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THE DEVELOPMENT OF NS 2: INTERPLAY BETWEEN SUPPORTING AND OPPOSING COALITIONS

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LIST OF ABBREVIATIONS

EC – the European Commission
ECJ – the European Court of Justice
EEZ - exclusive economic zone
EU – the European Union
LNG – liquefied natural gases
NDAA - National Defense Authorization Act
NS – pipeline Nord Stream 1
NS 2 – pipeline Nord Stream 2
PCA - Polish Competition Authority
RCT – rational choice theory
UOKiK - The Office of Competition and Consumer Protection
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ABSTRACT

Energy project’s Nord Stream 2 (further – NS 2) development process has been ongoing for over five years and affected both transatlantic and European domestic relations dividing states into two camps. A number of involved actors and a variety of diplomatic and multilateral instruments symbolize about its importance in contemporary international relations. Hence, a comprehended analysis had to be conducted in order to better understand its relevance and importance in global politics.

This master thesis aims to analyze how supporting and opposing coalitions influenced NS 2 development and energy infrastructure decisions by studying the interplay of two groups and critical junctures. The research seeks to present the historical background and main details of the pipeline NS 2, introduce supporting and opposing coalitions in the development of NS 2 and their positions and interests, analyze critical junctures in the NS 2 development and how did they affect its proceeding through the lens of rational choice theory. The process-tracing method is used to track the consequent process and identify the most critical events in the decision-making regarding the NS 2 development. The content analysis of scientific literature, various documents, media articles and scientific papers was used in the research. Semi-structured interviews were also conducted to evaluate the process better.

The results show that Denmark’s hesitation to grant a permit for NS 2 building and American sanctions became the critical instruments to halt the estimated operational start of NS 2. The current situation shows that the amended Gas Directive will be applied to the NS 2 creating uncertainty of its ownership and volume numbers in the future. Moreover, European Court of Justice’s decision to put OPAL pipeline back on restrictions creates a precedent for EUGAL, hence, NS 2 would not be able to function on the expected capacities. The study affirms that the opposing team and its instruments have significantly hindered the implementation of NS 2 project, and, very likely, will have a negative impact on pipeline’s full-fledged functioning in the future.

Keywords: energy security, foreign policy analysis, multilateral relations, Nord Stream 2, rational choice theory.
SANTRAUKA


Šis magistro darbo tyrimo tikslas yra išanalizuoti, kaip palaikančios ir besipriešinančios koalicijos darė įtaką NS 2 projekto eigai, tiriant dviejų grupių sąveiką ir kertinius proceso įvykius. Naudojant racionalaus pasirinkimo teorijos gaires tyrimo metu siekti supažindinti su projekto priešistorė be pagrindinėmis NS 2 dujotiekio detalėmis, pristatytų šalininkų ir opozicijos koalicijas, jų pozicijas bei interesus, išanalizuoti kritinius NS 2 vystymo etapus ir suprasti kaip jie paveikė proceso eiga. Siekiant sekti projekto nuoseklų procesą ir nustatyti svarbiausius įvykius priimant sprendimus dėl NS 2 eksploatacijos tyrimum išpildyti pasitelktas proceso seikimo metodas. Tyrimo metu atlikta mokslinės literatūros analizė, analizuojamas įvairių dokumentų, žiniasklaidos straipsnių ir akademinių darbų turinys, atlikti pusiau struktūruoti interviu su tarptautinio energetinio saugumo ir tarptautinių santykių ekspertais.

Rezultatų parodė, kad Danijos sprendimas vilkinti laiką prieš išduodant leidimą NS 2 tiesimui valstybės teritoriniuose vandenynuose bei JAV sankcijos tapo kritinėmis priemonėmis sustabdinti numatomą NS 2 eksploatacijos pradžią. Atsižvelgiant į dabartinę situaciją Europos Sąjungoje galima teigti, kad atnaujinta Duų direktyva bus taikoma ir NS 2, o tai sukels neiššakumų dėl dujotekio nuosavybės ir pralaidumo lygio ateityje. Europos Teisingumo Teismo priimtas sprendimas sugrąžinti OPAL aprbojimus rodo, kad toks pats likimas gali gręsti ir EUGAL. Dėl šių teisinių priežasčių NS 2 negalėtų veikti planuotais pajėgumais. Galima teigti, jog opozicijos naudoti instrumentai neigiamai paveikė dujotekio plėtros eiga ir sukėlė kliūtis projekto sėkmingam įgyvendinimui bei, labai tikėtina, jo pilnaverčiam funkcionavimui ateityje.

