Russian state-owned Gazprom announced the completion of its Nord Stream 2 pipeline in early September 2021, on the heels of an energy supply crunch and sky-high prices across Europe, as reported by The Wall Street Journal. Operators hoped to start transporting Russian liquified natural gas (LNG) to Germany and the rest of Europe before the year’s end, as soon as German regulators and the European Commission grant final approval to the pipeline. In the meantime, Gazprom continued to offer limited capacity, sending gas futures for the coming winter months ever higher.

The current energy supply crisis roiling Europe appears to confirm the prescience of the project’s Russian backers. Russia and Gazprom have consistently maintained that LNG is critical to the stability of European energy supply so long as renewable source technologies lag in production output and storage capacity. The Nord Stream 2 pipeline, Russia insists, is essential to the physical security of that LNG supply to Western Europe. Nord Stream 2 and the previously completed Nord Stream 1 run in parallel directly from Russia to Germany under the Baltic Sea, bypassing traditional gas transit countries Poland and Ukraine. Since 1992, Russia has repeatedly reduced or shut down gas transit through Ukraine in response to Ukrainian payment defaults and allegations that the transit country siphoned off gas destined for its western neighbors.

Nonetheless, despite the surge in European demand, existing pipelines through Poland and Ukraine are transporting significantly less Russian LNG to Europe than their capacity. Gazprom sharply reduced gas flows along its Polish transit route beginning in July 2021 to as low as 25% of its average daily amount by mid-August, according to Tom Marzec-Manser, lead European gas analyst at Independent Commodity Intelligence Services. Instead of exporting more gas to meet increased demand, Gazprom is meeting Europe’s previously contracted needs by depleting its forward-located reservoir stores, as reported by Deutsche Welle. This raises the question: Can Europe successfully transition to a more sustainable and independent energy policy while avoiding the economic havoc that a frayed relationship with Russia inevitably brings?

**Neither Lean Nor Green**

The extent to which Western Europe, especially Germany, truly needs the additional energy capacity has been at the forefront of the debate on Nord Stream 2. While the project promises to expand Gazprom’s ability to send LNG to the continent by up to 55 billion cubic meters, the economic benefits to ordinary German citizens, and their Western European counterparts, are questionable. A research team at the German Institute of Economic Research led by Claudia Kemfert, head of its Department of Energy, Transportation, Environment, claim that the costs of additional pipeline use will be “passed on to the German consumer at a flat-rate basis,” and that the project’s economic viability is unclear, especially if the recent ruling from the Court of Justice of the European Union holds that Gazprom must unbundle its operation and let European firms compete for the project.

With Gazprom transporting less gas to Central and Western Europe in recent years, profit-seeking behavior from the Russia-backed firm may indeed pose a real risk to energy stability. The Financial Times reported last year that a Kremlin-backed cut to gas exports pushed prices in Europe to a 13-year high. The promise of eventual Russian gas obsolescence softens the long-term picture, with climate advocates arguing that fossil fuel consumption in Western Europe is already shrinking and would only accelerate if the European Union’s goals were met on time. Nonetheless, short-term price spikes, impacting real consumers as early as last winter, continue to rise to the fore.
While geopolitical experts cite the possibility of supply manipulation as a concern, a Europe-wide analysis by the European Network of Transmission System Operators for Gas estimates that the European gas transmission system is already resilient to such shocks. The current spike is artificially created, they argue. But is there a diplomatic solution that circumvents the Nord Stream 2 question?

The question may be irrelevant if the next German government cannot decide on a definitive approach to its Energiewende or "energy transition" policy, which currently aims for a renewable energy target of 60% of all energy produced by 2050. While most energy experts and climate scientists agree that LNG generates less CO2 emissions on a per BTU basis than many of Germany’s older coal power plants, many consider replacing one fossil fuel with another as a side-step, rather than a step forward. Further still, while most Nord Stream 2 proponents and so-called climate realists have focused on the CO2 impact of fossil fuels, more recent research demonstrates that greenhouse gas emissions from LNG have been underestimated due to their methane content, which has up to 87 times greater global warming potential, a metric provided by the Intergovernmental Panel on Climate Change.

The political picture for decision-makers remains unclear. Recent election results in Germany suggest a high likelihood of a Green Party presence in government, committed to transforming Germany into a "socio-ecologic market economy," a reference to Germany’s post-war social market economy. The party’s leader, Annalena Baerbock, has tinged her party’s message with an undercurrent of populist rhetoric, claiming "we [Germany] have everything we need to set our own standards...If we do not become more sovereign, others will decide for us."

