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Russia's Nord Stream 2 Pipeline: Running in Place

In 2020, uncertainty has clouded the future of Nord Stream 2, a controversial natural gas pipeline that would increase the amount of Russian natural gas exported directly to Germany and on to other European Union (EU) member states, bypassing Ukraine and other transit states (Figure 1). Pipeline construction was suspended in December 2019, after the passage of U.S. legislation establishing sanctions related to the pipeline. The Trump Administration and Congress have expressed opposition to Nord Stream 2, reflecting concerns about European dependence on Russian energy and the threat Russia poses to Ukraine.

About 100 miles of the approximately 760-mile pipeline remain to be laid and connected. After several months of delay, in May 2020 a Russian pipelaying vessel arrived at Germany's Mukran port, a logistics hub for Nord Stream 2. Observers have expected the Russian state-owned company Gazprom to use that ship—which until recently was owned by a subsidiary—and a second vessel to try to finish the pipeline. Russian officials have said the pipeline could be completed by the end of 2020 or early 2021.

Background

Nord Stream 2 is being constructed alongside the Nord Stream 1 pipeline, in operation since 2011. If completed, Nord Stream 2 would double the total capacity of the system, from 55 billion cubic meters (BCM) to 110 BCM per year. Nord Stream 2 is estimated to cost about \$10 billion. It is owned entirely by Gazprom. Half the cost is being financed by five European companies: Engie (France), OMV (Austria), Shell (Netherlands/UK), Uniper (Germany), and Wintershall (Germany). This ownership structure differs from Nord Stream 1, in which Gazprom has a 51% stake and four European companies—Engie, Wintershall, E.ON (Germany), and Gasunie (Netherlands)—own the rest.

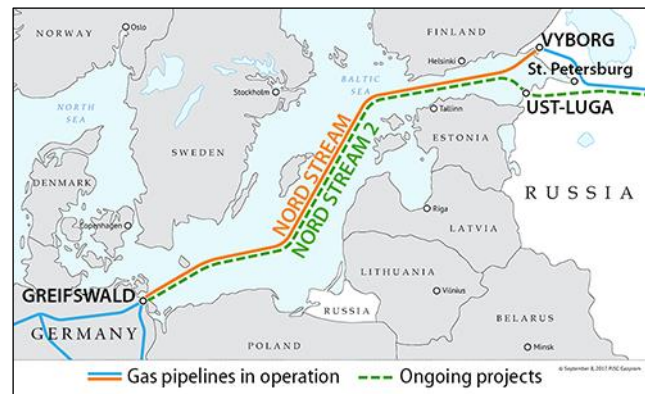
Support and Opposition

Although the EU has articulated an ambitious energy diversification strategy, some European governments have not reduced dependence on Russian gas, which accounted for 47% of EU imports in 2019. Factors behind continued European reliance on Russian supply include possible rising demand for natural gas, diminishing European gas supply, financial investments by Russia in European infrastructure, and the perception of many Europeans that Russia remains a reliable supplier.

Supporters of Nord Stream 2, including the German and Austrian governments, argue that the pipeline will enhance EU energy security by increasing the capacity of a direct and secure supply route at a time of rising European demand for gas. German officials and others have said that once the gas reaches Germany it could be transported

throughout Europe. These advocates say they support developing additional infrastructure to ensure this is possible. The German government stresses that it also supports broader European energy supply diversification efforts, including by backing construction of new liquefied natural gas (LNG) terminals in northern Germany.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

Opponents of the pipeline—including, among others, some EU officials, Poland, the Baltic states, Ukraine, the Trump Administration, and many Members of Congress—argue that it will give Russia greater political and economic leverage over Germany and others that are dependent on Russian gas, leave some countries more vulnerable to supply cutoffs or price manipulation by Russia, and increase Ukraine's vulnerability to Russian aggression.

Critics of Nord Stream 2 were initially hopeful that the European Commission (the EU's executive agency) would block the project by invoking EU regulations intended to prevent monopoly control of energy projects. In May 2020, Germany's national energy regulator affirmed that Gazprom could not own both the portion of the pipeline in German territorial waters and a majority of the gas flowing through it. Analysts speculate, however, that Gazprom could seek to sell or transfer ownership of that portion of the pipeline in order to comply with the regulations.

More recently, pipeline opponents, including within Germany, have argued that the German government should block the pipeline in response to malign Russian activity, including an alleged chemical nerve agent attack against Russian political opposition figure and anticorruption activist Alexei Navalny. Although German political leaders have uniformly condemned the attack, Chancellor Angela Merkel and others continue to argue that the infrastructure project should be "decoupled" from ongoing political disputes with Russia.

Impact on Ukraine

In recent years, Russia has sought to reduce the amount of natural gas it transits through Ukraine. Before Nord Stream 1 opened in 2011, about 80% of Russia's natural gas exports to Europe transited Ukraine. In 2018, around 40% of these exports transited Ukraine, and Ukrainian revenues from gas transit totaled \$2.65 billion.

