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Facts & Findings

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How to Proceed with Nord Stream 2?
Germany's Foreign Policy Options

Jasper Eitze, Steven Höfner, Laura Philipps

- The scenario development until 2025 shows: the Nord Stream 2 project remains fraught with high political risks and therefore continues to pose a challenge for German foreign policy.
- Nord Stream 2 illustrates that German energy policy needs to become more strategic, more European, and requires better communication.
- A European decarbonisation strategy 2050 should include Ukraine, especially with its gas storage capacities, as an inherent component thereof.
- The significance of natural gas for the transatlantic relationship and the relations with Russia requires greater cooperation within the EU and a constructive joint approach.

Contents

Background of the Analysis

When it comes to Nord Stream 2, opinions tend to differ sharply. What constitutes a primarily economic project for some is a highly political issue for others. Narrative stands against narrative and they reveal different perspectives and interests. In order to make the consequences for Nord Stream 2 more tangible for politics, the Konrad-Adenauer-Stiftung carried out a scenario development up to the year 2025. The basic assumption is that, irrespective of the pipeline commissioning in 2020, many issues remain open and harbour serious political risks.

Starting point of the analysis were the following questions:

- Can the current conflicts surrounding Nord Stream 2 resolve themselves by the power of facts within the next few years?
- Under what conditions does the potential for conflict arising from Nord Stream 2 persist, and which developments seem plausible with which political risks?
- Against the background of the different scenarios, what can German policy do to defuse potential conflicts and minimise risks?

The aim is therefore to develop options for a realistic, nuanced and forward-looking policy in the context of Nord Stream 2, which promises to be successful even in the event of disruptions in the fields of foreign, security and economic policy.

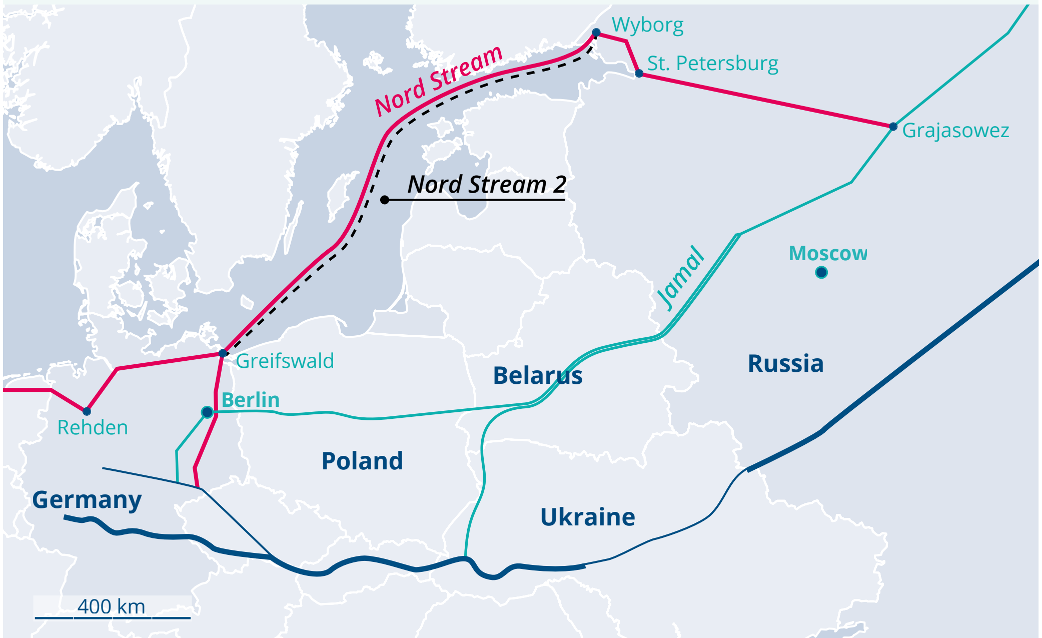
Develop a realistic, nuanced and forward-looking policy

Methodologically, the scenario development was carried out as follows: in a first step, the key players, along with their interests, strategies as well as the legal, political and economic framework conditions, were systematically recorded. In a second step, significant uncertainties regarding these interests, strategies and framework conditions were identified and weighted. It took into account events that were unlikely yet possible, such as political changes. The derived core uncertainties served as a basis for the scenario development. Finally, there was a discussion of raw scenarios with experts from politics, science and industry, and implications for German politics were deduced. None of these scenarios aims to reflect the actual development over the next few years. Rather, the scenario development served as an analytical tool for a comprehensive and systematic analysis of the Nord Stream 2 case.

