

ARTICLE

**THE CONSEQUENCES OF THE US SANCTIONS POLICY IMPLEMENTATION: THE NORD STREAM 2 GAS PIPELINE CASE**

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ABSTRACT

It has become common practice for the US administration to apply sanctions to countries that adopt policies to defend their political, economic, and military interests but affect or are against those of the US. The application of the US sanctions policy has been extended in recent years to include even friendly or allied countries. When is the US sanction policy applied? In principle, when other countries assume positions or adopt political, economic, and military policies that do not respect or reflect the US interests or do not support its commercial, economic, political, or military policies and positions. As a result of the US sanctions policy's expansion application, now the US government does not distinguish between allies, friends, adversaries, or enemies. Sanctions against Germany and other European countries and companies and Russian companies for constructing the Nord Stream 2 gas pipeline are clear examples of what has been said

above.

But, what happens if all great powers apply the same US sanction policy? The reaction of China, Russia, and the EU, among others rejecting the US sanctions policy covering political, economic, and military issues, complicates the search for acceptable solutions to the main world problems increasing tensions at this level. Undoubtedly, this is not the way to find acceptable solutions to international or regional disputes. They can only be found through negotiations in good faith, the use of diplomacy, and increasing trust among countries involved in regional and international disputes. The use of unilateral force, the adoption of arbitrary sanctions, or the threat of military actions to force change another country's position or policy will not strengthen international peace and security but the contrary.

KEYWORDS

Gas, Gas Pipeline, Sanction Policy, Electricity Generation, Import of Natural Gas & LNG

1. INTRODUCTION

Europe is a region with small conventional energy proved reserves and an energy production well below its energy consumption. For this reason, European Union (EU) countries are always looking for new energy suppliers or are consolidating the ongoing relationship with several of their energy suppliers. One of these energy suppliers is Russia.

The Nord Stream 1 gas pipeline between Russia and Europe was inaugurated in November 2011. It has 1.224 km in length and passes through five nations (Russia, Finland, Sweden, Denmark, and Germany). The Nord Stream 1 gas pipeline runs from Portovaya Bay, near Vyborg in Russia, to the German Baltic Sea coast and can carry 55 billion cubic meters of gas per year. After several years of exploitation, the Nord Stream 1 gas pipeline reaches almost 100% of its capacity. For this reason, a parallel expansion project to the Nord Stream 1 gas pipeline is under construction, the so-called "Nord Stream 2" gas pipeline, to satisfy a foreseen increase in the EU future gas demand.

Nord Stream 2 is a gas pipeline constructed under the Baltic sea to directly bring more gas from Russia to Germany, avoiding crossing third-country territories. In practical terms, the Nord Stream 2 gas pipeline will follow a similar route to the Nord Stream 1, although it will start from Narva Bay, in the Leningrad region, to Greifswald, Germany. Nord Stream 2 gas pipeline will double the amount of gas to be funneled through the Baltic sea to 110 billion cubic meters per year (see Fig.1). The project cost has been estimated to be US\$ 11.000 million, has a length of more than 1.200 kilometers. The project is operated by the Nord Stream AG company with Headquartered in Switzerland and made up 51% by the Russian company Gazprom, the sole shareholder of Nord Stream 2 gas pipeline. The company is also in charge of implementing the project, covering half of the cost. Five western companies are financing the rest. These companies are ENGIE, OMV, Royal Dutch Shell, Uniper, and Wintershall (Janjevic, 2018).

Fig. 1: Nord Stream gas pipeline



Source: Bailey Samuel (CC BY 3.0)

2. THEORETICAL BACKGROUND

The geostrategic character of the Nord Stream 2 gas pipeline is evident. The Nord Stream 2 route bypasses some central and eastern European countries such as Slovakia and Poland, leaving them outside the lucrative Russian gas transit fees. "Moreover, with Russia having the means to deliver gas to its most important buyer, Germany, it would be much easier for the Russian government to shut off existing pipelines leading through Eastern Europe" (Janjevic, 2018). That

is the main reason behind the strong opposition of several EU countries and Ukraine to constructing the Nord Stream 2 gas pipeline.

According to [Piedras Martinez \(2017\)](#), Ukraine has historically been one of the transit countries on the Russian gas path towards the EU, which gave it some bargaining power in its relationship with Russia. Ukraine has normally imported gas from Gazprom at subsidized prices, which creates a strong dependence on its part by not being subjected to market prices. That has left Ukraine exposed to two great energy crises with Russia, both in the winter months, due to the Kremlin's cut-off of gas supply to keep Ukraine closer to its zone of influence, the dispute over transit fee, payment for gas supply, and gas price. But due to the connection of these gas pipelines to the ones used by Russia to supply gas to Europe, the cut-off actions against Ukraine also affected other European countries.

