



Updated June 25, 2021

Russia's Nord Stream 2 Pipeline: Continued Uncertainty

Uncertainty continues to cloud the future of Nord Stream 2, a natural gas pipeline under construction that would increase the amount of Russian natural gas export capacity directly to Germany and on to other European countries, bypassing Ukraine, Poland, and other transit states (Figure 1). Successive U.S. Administrations and Congresses have opposed Nord Stream 2, reflecting concerns about European dependence on Russian energy and the threat of increased Russian aggression in Ukraine.

Nord Stream 2 construction was initially suspended in December 2019, after the passage of U.S. legislation establishing sanctions related to the pipeline. At the time, fewer than 100 miles of the approximately 760-mile long pipeline system (consisting of two parallel lines) remained to be laid. Construction resumed in December 2020. In response, the United States has imposed sanctions on several entities and vessels, including five Russian ships identified as engaging in pipe-laying activities. Construction is ongoing, however. Reports indicate that one of two lines of the Nord Stream 2 pipeline system is complete, and construction of the second line may be finished within months. Additional steps, including certification by German authorities, would be required before the pipeline begins to transport gas.

The German government is a key European proponent of the pipeline. German and EU officials, including some opponents of the pipeline, have condemned possible U.S. sanctions on European entities involved in the pipeline project as an infringement on national sovereignty that could have negative repercussions for broader transatlantic cooperation. German supporters of the pipeline, including Chancellor Angela Merkel, welcomed the Biden Administration's May 2021 announcement that it would refrain from enacting sanctions on Nord Stream 2 corporate officers, despite imposing sanctions on additional Russian vessels involved in the project. Although the Biden Administration says it remains strongly opposed to the pipeline, some analysts speculate U.S. officials may be seeking to avoid a broader deterioration in U.S.-German relations due to the pipeline dispute.

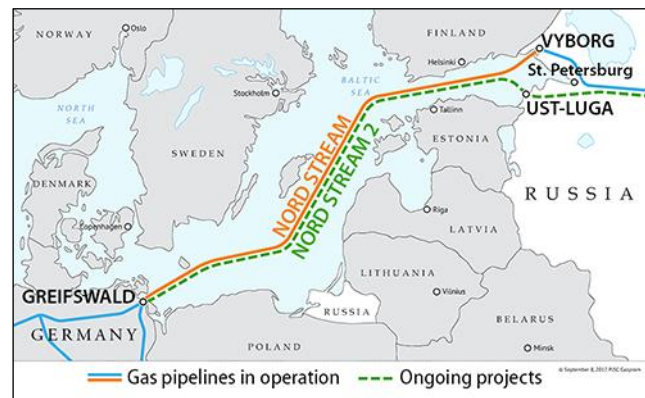
Background

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 Nord Stream system, from 55 billion cubic meters (BCM) to 110 BCM per year. Nord Stream 2 is owned by the Russian state-owned energy company Gazprom. About half the cost is reportedly financed by five European companies: Engie (France), OMV (Austria), Shell (Netherlands/UK), Uniper (Germany), and Wintershall (Germany).

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 about 45% of EU natural gas imports in 2019. Russian gas exports to the EU were up 18% year-on-year in the first quarter of 2021. Factors behind reliance on Russian supply include diminishing European gas supplies, commitments to reduce coal use, investments by Russia in European infrastructure, Russian export prices, and the perception of many Europeans that Russia remains a reliable supplier.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

Supporters of Nord Stream 2, including the German and Austrian governments, argue the pipeline will enhance EU energy security by increasing the capacity of a direct and secure supply route. German officials say they support the development of infrastructure to ensure that gas can be transported across Europe once it reaches Germany. They stress that Germany supports broader European energy supply diversification efforts, including construction of new liquefied natural gas (LNG) terminals in northern Germany.

Opponents of the pipeline—including, among others, some EU officials, the European Parliament, Poland, the Baltic states, Ukraine, the Biden 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.

Pipeline opponents, including within Germany, also have argued the German government should block the pipeline in response to malign Russian activity and human rights abuses. Chancellor Angela Merkel and others continue to argue that the infrastructure project can be “decoupled” from ongoing 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, about 40% of these exports transited Ukraine.

