



Updated August 24, 2021

Russia's Nord Stream 2 Natural Gas Pipeline to Germany

Nord Stream 2, a natural gas pipeline nearing completion, is expected to increase the volume of Russia's natural gas export capacity directly to Germany, 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. The German government is a key proponent of the pipeline, which it says will be a reliable source of natural gas as Germany is ending nuclear energy production and reducing coal use.

Despite the Biden Administration's stated opposition to Nord Stream 2, the Administration appears to have shifted its focus away from working to prevent the pipeline's completion to mitigating the potential negative impacts of an operational pipeline. Some critics of this approach, including some Members of Congress and the Ukrainian and Polish governments, sharply criticized a U.S.-German joint statement on energy security, issued on July 21, 2021, which they perceived as indirectly affirming the pipeline's completion. Although the statement included a German pledge to increase energy investments in Ukraine and to counter future Russian attempts to "use energy as a weapon," it made no mention of halting progress on Nord Stream 2. Critics argue it will be difficult to hold future German governments to its commitments and that the Administration should pursue additional sanctions to prevent the pipeline from becoming operational.

Background and Current Status

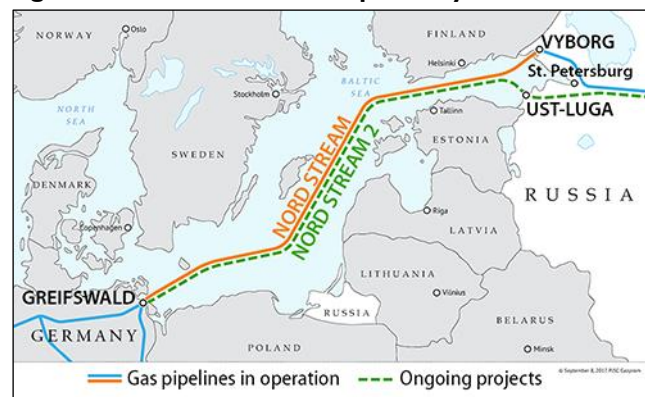
Nord Stream 2 lies alongside the Nord Stream 1 pipeline, in operation since 2011. The 760-mile-long Nord Stream 2 pipeline (consisting of two parallel lines) is expected to double the total capacity of the Nord Stream system, from 55 billion cubic meters (BCM) to 110 BCM per year. The pipeline is owned 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).

Pipeline construction was initially suspended in December 2019, after the passage of U.S. legislation establishing new sanctions related to the pipeline. Construction resumed in December 2020. In response, the United States has imposed sanctions on 23 Russian-related entities and vessels. Construction of the pipeline has continued, however, and is expected to be complete by fall 2021. Additional steps, including certification by German authorities, are required before the pipeline begins to transport gas.

Although the European Union (EU) has articulated an ambitious energy diversification strategy, some European governments have not reduced dependence on Russian gas,

which accounted for about 48% of EU natural gas imports in 2020. 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, Russian investments 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.

Note: Ukraine is south of Belarus, between Poland and Russia

Support and Opposition

Supporters of Nord Stream 2, including the German and Austrian governments, argue the pipeline would 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 would 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.

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 2019, about 45% 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 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.

The Ukrainian and Polish governments jointly criticized the July 2021 U.S.-German energy security agreement, arguing that the apparent decision by the United States and Germany to forgo efforts to halt Nord Stream 2 had "created a political, military, and energy threat for Ukraine and Central Europe, while increasing Russia's potential to destabilize the security situation in Europe."

U.S. Sanctions

Congress and successive U.S. Administrations have opposed Nord Stream 2 since the pipeline's inception. Congressional efforts to block the pipeline have focused on sanctions, including through progressively more stringent sanctions legislation enacted in 2017, 2019, and 2020.

Section 232 of the Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEEA, 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 a few other non-EU governments.

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; on August 20, it designated another four entities and vessels. However, the Administration has waived the application of new sanctions on Nord Stream 2 AG, its chief executive officer, and corporate officers (Nord Stream 2 AG is a 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 the pipeline from becoming operational.

The threat of sanctions appeared to prompt some companies to withdraw from Nord Stream 2. The day after PEESA was enacted, a Swiss company that had been laying the pipeline said it would suspend 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.

Evolving U.S. Policy

The Biden Administration has called Nord Stream 2 a "bad deal" and said that U.S. opposition to the pipeline is "unwavering." Nevertheless, U.S. officials have suggested the Administration's ability to prevent the pipeline from becoming operational is limited, even with additional sanctions. They at times also have expressed concern that additional U.S. sanctions could jeopardize U.S.-German and U.S.-European cooperation in other areas, including countering Russian aggression. Accordingly, the Administration's diplomatic efforts increasingly appear to be aimed at helping Ukraine maintain its leverage as a gas transit country even if the pipeline becomes operational.

In the July 2021 U.S.-German statement, Germany committed to take action against Russia, including possible sanctions, if Russia uses its energy resources as a weapon or commits further aggression toward Ukraine; to push for an extension of Ukraine's gas transit agreement with Russia after the current agreement expires in 2024; and to invest in energy projects in Ukraine with an initial investment of about \$250 million. Critics of the agreement question whether a future German government will have the ability or political will to fulfill these commitments, particularly additional EU sanctions on Russia which would require the support of all 27 EU member states.

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*.

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