To avoid that this happens again in the future, Russia wants to reduce as much as possible Ukraine's role as a transit country in the supply of Russian gas to Europe. Russia also wants to reduce the Ukrainian income from transit rights on Russian gas throughout its territory and the benefit of having a preferential position and gas price.

According to [Piedras Martinez \(2017\)](#), the Nord Stream 2 gas pipeline construction has caused a strong confrontation between the US, Germany, Russia, and inside the EU. Supporting the US position are Latvia, Lithuania, Estonia, Poland, Hungary, Romania, Slovakia, and Ukraine. Russia is supporting the German government position. The group of EU countries supporting the US position is defending the idea that the construction of Nord Stream 2 is contrary to the EU's policy of energy diversification and the search for new energy sources. According to some of the countries mentioned above, the opening of the Nord Stream 2 gas pipeline would cause a considerable reduction in their income due to the current payment of passage fee of Russian gas through their territories, one of the real reasons for their strong opposition of this group of EU countries to the Nord Stream 2 gas pipeline construction.

The European Commission has decided not to block the Nord Stream 2 gas pipeline construction despite some EU states' opposition but declared that the EU's security energy might be compromised. According to the Commission view, the Nord Stream 2 gas pipeline construction is not in line with the EU diversification energy policy. It will also negatively impact Ukrainian and other EU countries' transit fee income.

3. DISCUSSION

It is important to single out that since its independence from the USSR, Ukraine has been Russia's gatekeeper to the European gas market. The Russian total gas supply to Europe was fed by Russian companies through Ukrainian soil, with transit fees providing Ukraine with roughly between US\$2 billion to US\$3 billion annually. Ending Russian gas transit throughout the Ukrainian territory, the Russian government would reduce Ukraine's GDP by around 3%.

The German government and the Christian Democratic Union (CDU) president, Germany's ruling party, Armin Laschet, ratified Germany's position to complete the Nord Stream 2 gas pipeline and demanded that the works continue to supply the country with natural gas directly from Russia.

The Russian government, by its part, questioned what it considered unfounded attacks against Nord Stream 2 gas pipeline by the US and other European countries. It considers that the attack against Nord Stream 2 gas pipeline is an attempt to force European countries to buy, at a higher price, LNG from the US, one of the real reasons behind the strong US opposition to the mentioned above gas pipeline construction. The US is against the Nord Stream 2 gas pipeline not for technical but political and economic reasons. The US uses the so-called "energy dependency" of the EU gas market on the Russian gas supply to sustain its position. However, the US real reason is the following: the US, one of the main producers and exporter of gas globally, wants to control the huge EU gas market. To achieve this goal, the US is adopting sanctions to countries and companies involved in the Nord Stream 2 gas pipeline construction to avoid its completion.

A. Why is it so important for Germany the Russian gas?

Germany finds itself in a precarious energy situation. "Oil and gas are the lifeblood of Germany's manufacturing economy, but the country produces very little energy domestically" (Stevens, 2019). According to the BP Statistical Review of World Energy 2020 report (BP, 2020), the German proved gas reserves in 2019 were less than 0,05 trillion cubic meters and produced very little gas domestically (5,3 billion cubic meters). The German gas consumption in 2019 was 88,7 billion cubic meters or 16,7-fold its gas production in that year. In 2019, the German government imported 109,6 billion cubic meters of gas by pipeline to satisfy its gas needs from the following countries: Russia (55,6 billion cubic meters), Norway (27,8 billion cubic meters), the Netherlands (23,4 billion cubic meters), and from others European countries (2,9 billion cubic meters).

Germany plans to close all nuclear power plants by 2022 (six nuclear power plants with a total capacity of 7.065 MW according to the PRIS-IAEA database 2021), and all coal power plants during the following years due to the new German government's energy policy implementation. Thus, the country needs to use more gas to replace nuclear energy and coal for electricity generation and increase the role of renewable energy sources within the country's future energy mix. Therefore, the Nord Stream 2 gas pipeline becomes an economically viable option that Germany cannot afford to ignore without seriously affecting its economy. Besides, the country has built a huge and expensive infrastructure to support increased gas use for electricity generation, and the government wishes to use it.

Undoubtedly, buying Russian gas transported through the Nord Stream pipelines will use the infrastructure already built. It is also cheaper and more secure than buying (Liquefied Natural Gas) LNG from the US.