In December 2019, after the United States established sanctions related to construction of Nord Stream 2, Gazprom and the Ukrainian state-owned energy company Naftogaz concluded a renewal contract for the transit of Russian natural gas to Europe from 2020 to 2024. The contract provides for transit of at least 65 BCM in 2020, a volume equal to about 73% of the 2019 volume of 89.6 BCM, and 40 BCM a year from 2021 to 2024, a volume equal to about 45% of the 2019 volume. According to Naftogaz, the contract will lead to at least \$7.2 billion in transit revenue over five years.

If Nord Stream 2 becomes operational, observers expect it to further reduce gas transit through Ukraine. This would not necessarily increase Ukraine's vulnerability to energy supply cutoffs; Ukraine stopped importing natural gas directly from Russia in 2016. It could lead to declines in transit revenues, however, and increase Ukraine's strategic vulnerability, if reduced dependence for gas transit leads Moscow to be even less constrained toward Ukraine.

U.S. Policy

The Trump Administration's attention to European natural gas issues has focused primarily on expanding U.S. LNG exports to the EU, part of a larger effort to diversify European energy imports, and on opposing the Nord Stream 2 pipeline.

Congress also has expressed opposition to Nord Stream 2. The Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA, P.L. 115-44, Title II) states that it is U.S. policy to "oppose the Nord Stream 2 pipeline given its detrimental impacts on the EU's energy security, gas market development in Central and Eastern Europe, and energy reforms in Ukraine." In December 2018, the House of Representatives passed H.Res. 1035, which called for the cancellation of Nord Stream 2 and the imposition of sanctions with respect to the project.

U.S. Sanctions Related to Nord Stream 2

The Protecting Europe's Energy Security Act of 2019 (PEESA; P.L. 116-92, Title LXXV) establishes sanctions on foreign persons whom the President determines have sold, leased, or provided subsea pipe-laying vessels for the construction of Nord Stream 2 and TurkStream (another Russian pipeline that is to supply natural gas to Europe), or any successor pipeline, since December 20, 2019 (the date of the legislation's enactment). TurkStream was inaugurated in January 2020.

PEESA provides for a 30-day wind-down period; exceptions for repairs, maintenance, environmental remediation, and safety; and a national security waiver. In addition, PEESA provides for the termination of sanctions if the President certifies to Congress "that appropriate

safeguards have been put in place" to minimize Russia's ability to use the sanctioned pipeline project "as a tool of coercion and political leverage," and to ensure "that the project would not result in a decrease of more than 25 percent in the volume of Russian energy exports transiting through existing pipelines in other countries, particularly Ukraine, relative to the average monthly volume of Russian energy exports transiting through such pipelines in 2018."

On December 21, 2019, Allseas, the Swiss-Dutch company laying the Nord Stream 2 pipeline, stated that it had suspended its activities. On December 27, 2019, the State Department said that "the United States' intention is to stop construction of Nord Stream 2" and that PEESA's sanctions would be imposed "unless related parties *immediately* demonstrate good faith efforts to wind-down."

The House- and Senate-passed versions of the FY2021 National Defense Authorization Act (H.R. 6395, §1248; S. 4049, §6231) would clarify and expand the PEESA sanctions to target vessels engaged in a broad set of pipe-laying activities, as well as those who facilitate their sale, lease, or provision; provide underwriting services or insurance; or provide certain upgrades or installation services. In August 2020, Senators Tom Cotton, Ted Cruz, and Ron Johnson warned officials at Germany's Mukran Port of "crushing legal and economic sanctions" if Nord Stream 2 were completed.

Other relevant sanctions legislation is included in Section 232 of CRIIEA, which authorizes (but does not require) sanctions on those who invest at least \$1 million, or \$5 million over 12 months, or engage in trade valued at the same amount for the construction of Russian energy export pipelines (22 U.S.C. §9526). On July 15, 2020, the State Department published updated guidance clarifying that Section 232 would "now include investments or other activities related to ... Nord Stream 2 and the second line of TurkStream"; earlier guidance had noted that Section 232 would not apply to projects for which contracts were signed prior to August 2, 2017, the date of CRIIEA's enactment.

Some in Europe have warned that the threat of additional U.S. sanctions could unintentionally galvanize support for Nord Stream 2 from erstwhile opponents of the pipeline. EU officials on record as opposing the pipeline subsequently have stated that the EU rejects as a "matter of principle" the imposition of sanctions against EU companies conducting legitimate business in line with EU and European law. Other opponents of the pipeline, such as the Polish government, support sanctions as necessary to prevent completion of the project.

For related products, see CRS Report R42405, *European Energy Security: Options for EU Natural Gas Diversification*; and CRS In Focus IF11177, *TurkStream: Russia's Newest Gas Pipeline to Europe*.

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