Raktiniai žodžiai: energetinis saugumas, daugiašaliai santykiai, Nord Stream 2, racionalaus pasirinkimo teorija, užsienio politikos analizė.
INTRODUCTION

Energy project Nord Stream 2 (NS 2) sparks controversy within the European Union and complicates its relations with the United States. The NS 2 is following its predecessor Nord Stream 1 (NS 1), whose completion was finished in 2011. As Russia (and the Soviet Union) was perceived to be a reliable import partner for many years, at the time of NS 1 implementation, it was considered as a smart and very well calculated diversification policy of energy and routes.

The changes in the global arena and Russian military intervention in Ukraine in 2014 resulted in the EU’s uncertainty over Russia, strengthening EU’s will to become less depended from neighboring state by energy matters. Nevertheless, Germany and five major European energy companies have decided to act independently and ignore EU’s policies by signing an agreement on Nord Stream 2 in 2015, further deepening its economic and political relationship with Russia. Subsequently, many European states – mostly from Center-Eastern Europe – and the US opposed the new gas pipeline project. The opposing coalition is stating that the energy project can become a political tool to control EU’s policies and hurt the already precarious Ukrainian economy. In the meantime, the proponents argue that the NS 2 is simply a beneficial economic affair that should not have any political consequences. Henceforth, serious disagreements between political players caused the various interruptions and postponed the NS 2 operational start for unlimited time. Therefore, it is important to analyze which actors and political groups are taking the leading role in the energy project’s development.

This master thesis will study the process of NS 2 development presenting major coalitions and their participation in it. The research will analyze to what extent and how various actions affected strategic energy infrastructure decisions and the outcome of the project.

Research relevance and novelty: The Nord Stream’s extension became a highly discussed matter in international public debate. The Nord Stream 2 not only divided the European Union into two groups but also attracted external players, such as the US, that are trying to influence the development of the pipeline, according to their national interests. The division of opposing and supporting parties created a visible fracture in the political consistency in Europe and transatlantic relations. Therefore, it is important to analyze the process of NS 2 development as its complexity and constantly changing nature are symbolizing about its significance in multilateral relations.

NS 2 became a widely studied topic in academic research as well, nevertheless it was yet analyzed in consequent development analysis. Energy experts Alan Riley (Nord Stream 2: Understanding the potential consequences) and Anke Schmidt-Felzmann (The commercial deals connected with Gazprom’s Nord Stream 2) analyzed the NS 2 from security or commercial viewpoints, meanwhile policy analyst Marco Giulli examined NS 2’s economic, strategic, legal and
political implications from EU perspective and what kind of consequences it might have on its energy security (*Nord Stream 2: Rule no more, but still divide*). In their policy paper Arūnas Molis, Angela Aiello and Simona Sglavo “Nord Stream 2: litmus test for European unity” provided insights about Baltic-Nordic states’ perception on NS 2 and analyzed the potential consequences on EU policies and member-states’ relations. Therefore, wide appliance of various papers signals about project’s significance. Nevertheless, even though the subject is highly topical, research on the process-tracing in the study of NS 2 was sparsely conducted in the academic literature. Such analysis of the interplay among the most important groups can help to understand the development of NS 2, the interests of key players and the utilization of national and multilateral instruments better.

**Research problem:** To what extent have the opposing and supporting coalitions influenced the development of the Nord Stream 2 project?

**Research object:** the interplay between the opponents and proponents of Nord Stream 2 and the implications on its development.

**Research goal:** To analyze to what degree and how supporting and opposing coalitions influenced the Nord Stream’s 2 development.