However, building a gas pipeline is one of the most efficient and safest ways to move gas from one country to another. The gas pipeline considerably reduces the cost of gas imports compared to what it would mean to transport that gas by ship. Despite their clear benefits, gas pipelines have risks that should be considered. As Nord Stream 1 gas pipeline proves, the gas pipeline is an effective mechanism that reduces cost. Still, it physically connects the importing country with a single supplier from a single country, increasing energy dependency and the need to approve long-term agreements and inflexible contracts. And that is where one of the most critical points of the debate appears: with the construction of the Nord Stream 2 gas pipeline, Russia will increase its participation in the huge EU gas market, and for many, Russia is not a reliable energy supplier. Besides, Russia might have double intentions and, in reality, wish to increase its control of the European gas market for political reasons.

B. Does Russia have double intentions with the Nord Stream gas pipeline construction?

One of the arguments used by those countries who strongly oppose the Nord Stream 2 gas pipeline construction is that they consider that the Russian initiative to expand its gas exports to Europe hides its real intention: to increase the Russian control of the EU gas market. According to former Ukrainian President Petro Poroshenko, this is not a commercial project; it is not an economical or profitable project; it is absolutely a political project. But for several politicians and experts, this is not totally true.

Why Ukraine has this strong opposition to the Nord Stream 2 gas pipeline construction? Now, Russia must pay Ukraine billions of dollars each year to allow Russian gas to pass through its territory to reach the EU. Ukraine's position against Nord Stream 2 gas pipeline construction is clear: it does not want to lose its dominant position in the gas business between Russia and the EU. The Ukrainian government also does not wish to lose the Russian gas transfer fee to allow the Russian gas flow through its territory to reach Europe and a possible increase in gas price.

Without a doubt, the two main gas conflict involving Russia and Ukraine in the 2000s has also led Russia to seek alternatives to provide gas to Europe avoiding the Ukrainian territory. Since Nord Stream 2 gas pipeline has been

constructed under the Baltic sea, no matter what happens in Ukraine or any other central and eastern European countries, Russia's gas flow to Europe will continue. None of the current transit countries of Russian gas to Europe can do anything to stop it. At the same time, Ukraine will lose its preferential position in the gas business between Russia and the EU.

Russia assures that those countries that oppose the Nord Stream 2 gas pipeline construction assume this position according to their own economic interests. According to the Russian government, behind the US criticism of the Nord Stream 2 gas pipeline, it is easy to find its own economic interests as well. The US is a large exporter of natural gas and builds infrastructures to make natural gas and LNG export more competitive internationally. According to the BP Statistical Review of World Energy 2020 report, the US has increased its LNG exports 31,7-fold during 2010-19, reaching 47,5 billion cubic meters in 2019. For this reason, the US wishes to control the huge EU gas market by exporting it LNG. To achieve that goal, the US needs to stop the Nord Stream 2 gas pipeline construction definitively. One of the US's instruments to achieve the mentioned above goal is by imposing sanctions on countries and companies involved in the Nord Stream 2 gas pipeline construction.

It is important to single out that due to the EU sanctions against Russia, the Russian government is looking to increase its participation in the Asia and the Pacific energy sector. The aim is to reduce Russia's participation in the EU oil and gas market, reducing the negative impact of EU sanctions on the Russian economy. For this reason, the fear that Russia wishes through the Nord Stream 2 pipeline to increase control of the EU gas market is unfounded.

C. EU reactions to the US sanction policy

The Nord Stream 2 gas pipeline construction has caused a deep division among EU member states. According to EU officials, the prospect of direct US intervention in the bloc's energy interests to defend its own economic interest is unacceptable and should provoke a collective response. The EU energy policy should not be decided by the US, Russia, Ukraine, or any other country outside the block.

Due to the former Trump administration's foreign policy, the US and EU relations are not going through their best moments. The negative political and economic impact of former Trump administration foreign actions is still in many European political leaders' minds. That situation makes the dispute related to the Nord Stream 2 gas pipeline construction worse.

The US sanctions against the company that lay the gas pipelines under the Baltic sea approved in December 2020 have jeopardized its completion. Despite that, and although German officials recognize that the US sanctions would delay the project, the German government stresses that it will be finished in 2021. To avoid further works delays, the Russian ship Akademik Cherski was assigned to build the remaining section of the gas pipeline.

D. The EU and Russia positions on the energy issue

According to [the Nord Stream 2 homepage](#) entitled "A European Pipeline. Energy infrastructure for the future", "by 2035, the EU will need to import about 120 billion cubic meters more gas per year. The production outlooks of major gas producers such as the Netherlands, UK, as well as Norway, are falling". That means that the EU will need to import more gas from other countries outside the region to satisfy its future energy needs. The Nord Stream 2 gas pipeline will have the capacity to meet about one-third of the future EU's import needs.