Whether the go-it-alone approach to energy is feasible is another question. Anna Mikulska, a senior fellow at the University of Pennsylvania’s Kleinman Center for Energy Policy, said that “Energiewende has never worked well” and has caused "intermittency of electricity supply." While it’s true that Germany has struggled to meet its climate goals on time, an ongoing study by the regulatory agency Bundesnetzagentur shows that intermittency was down 43% from 2006 to 2019, followed by a rocky 2020 in which Germany was forced to reopen several shuttered plants. While the total contribution of renewables increased sharply and emissions dropped, it is unclear how much of this is attributable to the COVID-19 pandemic.

Either way, if Germany cannot generate less carbon on a per citizen basis, its climate goal will be meaningless. Even among those who favor an accelerated Energiewende, there is significant disagreement on how best to achieve this. There are those who argue that LNG is indeed a viable bridge technology that can tide Germany over until it has enough green energy capacity. Others, such as Scientists for Future, a pro-climate movement driven by some of Germany’s foremost researchers on climate science, disagree. In February 2021, they argued that the planned expansion of LNG infrastructure would simply delay investment in the energy transition, creating a "lock in" effect for the EU and fossil fuels. The group also takes issue with pro-Nord Stream 2 arguments that there is a supply shortage in the European gas market, arguing “all modeled scenarios show a decrease in total gas consumption...by 2050.”

Parallel efforts are still underway that may allow Germany to leverage its well-known industrial strengths and innovate its way out of fossil fuel dependency. Researchers at Germany’s Karlsruhe Institute of Technology, for example, are working on P2X Kopernikus, a project that has shown promise in generating fuel from air-captured carbon dioxide. Others, such as Kemfert and her team, favor hydrogen, arguing it will be the future of energy.

**Nord Stream’s Geopolitical Ramifications**

Across the Atlantic, the pipeline’s completion on September 10, 2021, elicited little more than acknowledgement as the Biden administration prepared to commemorate the 20th-anniversary of the 9/11 attacks. Until recently, the United States had been the most influential and vocal opponent of the pipeline on geopolitical grounds. In conversation with Reuters, Amos
Hochstein, U.S. State Department Special Envoy and Coordinator for Energy Affairs, recognized both the new “reality” as well as an opportunity for “breathing room” until 2024, when Ukraine’s current transit contract with Gazprom expires.

The marked shift in U.S. policy culminated in July 2021 with a U.S. and German joint commitment to ensuring that Russia “will not misuse any pipeline, including Nord Stream 2, to achieve aggressive political ends by using energy as a weapon.” Both countries also committed to advocating for the extension of Ukrainian gas transit contracts with Russia beyond 2024 and to providing material support for the energy transitions of emerging Eastern European economies.

The line previously advanced by U.S. opposition centered on the pipeline’s geopolitical ramifications for Eastern Europe, but there may have been other motivations. Between the project’s 2015 announcement up until last summer’s U.S.-German agreement, the U.S. levied various sanctions to thwart the project. The U.S. position is a result of both geography and volume.

Firstly, the new pipeline will avoid the Baltic states, Poland, and Ukraine, weakening these countries’ bargaining power with a more belligerent Russia. A direct route to Europe’s biggest energy consumer, Germany, would allow Russia to bypass these Eastern European states, eroding their profits from transit fees and robbing them of their bargaining power. Ukraine, especially, has become a sore spot for the U.S., which believes the timing of the pipeline after the annexation of Crimea was not coincidental. The doubling of capacity that the pipeline brings with it, in practice, makes the existing pipeline through Ukraine obsolete, with the WSJ noting that it is “unknown if Russia would be willing to pay for access to a transit corridor it no longer needs.” In 2009, Europe was shocked by Russia’s decision to temporarily halt gas deliveries through Ukraine, which then accounted for more than 80% of supply to Europe. The shut-off, occurring during January, highlighted to Europeans their vulnerability. However, the Ukrainian government is now perhaps even more concerned with the competition aspects of the new pipeline, with President of Ukraine Volodymyr Zelenskyy noting in June that “Nord Stream 2 will disconnect Ukraine from gas supplies, which means ‘disconnecting’ us from at least $3 billion a year... We will have nothing to pay for the Ukrainian army.” In September, the Ukrainian Energy Minister Herman Halushchenko reiterated the Ukrainian stance to Reuters: “This threatens the energy independence of many Eastern European countries and undermines Ukraine’s security.”

“Nord Stream 2 is a long-term Gazprom investment, for which the firm will want to see considerable financial returns.”