**Tasks of the research:**
1. To present the key pillars of the rational choice theory.
2. To contextualize the historical background and main details of the pipeline Nord Stream 2.
3. To introduce supporting and opposing coalitions in the development of Nord Stream 2, their positions and interests.
4. To analyze critical junctures in the Nord Stream 2’s development and how did they influence its proceeding.

**Research methodology:** This research presents and evaluates the political and economic process of NS 2 development. Hence, for this matter, the method of process-tracing is applied. The respective method helps to track the consequent process and to indentify the most critical junctures in the decision-making, giving the possibility to follow up the volatility of this controversial energy project. The detailed descriptive analysis gives a greater understanding of the causal claims shaping the outcome by linking causes and results together. Process-tracing research analyses the qualitative data and contributes to describing political and economic phenomena when evaluating the causal dynamics of the energy project. The analysis based on process-tracing method was applied in Lithuanian analytical study by Tomas Janeliūnas and Evelina Maskoliūnaitė “Elektros tinklų sinchronizacija su kontinentine Europa: politinis procesas 1999–2019 m.” (*Synchronization of electricity networks with continental Europe: the political process 1999-2019*) which helped to
identify the chain of events in the political process that led to the agreement on synchronization between the Baltic States and continental Europe which was a significant energy project as well.

In order to better analyze the case, several qualitative research methods are employed. Academic literature analysis is used to present the theory of rational choice. Content of various documents, media articles and scholarly academic papers are analyzed in order to present the position of adversaries and supporting groups and their concerns toward the NS 2 project. After analyzing publicly available sources, semi-structured interviews from international energy security and international relations experts are conducted to further evaluate the process (April 2020).

**Base of literature and sources:** Methodological articles by Derek Beach “Process-Tracing Methods in Social Science” and David Collier “Understanding Process Tracing” are used in this research to gain a better perception of process-tracing method in the field of international relations. Theoretical material, such as scientific journal papers (e.g. *The Rational Choice Approach to Politics: A Challenge to Democratic Theory* by Mark P. Petracca) and academic books (e.g. *Evolutionary Ecology and Human Behavior* by Eric Alden Smith) are used to present the theory of rational choice and its basic general assumptions along with its appliance for international relations. A review “Energy security: Definitions, dimensions and indexes” by B.W.Ang and W.L.Choong is used to form up an understanding about energy security. Various reports and documents from the European Commission, Nord Stream AG, Ministries of Foreign Affairs, and US Department of Energy are analyzed to present key international and national interests of actors. Articles (2014-May 2020) from media channels such as BBC, CNN, DW and think-tanks like Atlantic Council and CEPA are studied in order to present the discourse of politicians and the process of major junctures in the development. Semi-structured interviews are conducted with Lithuanian and international energy security experts.

**Structure of the paper:** The research paper consists of 4 parts. The first chapter provides a short presentation of a chosen international relations theory – the theory of rational choice, principal elements, and features alongside the description of energy security as the states’ perceptions towards NS 2 is highly related to their energy security policies and understanding. The second chapter introduces the Nord Stream energy project, its rationale and importance for the EU. It seeks to present the major differences of circumstances and perceptions over NS 1 and NS 2. After introduction of NS 2, the third chapter introduces and explains the main coalitions in the development of the pipeline and aims to conceptualize each actor’s rational interests, and the willingness to participate in the process. The fourth part of the master thesis analyzes critical junctures – decisions made by coalitions’ members – in the process by explaining their relevance in the NS 2 implementation and influence for the current outcome. The results of the research are systemized in conclusions.
1. RATIONAL CHOICES IN ENERGY SECURITY POLICY

Rational choice theory (RCT) became a popular approach to analyze decision-making in many fields related to sociology. The theory was applied in studies of economic behavior, migration or inequality policies. Over the years, the theory has expanded and become highly applicable in political science as well. Contemporary theory presumes that individuals taking particular decisions are motivated by self-interests, therefore, they are making the most feasible decisions from all the options. Hence, this theory becomes highly useful approach to analyze foreign policy, states’ national interests and decisions related to security or market issues.

This chapter is intended to form a theoretical approach to economic rationality through the lenses of rational choice. Moreover, the significance of energy security will be presented as the case of Nord Stream 2 is highly connected to national security issues related to energy policies.

