SI), a regular format for infrastructure cooperation that brings together 12 EU member states. The U.S. has long been following a policy of trying to counter Russian pipeline projects in the Baltic Sea (NS1 and 2) and in the Black Sea (Turkish Stream), as well as to promote long-term American LNG supplies to South-Eastern Europe via the Adriatic Sea. The United States' main partners within the 3SI are Poland, Romania, Croatia, and Estonia.

As for the diplomatic struggle surrounding NS2, the facts that the United States considers its opposition to the pipeline to be a strategic way to strengthen Central Europe's cohesion and largely pro-American stance (as outlined above) and sees Gazprom's pipeline investments as a means of promoting Russia's foreign policy agenda have long been ignored in German political discourse. Berlin only realized this when the Trump Administration initiated sanctions against NS2 in 2017. Even though business representatives condemned the sanctions in the strongest possible terms (Brüggmann, Stratmann and Meiritz 2020), the government and media discourse suggested that Trump was the sole problem and just needed to be outwaited.

As a consequence, two key aspects escaped the German public's view. The first concerns international law. The sanctions laws passed by the U.S. Congress against companies involved in NS2 are often prematurely denounced as extraterritorial and contrary to international law, inspiring Chancellor Schröder, during a hearing in the Bundestag, to suggest countersanctions against the United States (Thumann 2020). However, according to a little-known report by the Scientific Services of the German Bundestag, U.S. sanctions are not necessarily unlawful: a state's right to protect its own security interests under the "principle of impact and protection" recognized by customary international law could justify extraterritorial rules. While these rules might be criticized for using the principle of impact and protection as a pretext or for overstressing the exercise of state sovereignty, they would be legally contestable only to a limited extent (German Bundestag 2020, p. 14).

The second error relates to the unintended foreign policy consequences of NS2 attributable to the fact that Poland, Germany's neighboring country and key NATO ally, supported U.S. sanctions (Reuters 2018). If these observations had gained more attention, German public discourse might have focused more extensively on the risks posed by NS2 to the unity of NATO and the cohesion of the EU. Instead, the looming cloud of U.S. sanctions on the small port of Sassnitz-Mukran, on the Baltic Sea island Rügen, fed a David-and-Goliath narrative. Direct threats by U.S. senators that the port would be punished for storing the pipes for NS2 made headlines, causing more damage to the German public's trust in NATO than Nord Stream 2 ever could (Koch 2020).

## Prospects

The German debate on Nord Stream 2 shows that vested governmental and business interests have prevailed. Russia's annexation of Crimea could not prevent the NS2 project from commencing; the poisoning and detention of Alexei Navalny have not halted it. Even though the German debate on NS2 is dominated by criticism, the Merkel government has not withdrawn its support for the pipeline.

The Navalny case, however, had a far greater discursive impact than on the pipeline itself, as it made the German media more sensitive to climate policy arguments against NS2. Two controversies in January and February 2021—months after the poisoning—serve as cases in point. The first is the public outcry over the government's offer to import LNG from the US on preferential terms if the US would repeal sanctions. The second is Mecklenburg-Vorpommern's state "Climate Foundation," which was designed to evade U.S. sanctions while supplying construction material for the pipeline project. The greenwashing attempt quickly drew attention to the fact that the foundation's statutes give the Nord Stream 2 company the right to nominate the foundation's executive director for business operations.

Nevertheless, the potential wider implications of Gazprom having direct access to a state-sponsored foundation in Germany have not received much scrutiny. Too many pundits tend to ignore the growing dynamic of state capitalism in energy policy and how it is spread by pipeline politics. The fact that state-controlled energy companies from countries with autocratic governance like Russia, Azerbaijan, and Algeria try to get a grip on company-owned critical infrastructure such as gas storage is not news to Germany, as evidenced by the €12.2 billion BASF-Wintershall asset swap with Gazprom in 2015, as part of which Wintershall has transferred its share in the previously jointly operated natural gas trading and storage business to its long-term partner Gazprom (BASF 2015). Yet this reality remains marginal in the discourses of the German government and media, even though it is standard practice for Gazprom to join forces with EU energy companies—preferably state-owned firms, as, for example, in Hungary—in order to prop up ruling autocrats. Malta's energy cooperation with Azerbaijan's state energy company, Socar, similarly shows that supply contracts and common power plant projects can foster corruption and oligarchic structures—and may even lead to murder, as in the case of journalist Daphne Caruana-Galizia.

