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The *Nord Stream* is a system of pipelines for the transport of natural gas from Russia to Germany through the Baltic Sea. The first *Nord Stream* was completed in 2011 and connected Vyborg in Russia to Greifswald in Germany. *Nord Stream 2* was initially scheduled to be completed at the end of 2019, connecting Ust-Luga in Russia with Greifswald in Germany.

Germany is a big supporter of the *Nord Stream* pipelines, as it allows the country to receive gas directly from Russia for cheaper as opposed to the Russian gas that flows through Ukraine or Poland. The pipelines also save Russia a significant amount of money, as Ukrainian tariffs on gas transit are relatively high. However, the projects have been strongly criticized by the US. The US views the pipelines as strengthening Russian influence in Europe, increasing Europe's dependency on Russian gas, and subsequently weakening transatlantic cooperation.

As a result, in December 2019, the US Senate voted to pass the *National Defense Authorization Act for Fiscal Year 2020* (NDAA). The NDAA covers an extensive range of military and defense spending and policies, including levying sanctions against companies involved with inlaying the *Nord Stream 2*. The pipeline was initially scheduled to be finished at the end of 2019. However, due to a delay caused by Denmark's concern over the pipeline going through their territorial waters, the finish date was moved to mid-2020. This delay gave the US time to pass the NDAA, which further pushed the finish date to 2021. Russian President Vladimir Putin said at a press conference in January 2020: "at the end of this year, or the beginning of next, the pipeline will be operational"¹.

Attitudes towards Nord Stream 2

These sanctions have been quite a stumbling block for the finishing touches of *Nord Stream 2*. Gazprom, the majority state-owned gas giant, with funding from several European companies, including Royal Dutch Shell and Engie, have already built approximately 2300km of the 2460km pipeline as of February 2020.² However, these are not the companies affected by the sanctions as they don't actually lay the pipeline. The companies laying the pipeline were the Swiss company *Allseas* and the Italian company *Saipem*, both of which have suspended operations due to the US-imposed sanctions. Gazprom will have to complete the pipeline alone.

The US-imposed sanctions have significantly impeded and delayed the construction of *Nord Stream 2*. Despite this impediment, Russia remains confident that the pipeline will be completed. Russian Minister of Foreign Affairs Sergei Lavrov said, "I assure you that neither the *Nord Stream 2* nor the *TurkStream* will stop"³.

Germany and the EU are not happy about these sanctions either. Germany views the sanctions as the US getting involved in German and European internal affairs. An EU spokesperson said, "On principle, the EU opposes imposing sanctions on European companies participating in perfectly legal activities"⁴. The US believes that these sanctions will benefit Germany and the EU as a whole. The section of the NDAA which imposes the sanctions is titled "Protecting Europe's Energy Security" and calls the project "a tool of coercion and political leverage"

¹ Bondarenko and Khimshiashvili, 2020.

² Samofalova, 2020.

³ "Лавров: Санкции не остановят Северный поток-2." 2019.

⁴ Johansson, 2019.

of the Russian government.⁵ Although Germany and the EU are clearly not happy about the sanctions, Chancellor Angela Merkel stated that Germany would not impose countersanctions on the US.⁶ Germany continues to call the pipeline a purely economic project, regardless of US objections.

Nord Stream 2 would be incredibly beneficial for both Russia and Germany, so the two are continuing to push it forward despite growing obstacles. A 2010 study at the University of Cambridge's Electricity Policy Research Group compared the shipping costs with the first *Nord Stream* to shipping through the Ukrainian pipeline. The study concluded that "the unit cost of shipping through *Nord Stream* is clearly lower than using the Ukrainian route and is only slightly above shipping through the Yamal-Europe Pipeline (through Belarus) ... we therefore find a positive economic value for *Nord Stream*"⁷.