1.1. Basic assumptions about rational choice theory

The contemporary RCT is claimed to have developed in the 1950s and 1960s in the United States as an element of the behavioral revolution. It was seeking to analyze the behavior of the individual actor, how and why a particular decision is taken. According to RCT actors base their decision-making on their individual preferences or constraints. Due to its complexity, RCT can be used in various sciences and studies as it can analyze the interactions of different actors.

The roots of RCT can be found in the 19th century. Adam Smith, one of the most famous economy philosophers, in his “Theory of Moral Sentiments” has described self-driven economic agent.¹ According, to Smith, all individuals are making rational decisions and trading with other human beings until the point when the exchange is no longer beneficial. Therefore, the behavior in a market is based on selfish interest and calculations of the pros and cons of each decision. Even though Smith did not believe his theory could explain the political behavior, his description of economic rationality gave the venue for the development of the sociological and political rational choice approach.²

RCT is perceived to be of reductionist methodology; hence, it tries to explain how societal-level decisions, such as governmental or institutional ones, could be analyzed from the perspective

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of micro-level of individual action. This approach is also known as individualism. The theory states that each agent is acting rationally, purposively and on behalf of self-interest. Making conscious choices requires an individual to have at least several alternatives and logical preferences. The theory assumes that individuals gain or already possess enough information and they can constrain the outcome. Such inclinations designate positive or negative judgments actors to attach to possible scenarios. Preferences can derive from various fields fluctuating from personal commitments or cultural traditions. Before making the final decision an individual has to carry out his or her principal goals, identify the criteria, evaluate the consequences of each alternative. Such hierarchical system helps the actor to rationalize the decision and choose the most adequate option. According to the RCT scholars, the optimization of goals, where benefits outweigh the costs, remains the most important component in making a decision and all individuals are presumed to follow such rational demeanor.

Even though rationality and utility maximization are the central premises of the rational choice approach, they do not necessarily mean that people are always acting selfishly in order to earn wealth. Individuals might also pursue charitable behavior if it serves their self-regard and put themselves in the most favorable position. Therefore, the definition of rationality is ambiguous as the term can mean security to some people, whereas others perceive it as an economic matter. Moreover, actors are affected by different circumstances and a limited amount of time, hence, during a decision making parties prioritize different aspects. Some might rely on historical background, others compute on political or economic facets. Hence, it is rather difficult to find a uniting factor and methodology that would represent all individuals or groups’ rationality. The main communality remains the willingness to maximize the gains and utility while minimize the losses of investment.

The RCT in political science also uses the base assumption of human rationality; therefore, it argues that people will try to maximize their achievements in their public interactions. Such

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behavior is perceived to be an economic one since the actors understand their intentions through the concept of utility.\textsuperscript{11} Therefore, decision-makers or other relevant actors make choices that they believe should result in the most optimal and feasible outcomes. Each decision made by policy-makers is highly influenced by their values or inclinations that might or may not include the national interest of the state.\textsuperscript{12} RCT can be applied analyzing both foreign policy matter and domestic affairs such as election options, voting behavior or party policies.\textsuperscript{13}

\subsection*{1.2. Rational choice in international relations}

In the 1980s the theory of rational choice has shifted into the sub-field of international relations as it was able to analyze multilateral economic relations, international security and rational strategies.\textsuperscript{14} Rationalists claim that states, just like individuals, seem to act egoistically and selfishly.

Rationalism in international relations per se was not a new concept and its assumptions can be found in the precedent theories. Some scholars claim that rational choice is similar to the realist approach. In aforementioned theory, states are perceived as selfish and seeking the maximum gains in foreign policy. Realists, with Hans Morgenthau in the front, claim that states seek to survive, therefore, their rationality is based on power and selfish interests. To be rational in realism is try to enhance the power in anarchic and conflicting international environment thereby seeking for hegemony. Nevertheless, other academicians believe that is not precisely realist if the decision is actually done under cost-benefit assessment and can include cooperation. Robert Koehane and institutionalists, on the other hand, believe that co-operation can become the most rational decision and strategy for states to follow and achieve their goals. Therefore, countries following the principle of cooperation and when establishing institutions can achieve their goals easier and more efficiently.