In addition to bolstering climate-focused opposition to the pipeline, the Navalny case fueled awareness of NS2 as a diplomatic burden, prompting a debate within the media and in expert circles about how to condition the pipeline on political concessions by Rus-

sia. Whether the German government is seriously considering a mechanism for shutting the project down is as yet unclear. The fact that the United States considers its opposition to the pipeline to be strategically necessary to the cohesion of Central Europe and NATO has yet to be brought into the public eye. Key reasons why Germany might not halt the project include the fact that Gazprom would likely claim compensation in the event of a termination and the fact that Germany has a long-established practice of not providing legal protection for starting commercial pipeline projects by way of intergovernmental energy agreements with third countries such as Russia. Since it attempts to exclude pipelines from “high politics” by giving regulation authorities the final say, the German government can more plausibly claim that it is unable to stop large infrastructure projects like NS2.

In the event of a settlement of the Nord Stream 2 dispute, both in the event of completion and failure of the project, it would be wise for Germany and Russia to turn their joint attention to low-hanging fruit in the energy field. These include consistent implementation of the EU methane-reduction strategy for pipelines beyond NS2 and the World Bank’s zero-flaring initiative in natural gas production.

If relations between Germany and Russia someday become less tense, it might be possible for the two countries to collaborate in building a hydrogen trade. Since both countries have a hydrogen strategy, a joint dialogue—with a view to elaborating a joint technology-exchange plan—might be worth exploring. For this to come about, EU–Russian energy cooperation needs to become more proactive. In the energy field, the main focus would be the climate-friendly production of hydrogen, although without making maximalist demands for immediate climate neutrality in advance. This implies not prematurely excluding blue hydrogen (transformed from natural gas, with carbon

emissions separated and stored underground) from Russia as an import option under the European Green Deal. Germany and other EU governments could take a first step if Putin were to withdraw Russian military personnel from the Donbas as a signal of de-escalation.

The idea that the EU should not apply higher climate policy standards to its Russian partners than it does to itself should serve as guidance for building mutual trust. For example, the award criteria for the EU’s €750 billion recovery plan still allow for the promotion of fossil natural gas projects, under conditions that are as yet unclear (Simon 2021). The European Parliament’s approval of the fourth Project of Common Interest list (PCI list) in February 2020 also gave privileged funding status to 32 projects in the natural gas sector (Simon 2020).

Should the overall geopolitical storms ease one day, German–Russian energy cooperation would have to be rethought in the European context. A possible institutional setting for this revitalization would be the European Investment Bank (EIB) in Luxembourg. As the bank of EU member states, the EIB stopped lending to Russian partners in 2014 due to EU sanctions following the annexation of Crimea. Under normal circumstances, however, the financially powerful EIB is largely immune to day-to-day political considerations and follows transparent financing criteria with a view to reaching global climate targets. It would thus be strategically smart for Russia to seek closer cooperation with the EIB as one of the less politicized EU institutions. Gazprom and the Kremlin can and should no longer rely on special deals with Germany; the deal for NS2 carried enormous diplomatic and domestic costs for Berlin. Instead, Russia needs to show more willingness to advance green technology exchange in the field of hydrogen in order to secure its market position in the EU. Otherwise, an energy partnership between Germany and Russia will not be successful in the future.