Infobox on Nord Stream 2

Nord Stream 2 is a natural gas pipeline directly connecting Russia with Germany via the Baltic Sea. With a total length of 1,200 km, it crosses the territorial waters of Russia, Denmark and Germany as well as the exclusive economic zones of Russia, Finland, Sweden, Denmark and Norway. The pipeline increases Russia's capacity to export to Europe via the existing Nord Stream pipeline from 55 to 110 billion cubic meters. Nord Stream 2 is a privately funded project. The Russian group Gazprom is the only shareholder and accounts for half of the financing. The remaining companies Engie (France), OMV (Austria), Shell (Netherlands-UK), UNIPER (Germany) and Wintershall / BASF (Germany) cover the remaining 50 per cent. Together, these companies form the Nord Stream 2 consortium. The estimated total cost of the project is just under ten billion euros. The pipeline is expected to be commissioned at the beginning of 2020.

Gas pipelines from Russia to Germany



Lines of Conflict: Actors, Interests and Framework Conditions

The following core uncertainties underlie the elaborated scenarios:

- Ukraine's relationship with the EU is considered uncertain, not only with regard to the new Ukrainian president and his lack of (foreign) policy expertise, but also with regard to the attitude of the Ukrainian people towards the EU. It is not self-evident that the majority of Ukrainians will still be pro-European in 2025 as has been the case in recent years, even though it is unlikely that the mood will change drastically from today's perspective.

- The US sanctions policy is difficult to predict. Whether, at what time and in what form sanctions, which could also affect European companies commissioned with constructing and operating Nord Stream 2, will be imposed in the coming months or years is difficult to foresee from today's perspective. This also applies to the most effective foreign and economic policy countermeasures to be employed on the European side.

- The extent of Russia's influence on the EU through disinformation campaigns and disruptive actions is scarcely possible to assess. The impact of Russian attempts to influence very much depends on European cohesion in the coming years.

- The further development of EU energy and climate policy remains to be seen. What significance will the so-called Energy Union, formulated by the outgoing EU Commission with its principles of solidarity and cooperation, continue to have in the coming years? Will the decarbonisation premise (analogous to coal), trigger a broader debate on the phase-out from natural gas? In the near future, will the European energy supply be discussed with an emphasis on the climate, security or economy?

- The role of liquefied natural gas (LNG) is unclear. From a US and European point of view, will this technology remain a significant option in terms of profitability as well as environmental and climate protection aspects? How will global LNG trade and the domestic political situation in the US develop?

- The stability of the Nord Stream 2 consortium is not guaranteed. Will the project remain profitable for the companies involved? How is the price of gas developing? How easy would it be for individual companies to leave the consortium in light of questionable economic viability?

- European cohesion is currently on shaky ground. Will national governments strive for more unity in the international political arena over the next few years, or will Europe's external action be characterised by fragmentation?

Scenarios until 2025

1. The conflicts ebb away.

No serious consequences because of Nord Stream 2

By 2025, the EU has managed to free itself from the disagreements that hitherto accompanied its foreign policy action. It speaks with one voice internationally, and is thus perceived as being coherent. The operation of Nord Stream 2 neither had serious economic nor security consequences for the European states concerned. Poland and Ukraine have found alternative streams of revenue from the former transit of Russian natural gas to central Europe, enabling them to diversify their economic structures. In part, new, smaller transit contracts have been concluded with Russia in compliance with EU law, satisfying all sides. The EU's Energy Union has deepened and the discussion about LNG imports from the US has been depoliticised, or more specifically, focused on economic factors.

2. The conflicts escalate and …

(a) … divide the EU permanently.

A heavy political price over the long-term for Germany and Europe

In 2025, internal disputes will pose a constant challenge to European cohesion. This is especially noticeable in the field of energy and security policy. Russia`s exertion of influence or rather disruptive actions have also contributed to weakening the EU. The transatlantic relationship has continued to deteriorate. From a purely economic point of view, Nord Stream 2 is partially successful for the companies involved. However, Germany and Europe will have to pay a heavy political price over the long-term. The German-Polish relationship has been permanently damaged by the conflict over Nord Stream 2, and Nord Stream 2 has reinforced security concerns in Eastern Europe. Within the EU, groups of states have emerged, which at times have opposing interests and different conceptions of statehood. Together with the Baltic States, the Visegrad Group leans strongly towards the USA, the Nordic countries form their traditional network, the eastern Mediterranean countries partly rely on China, and partly on Russia. The western Mediterranean countries look for allies in Latin American countries, the BeNeLux countries regard themselves as the remaining core of Europe, Germany and France vacillate between statements of co-operation and factual rivalry. On the global stage, the EU has no weight. Within the EU, German energy policy is perceived as selfish. The energy transition does not serve as a role model.

(b) …but ultimately lead to more unity in the EU.

Less vulnerability to Russian pressure

By the year 2025, ongoing or worsening conflicts over Nord Stream 2 have led EU States to believe that they must coordinate their actions more closely and defend their interests vis-à-vis third states. This development results in particular from an intensified "America First" policy, and its negative impact on global trade. The intra-European conflicts surrounding Nord Stream 2 have been mitigated by structural funds, in particular for Poland, and compensatory payments granted to Ukraine in order to provide an alternative source of revenue for the loss of natural gas transmission. Interconnectors in the European pipeline system were expanded, which has significantly reduced individual states' vulnerability to Russian pressure. LNG plays a significant role here from an economic perspective. This brought the EU closer to its goal of an Energy Union.