States are legal entities ruled by individuals operating the government, hence, the rationality in politics comes from the people that lead and control them. RCT argues that in order to understand the public phenomena and decision-making, the analysis needs to be conducted in

individual behavior likewise\textsuperscript{15} and the states need to be analyzed not as governmental entities but as rational individuals with selfish tendencies. RCT has four principal assumptions in IR, thereby being interests, priorities, cost-benefit ratio and, of course, power.\textsuperscript{16} According to theorists, all countries and governing individuals behave the same way and try to maximize their profits by making the smartest decision. Similarly, located players share the same progress of values, standards and interests.\textsuperscript{17} States’ principal goal is indeed survival. States are egotistical but not exceptionally bad or vicious and can choose cooperation if it is the most adequate option and can help to avoid the worst scenario.\textsuperscript{18} As Robert Keohane said they can be called “rational egoists”.\textsuperscript{19} Therefore, in order to make the most efficient decision countries need to evaluate the priorities of the public, to know all alternatives and possible outcomes of each one. The assessment of cost-benefit ratio needs to be conducted and only then the final decision can be made by choosing the most optimal choice. Thus, decision-making is based on rational and consistent analysis.\textsuperscript{20}

Nevertheless, the theory also receives criticism. Critics claim that states or other actors have limited amount of time and decision making needs to be fast and forward. Sometimes parties do not have time for calculated and comparative decisions; hence, they make the fastest decision taking into account socio-psychological or historical background\textsuperscript{21} or other aspects that are perceived to be the most important at that time. Thus, sometimes the choices can be risky or a bit audacious. Nevertheless, it does not mean that they were irrational, only that they might have been not the most efficient and utmost calculated as the time is restricted.

Therefore, rationalism assumptions are used in both realist and institutionalist theories. Nevertheless the approach of rationalism is different. Intitutionalists believe that states perceive cooperation as a rational option and they seek to avoid the breaking of rules. Realists, on the other hand, aim for survivability and rationalize the power seeking.


\textsuperscript{19} Ibid.


1.2.1. Rationalization of political economy

RCT has dominated the science of economy for over five decades before expanding to other fields.\textsuperscript{22} By calculating costs and benefits the rational economic actor can choose the most appropriate scenario and thereby forecast the plausible future outcome.

Economic rationality is described as explanatory evaluation of expenses and gains of particular policies, laws or legal regulations.\textsuperscript{23} Therefore, it states that the advantages and disadvantages of each alternative can be scientifically calculated and computed in advance. By taking a decision policy-makers cannot take into consideration emotions, preconceptions or other non-rational, bias views. The goal of a rational actor is contentment either for the present or future. Sometimes decisions taken are not the most profitable ones but it does not mean that the choice was irrational. The chance of mistake exists everywhere.\textsuperscript{24} Economic rationality has an advantage of its broad appliance as it can be used both in analyzing micro (agent) and macro (environmental) levels. It allows creating a series of various observations deriving from a simple set of presumptions.

International relations researchers Robert Keohane and Joshua Goldstein claimed that ideas or causal beliefs shape states’ behavior and their national economic goals. Contemporary rationalists, however, tend to separate ideas from interests. Modern RCT scholars state that interests, not the ideas, are the main focus in conducting policies and all countries seek to follow interest-maximizing principles.\textsuperscript{25} Domestic groups (voters, lawmakers or interests groups) are perceived as the principal rational agents, seeking their interests by all means. They lead to the creation of trade policies.\textsuperscript{26} Rationality in political economy can be described as the government’s desire to efficiently enlarge the economical and public welfare based on constantly changing institutional circumstances. Another, less idealistic but more pragmatic description of rationality is politicians’ intention to be re-elected and stay in decision-making system. Therefore, rationality is understood as rather selfish decisions or actions that will keep them in politics.