In December 2019, after the United States established new sanctions related to Nord Stream 2, Gazprom and the Ukrainian state-owned energy company Naftogaz renewed a contract for the transit of Russian natural gas to Europe from 2020 to 2024. The contract provided for transit of at least 65 BCM in 2020, a volume equal to about 73% of the 2019 volume, and 40 BCM a year from 2021 to 2024, a volume equal to about 45% of the 2019 volume. In 2020, Russia shipped about 56 BCM to Europe via Ukraine, although Ukraine reportedly received the full contracted amount of \$2.1 billion in transit revenues.

If Nord Stream 2 becomes operational, observers expect Russia 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 on transit leads Moscow to act more aggressively in Ukraine.

U.S. Sanctions

Congress and successive U.S. Administrations have opposed Nord Stream 2 since the pipeline's inception. Increasingly, congressional efforts to block the pipeline have focused on sanctions, including through progressively more stringent sanctions legislation enacted in 2017, 2019, and 2020. The Biden Administration has called Nord Stream 2 a "bad deal" and said that U.S. opposition to the pipeline is "unwavering."

Section 232 of the Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA, P.L. 115-44, Title II) authorizes sanctions on those who invest at least \$1 million, or \$5 million over 12 months, or provide goods, services, or support valued at the same amount for the construction of Russian energy export pipelines (22 U.S.C. §9526). On January 19, 2021, the Trump Administration imposed sanctions on the Russian vessel *Fortuna*, which Gazprom is using to complete construction of Nord Stream 2, and its corporate owner KVT-RUS, pursuant to Section 232.

Additionally, the Protecting Europe's Energy Security Act of 2019, as amended in 2020 (PEESA; 22 U.S.C. §9526 note; P.L. 116-283, §1242), establishes sanctions on foreign persons whom the President determines have sold, leased, provided, or facilitated the provision of vessels for the purpose of subsea pipe-laying activities related to the construction of Nord Stream 2 and TurkStream (another Russian pipeline that supplies natural gas to Europe), or any successor pipeline. As amended, PEESA also targets those who provide underwriting services or insurance, or who provide certain upgrades or installation services. Sanctions do not apply to nonbusiness entities of the EU, member states, or the governments of Norway, Switzerland, and the United Kingdom.

PEESA provides for exceptions and waivers and authorizes the President to terminate sanctions if the Administration 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."

On February 22, 2021, the Biden Administration identified *Fortuna* and KVT-RUS as also subject to sanctions under PEESA. On May 19, 2021, the Administration designated 13 more vessels and four entities under PEESA. However, the Administration waived the application of new sanctions on Nord Stream 2 AG, its chief executive officer, and corporate officers (Nord Stream 2 AG is the Swiss-based company Gazprom established to construct and operate the pipeline). Some Members of Congress have urged the Administration to impose additional sanctions to prevent Russia from completing construction of the pipeline.

Response to U.S. Sanctions

The threat of sanctions appears to have encouraged some companies to withdraw from the Nord Stream 2 project. The day after PEESA was enacted, Allseas, a European company that had been laying the pipeline, stated that it was suspending its activities. In January 2021, after PEESA was amended to authorize broader sanctions, other European companies, including a certifier and an insurer, reportedly withdrew from the project. Despite ongoing questions about the viability of the pipeline, however, Russian officials state the pipeline will be completed.

The German government's continued support for the pipeline has prompted some critics of both Nord Stream 2 and U.S. sanctions to argue that diplomatic efforts should focus more on ensuring that Ukraine maintains its leverage as a gas transit country even if the pipeline is built. This could include German commitments to enact punitive measures against Russia should Nord Stream 2 supplant gas flows through Ukraine. Some also express concern that additional U.S. sanctions could jeopardize U.S.-German and U.S.-European cooperation in other areas, including countering Russian aggression, while failing to prevent the pipeline's construction. Some observers viewed the Administration's decision not to impose sanctions on Nord Stream 2 officials, including EU nationals, as a sign of possible efforts to avoid such a deterioration in broader bilateral relations.

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

Paul Belkin, Analyst in European Affairs
Michael Ratner, Specialist in Energy Policy
Cory Welt, Specialist in Russian and European Affairs

IF11138

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.