Recommendations for Action

1. Become more strategic and communicate better

The criticism levelled by other states against Germany stems from the assumption that Nord Stream 2 is part of a long-term energy policy strategy. This lies in contrast with the understanding of German politics, which primarily sees Nord Stream 2 as a private-sector project. However, this actual lack of strategy on the part of German politics does not appear to be credible to most other states, since it is natural for them, according to their own understanding of politics that such a major project includes an energy policy strategy. In this respect, Germany needs to rethink its approach. If major projects such as Nord Stream 2 are inevitably seen by other states as a strategic energy policy and hence as having serious repercussions for other states, German policy must include this fact in their own decision-making process, and seek intensive exchange with its neighbours and partners at an early stage.

Provide policy with legal intervention options

Therefore, German energy policy must actually become increasingly strategic. What is more, an internal discussion needs to be held in good time about what the long-term consequences might be a major project such as Nord Stream 2. Accordingly, thought should be given to providing legal intervention options to stop projects such as Nord Stream 2 in case of doubt, from early on. Against this backdrop, German politics must also ask itself the question of what structural or institutional prerequisites it needs – if necessary, following the example of other states – in order to develop more strategic capability in the field of energy policy. "More State" in this context does not contradict a market-based approach, but refers to the necessary strategic framework in which the market can develop for the benefit of Germany and Europe. The fact that such an energy policy strategic approach requires close coordination between Berlin, Brussels and other EU states, bears testimony to the political damage already wrought by Nord Stream 2

2. Include Ukraine in the European decarbonisation strategy

As a member of the European Energy Community, Ukraine is already aligned with the EU in terms of energy policy and economy. It should thus be examined in detail under what conditions the Ukrainian gas infrastructure can be part of the 2050 European decarbonisation strategy announced by the new EU Commission. This would create a positive alternative to the hitherto exclusively negative perception of Nord Stream 2 from the Ukrainian point of view (loss of transit fees and loss of geopolitical relevance). Such an alternative must therefore provide Ukraine with clear economic development opportunities. The security concerns regarding a possible aggravation of Russian aggression against the country after its loss of importance for Russian gas supplies must also be taken very seriously in this context.

Use the potential of Ukrainian gas storage capacities

Integrating Ukraine into the European gas network can be achieved by connecting to sub-regional projects such as the Three Seas Initiative, or by accelerating the expansion of interconnectors. The planned connection of the Polish-Ukrainian pipeline (2021/2022) to the Ukrainian gas storage infrastructure can also be cited as an example here. The gas storage facilities in Ukraine could play an important role in the European energy supply in the context of progressively integrating the energy sectors electricity, heat and transport and additionally required storage capacities into an energy system increasingly based on renewable energy. In addition, another aspect to be considered here is the integration of the Ukrainian power grid into that of the EU. The idea of using the potential of Western Ukrainian gas storage facilities for the EU is not new. However, the idea is not yet an integral part of the current discussion surrounding a European decarbonisation strategy.

3. Constructive European unity in the transatlantic partnership and relations with Russia

Avoid unnecessarily reinforcing Russia's alienation

The negotiations with the US on LNG imports should be used to halt further erosion of transatlantic relations, and avoid a veritable European-American trade conflict. However, this largely depends on the current and future US administration and the approach adopted by the US Congress. To what extent we are to fear US sanctions in connection with Nord Stream 2 can scarcely be estimated in light of President Trump's erratic foreign policy.
In the meantime, Germany must work together with the other EU member states to speak with one voice to Russia in a reliable and sustainable manner. Of course, there are many points beyond the energy issues that play a role in relations with Russia, including Russia's domestic political developments. Its actions in breach of international law and thus a new power-political quality remain the foreseeable background against which the EU must position itself. From a German or European perspective, all differences aside, it is important to avoid unnecessarily reinforcing Russia's alienation from the EU, and pushing it into the Asian region as regards the energy economy, especially towards China. Achieving a viable, and in the best-case constructive modus vivendi for all stakeholders, needs to be high on Europe's foreign policy agenda. Intensive energy relations are of mutual interest over the long-term.

Imprint

The Authors

Jasper Eitze is Coordinator for Global Resource Policy in the Department of European and International Cooperation at the Konrad-Adenauer-Stiftung.

Steven Höfner was Desk Officer for European policy and North America in the Department of European and International Cooperation at the Konrad-Adenauer-Stiftung until September 2019.

Laura Philipps is a Desk Officer for Global Order in the Department of European and International Cooperation at the Konrad-Adenauer-Stiftung.

Konrad-Adenauer-Stiftung e. V.

Jasper Eitze
Coordinator "Global Resources Policy"
European and International Cooperation
T: +49 30 / 26996-3635
jasper.eitze@kas.de

Postal address: Konrad-Adenauer-Stiftung e. V., 10907 Berlin

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