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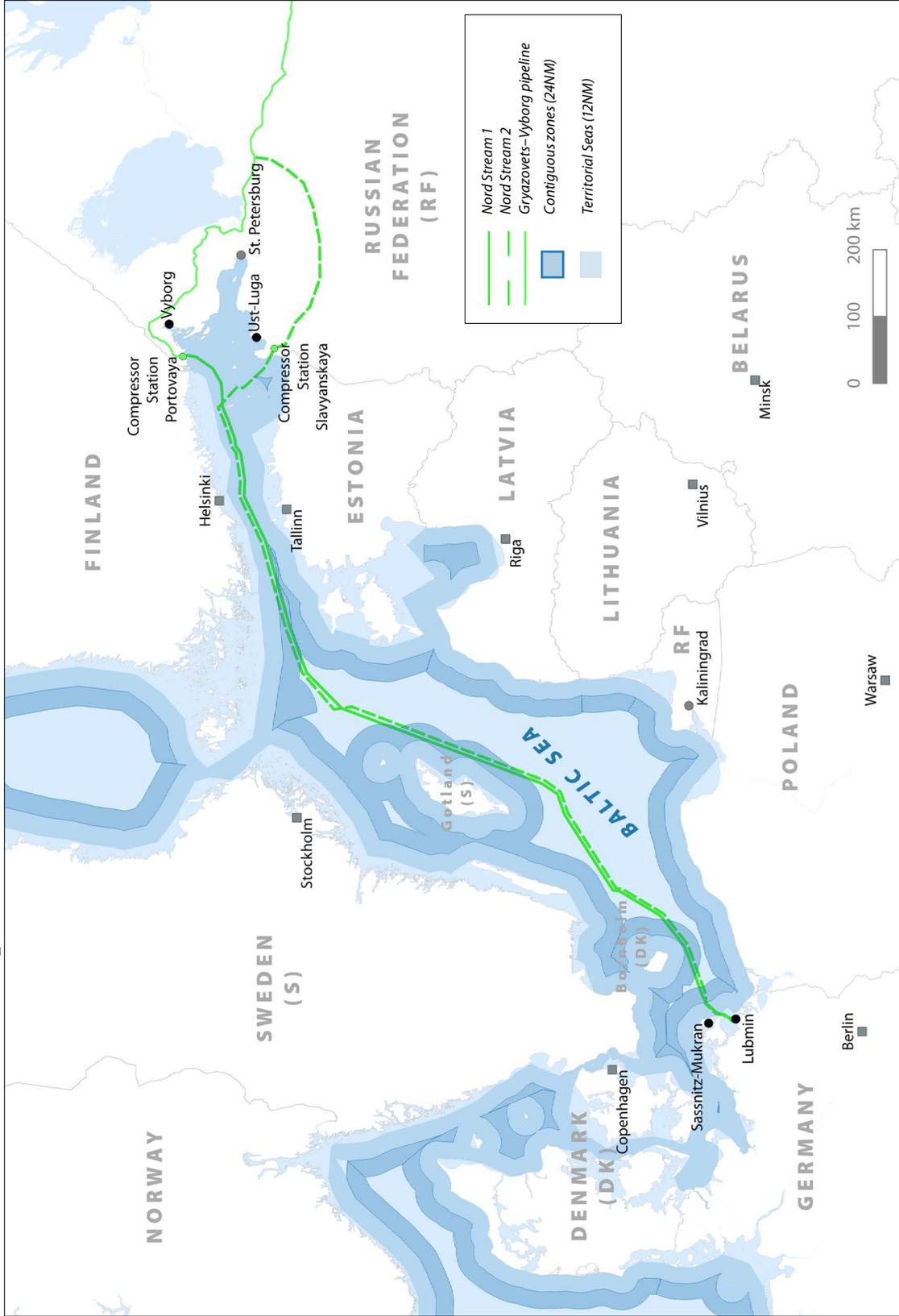
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MAP

The Nord Stream 1 and 2 Pipelines



Sources: map created by the Research Centre for East European Studies in QGIS, with geo data from <https://gadm.org/>, <https://energybase.ru/>, and the Flanders Marine Institute (Flanders Marine Institute (2019). Maritime Boundaries Geodatabase: Territorial Seas (12NM), version 3. Available online at <https://www.marineregions.org/> <https://doi.org/10.14284/387> and Flanders Marine Institute (2019). Maritime Boundaries Geodatabase: Contiguous Zones (24NM), version 3. Available online at <https://www.marineregions.org/> <https://doi.org/10.14284/384>).

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Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen ([www.forschungsstelle.uni-bremen.de](http://www.forschungsstelle.uni-bremen.de)), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Center for Eastern European Studies at the University of Zurich (<http://www.cees.uzh.ch>), the Institute for European, Russian and Eurasian Studies at The George Washington University (<https://ieres.elliott.gwu.edu>), and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language *Russland-Analysen* ([www.laender-analysen.de/russland](http://www.laender-analysen.de/russland)), and the CSS analytical network on Russia and Eurasia ([www.css.ethz.ch/en/publications/rad.html](http://www.css.ethz.ch/en/publications/rad.html)). The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

Layout: Cengiz Kibaroglu, Matthias Neumann, Michael Clemens

ISSN 1863-0421 © 2021 by Forschungsstelle Osteuropa an der Universität Bremen, Bremen and Center for Security Studies, Zürich

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