The contemporary rational economy is difficult to describe due to the complexity of the market and its issues. While some countries are rich in natural resources, others have a strong industrial or investment sector. Such disparity and specialization indicate that no country is capable

to fulfil all needs of citizens. Therefore, strategies need to be implemented. Scarcity of goods and services create a necessity for international trade.

The economic interrelationship between all states practically diminished the protectionism policies and international trade became a part of states’ main goals. Being able to cooperate can boost economic growth and strengthen political power, therefore, countries seek to extend their relations with other actors.

1.2.2. Rationalization of security

The term “security” had diverse meaning to different groups of people during the history and present times. Thus it is a constantly evolving matter and cannot be defined narrowly. Creating a rational security policy is a complicated issue as it affects many paradigms. Juggling with various issues starting with human security to global warming, from national to international interests is a difficult task. States need to adapt to ever-changing circumstances each day and be able to foresee plausible unexpectedness. Rational choice theory helps to analyze countries’ interest in security policy building decisions.

The most common and broadest definition states that security stands for “protection of a person, building, organization, or country against threats such as crime or attacks by foreign countries.”27 Hence, it is related to a sense of mental and physical safety and feeling of assurance. Different international theories perceive security diversely as well. Traditional security understanding is usually related to external military threats. Morgenthau, the father of classical realism, claimed that states seek to pursue of power as their main interest. Hence, “balance of power” or “deterrence” are the dominant terms in the policy agenda. Countries being the rational actors mainly focus on national security building.28 Paradoxically, too much security can lead to insecurity due to competition for power. Liberal perception, on the other hand, argues that security does include a broader spectrum of affairs, including trade, economics, justice or human rights.29 Therefore, it becomes a global and international affair. All states and their problems become interrelated; more actors such as corporations, organizations or other interest groups appear in a security building. Differently than in realism, long lasting security is possible.

In the theory of rational choice security can mean diverse things as states choose to prioritize different things. What is rational for one state might be utterly illogical to other. Hence, RCT scholars broadly perceive the world as a combination of cooperation and rivalry. States are

29 Ibid.
acting in anarchical society without a single authority concurrently managing to coexist sharing the same interest in survival. Such balancing is the most rational strategy for a state. The space for their own interpretation on how to achieve things is left autonomous. Nevertheless, international relations remain deliberate rationally organized. For analysis, game theory becomes a useful tool to evaluate security policymaking. It mainly focuses on the actors’ willingness to anticipate their competitors’ actions. Each actor is concerned about the choices and their outcome; therefore they seek for the best strategy to achieve the goals. Equilibrium is a set of strategies that one actor assigns to others when calculating the outcomes and success in each situation.

The perception and strategies of states can depend on many aspects. Nowadays complexity and globality of security issues usually ask for joint collective action, therefore, countries join regional blocks in order to fight mutual obstacles and improve their security. Such problems as climate change or transnational crime are common for all actors and cannot be solved alone. Small states usually do not have materials to contribute to problem-solving; therefore they might become free riders. Dependency on other states might diminish its national security yet it can serve in dealing with transnational issues and strengthen its safety elsewhere. Hence, after calculating benefits and loses cooperation can become their most rational choice. Big and powerful states, on the other hand, might choose to assist smaller states for their selfish reasons as more influence can result in greater power and leverage in decision-making. Nevertheless, they can also remain pragmatic and make independent decisions, not taking into account others, if their priorities are diverging.

Hence, rational decisions on security issues can vary widely and depend on a various set of points. Size of the country, its economic position in international trade or even its geographical position can highly influence the decision-making. According to the rational calculations and list of priorities, states can choose either to cooperate or maintain their national interests and sovereignty of the country at the maximum.

1.2.3. Rationalization of energy security

Energy is related to many sectors and its issues vary across all degrees and actors. It manages to link economics, politics and environment. Energy is essential for economic development and growth of many industries; therefore, communities seek to maintain uninterrupted accessible energy supply. Its insecurity can result in the bankruptcy of companies; hence it is vital

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for state engine to run and sustain a healthy economic system. The distribution of resources can significantly shape global politics and multilateral relations as energy can become both the source of cooperation and conflict. All these interlinks and differences signify about the complex nature of energy and makes energy security a perplexing field which requires a variety of instruments and viewpoints to conceptualize its picture. Hereby decision-making in energy security policies is an urgent priority and needs to be rationalized carefully.

