A whiff of trouble in the Nord Stream Pipeline

What is the issue?

What was meant to be an ordinary energy project from Russia to Germany is now a powerful geopolitical tool.

What is Nord stream 2?

- It is a natural gas pipeline project (1,225 km) under the Baltic Sea from the Russian city of Ust-Luga to the German city of Lubmin
- The construction began in 2015 by Russia.
- This avoids transit through Ukraine and other European countries.
- Russia's main energy company Gazprom took ownership of the project's operator, the Switzerland-based company Nord Stream 2 AG.
- The project was expected to double the capacity of the existing pipeline, Nord Stream 1.

Why is USA concerned about the pipeline?

- There is a strong opposition from USA and European countries of Austria, Germany, Hungary and the Netherlands.
- They view the project as a political weapon.
- They believe that it would render more bargaining power to Russia while dealing with Europe and its energy market.
- E.g Russia is blamed for an intentional decrease in gas supplies to Europe during winter, aiming to speed up the Nord Stream 2 pipeline by European Union (EU) market regulators.
- However, Russia says that project is purely a commercial, which is shorter, cheaper, and economically more viable, compared to the gas transit through multiple European countries.

How did USA respond to the project?

- In 2019, U.S. President Donald Trump had signed a law that imposed sanctions on any EU company that was involved in completing the Nord Stream 2 pipeline.
- USA fears the pipeline would reduce its own share in the lucrative European market for American liquefied natural gas (LNG).

What was Germany's response?

- Germany opposed the US sanctions, stating that they were able to decide their own energy policies without an interference.
- So, in May 2021, US decided to issue a national security waiver for the Nord Stream 2 AG.
- The main reason was apparently to restore trust and close cooperation between the U.S. and Germany.
- Besides, the agreement aimed to invest more than €200 million in energy security in Ukraine, as well as sustainable energy across Europe

How important is Nord stream 2 pipeline for Germany?

- Germany imported about 40% of natural gas from Russia, 34% from Norway, 29% from the Netherlands, with only around 10% from Germany's own gas fields.
- Of Germany's electricity production
    - 25% comes from coal
    - 25% from renewable sources,
    - 16% from natural gas
    - 11% from nuclear energy.
- The dispute takes place at a time when Germany is gradually moving towards renewable sources of energy.
- Germany plans to shut down its nuclear and coal power plants.
- This winter Europe is facing a huge demand in its energy market
- The wholesale energy prices have more than doubled in 2021, and there is a limited supply of fossil fuels altogether.

What are the latest developments?

- In November 2021, Germany suspended the certification procedure for Nord Stream 2.
- The suspension comes as Nord Stream 2 AG plans to establish a subsidiary under German law only for the German section of the pipeline.
- According to Germany's Federal Network Agency the company fails to meet conditions to be an "independent transmissions operator"
- It could be certified only if that operator was organized in a legal form under German law.
- This means further delays in project commencement.
- Meanwhile, tensions have been growing between Russia and the NATO allies, amidst fears of Russia's invasion into Ukrainian territories
- The new German Chancellor will have to make difficult choices going forward.
- Some EU leaders have called for termination of project from Germany in the event of further military escalation.
- What was meant to be an ordinary energy project has transformed itself into a powerful geopolitical tool, available to every stakeholder involved, and even beyond.

Reference

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