It is important to single out that, according to the mentioned above [Nord Stream 2 homepage](#), the Russian gas "imported through Nord Stream 2 will be delivered to customers throughout Europa, not just to Germany, and will transport enough gas to supply 26 million households."

Due to the EU's high level of gas import in the future, the question to be answered is the following: **would Russia, as an important supplier of gas at the world level, guarantees its consumers' energy security, particularly in EU**

countries? The answer to this question would not necessarily be positive. Why?

Because, in general, this negative image of energy-supplying countries is associated with the fear of politicizing resources and using them as an "energy weapon," that is, cutting off the flow or threatening to do so to achieve explicitly political goals, as they have done on other occasions.

Does Russia have sufficient proved gas reserves to satisfy EU gas future needs? The answer to this question is yes. According to the BP Statistical Review of World Energy 2020 report, in 2019, Europe imported 233,5 billion cubic meters of gas through the pipeline and 119,8 billion cubic meters of gas through LNG. At the end of 2019, Russia holds a total of 38 trillion cubic meters of proved gas reserves, or 19,1% of the world total. The US proved gas reserves were, in the same year, 12,9 trillion cubic meters, around one-third of the Russian proved gas reserves or 6,5% of the world proved gas reserves. The Russian proved gas reserves alone represent more than 11,2-fold the European total proven reserves (3,4 trillion cubic meters or 0,2% of the world proved gas reserves) and could satisfy the total foreseeable European gas need for many years.

But how much Russian gas Europe imports in the future will depend on competition between Russian gas and other gas sources such as LNG. According to the Nord Stream official statement, suppliers from many different countries now compete to supply the EU internal gas market ([Nord Stream 2](#)).

In addition to import of gas through pipelines, there are currently 22 LNG terminals in the EU. This number of terminals will allow the EU to receive LNG from other countries, including from the US. With a capacity of 216 billion cubic meters, these terminals could import 50% of the EU's current gas demand but are currently only utilized at some 27% of capacity ([Nord Stream 2, 2021](#)). Germany can also access LNG arriving in Europe via terminals in the Netherlands, Belgium, and France. Meanwhile, plans are being developed for an LNG terminal in Germany, which will further diversify gas sources in that market, reducing the country's gas dependency on Russia ([Nord Stream 2](#)).

As it's stated in the project information ([Nord Stream 2, 2021](#)) the new gas pipeline "will directly contribute to the EU's ability to achieve the three key objectives of its Energy Union:

- Security in energy supply;
- Sustainability;
- Affordable and competitive energy.

The EU cannot pursue these objectives without sufficient natural gas supplies. Gas via import pipelines such as Nord Stream 2 will compete with LNG to supply the EU's inter-connected internal market, where it should now be able to flow wherever it is needed at prices set by the market. Nord Stream 2 is independent of the existing Nord Stream pipeline system, ensuring that one system's potential problems do not affect the other. This diversification creates greater security of supply for European consumers".

4. CONCLUSIONS

It is important to stress the following: the Nord Stream 2 gas pipeline construction reflects over 40 years of EU-Russian energy cooperation. Russia is the world's biggest gas exporter and the major long-term gas investor at the world level. For this reason, Russian gas reserves are amongst the most cost-effective sources to supply gas to Europe.

On the other hand, the EU has a diverse energy mix. The imports of natural gas from Russia make only one-third of the UE total gas supplies. Because of that, the fear of an EU increases in dependency on Russia's gas supply due to the Nord Stream 2 gas pipeline has no foundation.

In terms of gas supply, Russia and Europe are interdependent. Europe is Russia's main gas market, and – as long as its gas is competitive – Russia is Europe's main gas supplier.

Without a doubt, it will become a great economic and political mistake if Russia uses the gas supply to Europe as an "energy weapon." In this case, the country will also lose a huge gas market and negatively impact the Russian economy. It should be borne in mind that Russian oil and gas exports are an important income source for the Russian budget.

Evidently, the EU energy policy should not be decided by the US, Russia, Ukraine, or any other country outside the block. For European countries any direct US intervention in the bloc's energy interests is unacceptable and may lead to a collective measure. If all great powers apply the same US sanction policy, the reaction of China, Russia, and the EU, among others rejecting the US sanctions policy covering political, economic, and military issues, complicates the search for acceptable solutions to the main world problems increasing tensions at this level. Undoubtedly, this is not the way to find acceptable solutions to international or regional disputes. They can only be found through negotiations in good faith, the use of diplomacy, and increasing trust among countries involved in regional and international disputes. The use of unilateral force, the adoption of arbitrary sanctions, or the threat of military actions to force change another country's position or policy will not strengthen international peace and security but the contrary.

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