Impact on Ukraine

This conclusion is replicated in a 2019 study done for the International Conference on Energy Economics and Technology. The study concluded that gas prices would fall, and Russia would export 5 billion cubic meters (*bcm*) of gas more to Europe despite lowering the amount of gas sent via the Ukrainian pipeline.⁸ In short: Germany would get more gas from Russia for cheaper, and Russia would be able to sell more gas to Europe while paying less on Ukrainian tariffs. Currently, Ukrainian tariffs on gas cost Russia approximately \$3 billion per year.

Ukraine adamantly supports the US sanctions and is strongly opposed to both *Nord Stream 2* and *TurkStream*. Once they are completed and operational, the two pipelines would cost Ukraine billions of dollars in transit fees. In 2017, 3% of Ukraine's GDP came from Russian gas tariffs.⁹ It is hypothetically possible for the amount of gas Russia transits through Ukraine to be reduced to zero. However, this is not likely to happen before 2025. Even after 2025, a lot will depend on the demand for gas in Europe. It is safe to assume that gas will continue to flow through the Ukrainian pipelines, although much less gas than currently, for several more years.

The Ukrainian pipelines have a capacity of 160bcm per year, and *Nord Stream2* will have a total capacity of 55bcm/year (*Nord Stream 2* is two lines with a capacity of 27.5bcm/year each, *Nord Stream 1* is the same). *TurkStream* has a total capacity of 31.5bcm/year (two lines with a capacity of 15.75bcm/year each). On their own, the two new pipelines would cut the amount of gas sent through the Ukrainian pipelines significantly. Once both are completed and online, there will be a total capacity of 205.9bcm/year that does not need to go through Ukraine.¹⁰

The pipeline also weakens Ukraine against Russian aggression. Since the 1990s, Ukraine has had a form of leverage over Russia, as Ukraine could cut off the pipelines through their territory, thereby disabling one of Russia's largest sources of income. However, if Russia can bypass Ukraine or significantly reduce the amount transported through it, Ukraine's cutting off the pipelines is no longer Russia's concern. This would open Ukraine to the possibility of a future Russian threat.

⁵ "NDAA 2020, Title LXXV Section 7503," 2019.

⁶ Chazan, 2019.

⁷ Chyong et al, 2010.

⁸ Gunther and Volker, 2019.

⁹ White, 2020.

¹⁰ Gunther and Volker, 2019.

A purely economic project?

Chancellor Merkel told Ukraine and Poland that the existing routes through their respective countries would still be needed, but Ukraine sees these assurances as "valueless"¹¹. Germany calls it a purely economic project, whereas Ukraine sees it as a political project with extreme consequences – financially and politically. Former Ukrainian President Petro Poroshenko said: "This is not a commercial project... it is absolutely a political project"¹². Current Ukrainian President Volodymyr Zelensky has called the pipeline "a geopolitical issue"¹³. Ukraine and Germany are approaching the *Nord Stream 2* issue from drastically different points because of the predicted impacts on both states, which is understandable. However, it creates a rift on the continent involving many other states and companies. It undoubtedly has created and will continue to generate and exasperate tensions between the two countries.

Nord Stream 2 is also criticized by the Central and Eastern European members of the EU and NATO. Poland is in a similar situation to Ukraine, although on a much smaller scale. Approximately 30bcm of Russian gas transits through Poland each year. Poland also fears that *Nord Stream 2* will increase Russia's strength and influence in Europe. Poland supports the US sanctions that Germany condemns, and this, like with relations between Germany and Ukraine, has created tensions between the two.

Other vocal opponents of the pipeline include Estonia, whose foreign minister at the time Sven Mikser said, "Estonia sees *Nord Stream 2* primarily as a political project, not a business project. It is incompatible with the objectives of the EU energy policy and will not contribute to EU's energy independence or diversification of suppliers"¹⁴. Likewise, in September of 2019, Lithuanian Prime Minister Saulius Skvernelis called *Nord Stream 2* "a geopolitical project with no economic justification"¹⁵. Indeed, most Eastern and Central EU countries have strong concerns about the pipeline and their own energy security in light of the progressing pipelines.