Secondly, Nord Stream 2 will bring a larger volume of Russian gas into the German energy mix. The Trump administration, not known to be frontline advocates for Russian sanctions, was vehemently opposed to the pipeline. Former Energy Secretary Rick Perry underlined in a 2020 interview with CNBC that “Russian gas has strings attached.” Germany has resented the somewhat paternalistic implication: that Germans do not know what is good for them (but the US does). Berlin has urged the U.S. to remove its sanctions, which was finally accomplished in June 2021, after the Biden administration weighed that the costs to its relationship with Germany were greater than the geopolitical risks. Moscow has argued that the actions of the U.S. constitute unfair competition and that, contrary to U.S. assertions, Nord Stream 2 will actually strengthen Europe’s energy security. Pointing to the growing supply of U.S.-produced gas in the form of sea-borne LNG to European markets, the Russian government has implied that America is willing to go to great lengths to protect its producers of gas, including sanctioning the competition.

Russia’s Use of Gazprom to Propagate Soft Power

Russia and Gazprom have leveraged soft power to increase Russia’s influence and bolster Gazprom’s reputation across Europe. Nord Stream 2 is a long-term Gazprom investment for which the firm will want to see considerable financial returns. With increasing competition for fossil fuels and the drive for more sustainable energy, Russia’s state-owned gas company sees the need to influence perception...
of Russian energy and ensure its brand is well-recognized across Europe.

To that end, Gazprom has gone direct to consumer, so to speak, by sponsoring numerous sporting entities, especially soccer, Europe’s favorite sport. Since 2012, Gazprom has been an official sponsor UEFA, European soccer’s governing body, and reportedly pays €40 million per year to have its logo seen by European soccer fans.

Unlike UEFA’s other main sponsors who sell goods directly to consumers (e.g., Sony, Pepsi, Adidas, Heineken, etc.), Gazprom instead sells Russia’s natural gas reserves to foreign governments. By partnering with Europe’s premier soccer competitions, Gazprom is looking to subtly alter the firm’s public image and make it a recognizable brand worldwide. Indeed, 51% of respondents to a poll associated Gazprom with being a “reliable Russian energy supplier,” with an even higher proportion amongst soccer enthusiasts. Gazprom also sponsors several soccer teams, with its sponsorship of historic FC Schalke coinciding with the beginning of the Nord Stream 1 construction. In a parallel move, Gazprom sponsors Serbia’s Red Star Belgrade, possibly in anticipation of discussions regarding TurkStream 2, a potential new gas pipeline going through the Balkans.

**Will It Matter?**

Despite all the reservations and threats, Nord Stream 2 is complete just as Europe finds itself in the throes of an energy crisis. German politicians from the three largest parties (CDU/CSU, SPD, the Greens), whose combined 400-page election manifestos offer only one fleeting reference to the project, are currently negotiating the chancellorship as well as key ministerial positions. Although President Biden’s decision to waive sanctions on all the involved parties was met with a sigh of relief in Germany, European politicians from across the spectrum had already reached the conclusion that completing the project was the most pragmatic option. Given the sheer number of variables, the question has always been: What is the alternative?

The world now has front-row seats to watch this $11 billion high-stakes political investment evolve. The reason this project has been on the crosshairs of at least 15 countries is the complexity, with each player only holding only a piece to the unsolvable puzzle. Per Jonathan Hackenbroich and Kadri Liik, policy fellows at the European Council On Foreign Relations, “It is not a clear-cut energy security issue...Instead, the issue is a thorny one because it combines a multitude of considerations — from supply diversification to different countries’ business interests; from legal commitments to historical distrust and sanctions against allies’ projects — and spices them up with the political passions of the day.”

Not completing the project would have sent the message that Europe cannot make independent geopolitical and energy decisions. Approving the project now, while shortcutting regulatory due process, would send the message that the economic needs of a few elite European countries trump those of their European partners and the importance of a cohesive transatlantic partnership. Despite the charm offensive undertaken by Gazprom in Europe in the two decades, there exists a scenario that the reduced demand within the EU’s 2030 climate & energy framework and the extant pipeline infrastructure on the supply side could meet Europe’s fossil fuel needs. This reality could be one of the limiting factors to the United States’ position to step aside and allow the project to progress.

The largest strategic challenges that exist for both Europe and the United States are beyond those of the pipeline. Rather, they include rebuilding frayed transatlantic ties and bolstering collaboration on dicey issues such as terrorism, climate change and a growing, belligerent China.

*This article was written by Edle Astrup Tschudi, Vishoka Balasubramanian, Paolo Fornasini, Jeffrey Magyar, and David Warrington, members of the Lauder Class of 2023.*
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