Implications for the Czech Republic

For the Czech Republic, *Nord Stream 2* would be a fruitful endeavour, especially in the short-term. Currently, NET4GAS, the Czech gas transmission giant, transmits 45bcm of gas annually to European energy markets. Only 8bcm of this 45bcm is used domestically within the Czech Republic.¹⁶ *Nord Stream 2* would double this amount: "of the 55bcm of natural gas flowing through the *Nord Stream 2* pipeline annually, 45.1bcm will be directed to the Czech Republic via the Eugal pipeline"¹⁷. However, this remarkable increase would not be permanent. The Deputy Minister of Industry and Trade, René Neděla, said that the current gas contracts would not be renewed to the same extent they currently are. However, he assured that *Nord Stream 2* would have a positive economic and social effect in the Czech Republic.¹⁸ For the Czech Republic, the *Nord Stream 2* pipeline would likely lower the cost of gas for the consumer while simultaneously generating quite a lot of money through gas transit tariffs. This would slowly dwindle as the current contracts expire, and some will not be renewed to

¹¹ Wintour, 2018.

¹² Ibid.

¹³ BBC, 2019.

¹⁴ Toots, 2018.

¹⁵ Kentish, 2019.

¹⁶ "Company profile", 2021.

¹⁷ "Česko hraje zásadní roli při transportu plynu z Nord Stream 2," 2019.

¹⁸ Ibid.

their present extent. Still, the overall effect for the Czech Republic would be a positive one financially despite the short timeline.

Nevertheless, there are still many of the same concerns that Poland, Ukraine, and the other opponents of the project have. In 2016, the Czech Republic signed a letter addressed to the then European Commission President Jean-Claude Juncker criticizing the project and highlighting its risks.¹⁹ The letter highlights that *Nord Stream 2* could have "potentially destabilising geopolitical consequences"²⁰ and that it "can pose certain risks for energy security in the region of central and eastern Europe"²¹. While *Nord Stream 2* would be beneficial to Czechia economically, there is still significant concern about the project's potential political and security consequences. Despite these concerns, the Czech government has been hesitant to come outright for or against the pipeline, preferring to stay in the middle ground and away from any backlash from either the pro- or anti-pipeline sides.

Image 1: Map of pipelines stemming from Nord Stream 2



Source: Natural Gas World²²

¹⁹ De Maio, 2019.

²⁰ Sytas, 2016.

²¹ Ibid.

²² "Map of pipelines stemming from Nord Stream", 2020.

Conclusion

The US sanctions on *Nord Stream 2* have delayed the project but have not yet outright stopped it. Germany, the primary benefactor of the pipeline in the EU, is not pleased with these sanctions as the delays have caused major financial strain within German borders. Germany believes that the US is overstepping by interfering in its internal affairs and the region's internal affairs. On the other hand, Poland, Ukraine, and several other Central and Eastern European states support the sanctions and adamantly oppose the pipeline. If *Nord Stream 2* is completed, Ukraine and Poland will lose a large amount of revenue through tariffs on Russian gas. Also, Ukraine's position against Russia will be weakened as they would lose the protective leverage that the pipelines through Ukraine provide.

For the Czech Republic, *Nord Stream 2* would have a net positive financial effect. It would initially double the amount of gas flowing through the Czech Republic, allowing for lower gas prices and increasing the amount of money generated by tariffs. However, this positive effect would dwindle, as there is no intention to keep all of the current gas contracts going to their present extent. Despite the financial benefits, there is still a large amount of concern over the geopolitical implications and consequences of the project for Czechia as Russia gains more influence. The economic benefits must be weighed against the potential threat Russia poses both to Czechia and the region.

Despite opposing views, the EU and the US should not allow this dispute to disrupt transatlantic cooperation. Economically speaking, there is no sense in starting a trade war, exchanging sanctions back-and-forth, or generally poisoning relations over this issue. The US and EU are among each other's largest trade partners. The goods and services traded between the two in 2018 were almost \$1.3 trillion, and maintaining this relationship is nothing but beneficial to both sides.



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