Hence, as energy itself is a complicated matter, defining energy security is rather difficult as well. Due to diverging meanings of the concept and changes in history finding one common definition is not an easy task. In 1970s energy security meant a reduced consumption of energy resources. During the years the approach has changed as various developments, social transformations and new actors appeared in energy sector arena. Even though, states do share some similarities in energy security perception, significant differences in policies and definitions can be found. The widest ones can be seen between energy exporting and importing states. As fossil fuels are mostly concentrated in particular regions, states pursue energy security from a very different angle, therefore, the geopolitics becomes an important issue in the study of natural resources. Majority of literature focuses on energy security of import states.

When a state is not rich in raw materials, it risks of becoming too depended on energy imports. Therefore, the principal goal of the importer state is to assure the security of supply and become less reliant by diversifying the energy infrastructures. Availability, applicability, accessibility and affordability (the four As) are perceived to be the key common principals. Hence, states seek to diversify the supplies, to become less depended on external suppliers and promote energy systems that can recover from any disruption as soon as possible. If a state manages to reach the goal of four As, its energy sector is relatively secure. The general social welfare, not an only an economic one, becomes the key priority. Sovacool finds 45 different definitions of energy security. Nevertheless, they share majority of similar traits and fall in four different dimensions: the aforementioned availability and affordability, plus stewardship and efficiency. Affordability

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refers to minimizing the unpredictability of prices and providing customers with affordable energy. Availability seeks to assure the diversification of supplies and quick recovery from possible disruptions or outbreaks. Efficiency refers to sustainable use of energy thereby mitigating the import dependency whereas stewardship aims to protect the environment and future generations.\textsuperscript{39}

The exporters per se states hold leverage in controlling the market, prices and approachability. Therefore, their energy security policy usually focus on keeping a stable energy constant energy flow and is more focused on economic development.\textsuperscript{40} The main aim is to assure the security of demand. The possibility to transport natural resources gives them leverage to control the process and additionally strengthen their economic sector. Nevertheless, a strong dependency on export can also cause issues if the flow is disrupted. If consumers in importing states shift away from a particular energy type, lower demand can cause serious negative effect on the economy. Hence, diversification of consumer states is also essentially important to transporter states. Moreover, even though some resource-rich countries use energy as a powerful tool in the international arena, other states can become an issue in domestic politics and national stability. If the energy sector is mismanaged it can provoke such issues as corruption which hinders the economic development and can cause a high poverty level inside the state.

Big international projects usually involve a lot of states; thus transit states also become eminently important in creating energy policies. Both exporter and transit countries hold the leverage against import states as energy can be used “a weapon” if transmission is cut off or the volume is reduced. Energy security for transit states is an ambiguous issue. Ensuring a stable transit line without any possible disruptions can result in significant economic revenue in state’s budget. Therefore, transit states are concerned about keeping a great relationship with both import and export states. Yafimava describes transit security as “the acceptable level of threat of supply and price disruption arising from risks associated with the transit of gas supplies.”\textsuperscript{41}

Hence, even though the concept of energy security should be universal, in reality the definition is dynamic. Different states choose a different energy security strategy as their perception differ due to their geographic location and the possession of energy maters. Prioritizing different aspects creates significantly different foreign policy strategies. Hence, while Germany or Russia seek to stabilize their gas market and become stronger in political negotiations, the Baltic States seek to diversify the resources, supplies and routes. Due to historical adversities, states choose to become less dependent from Russia and rely more on Western partners. Diversification and

\textsuperscript{41}Ibid.
willingness to become more autonomous is perceived to be the most rational strategy to achieve energy security there.

Therefore, energy security is a rather complex concept depending on many different aspects. From the perspective of consumers and import states, the most rational decision is to diversify supplies, suppliers and routes. Hereby states protect themselves from any possible disruptions caused by market changes or international conflicts. Export states usually focus on security of demand as a significant income into national budget gives leverage in negotiations, hence, they seek to dominate the market as much as possible by creating new projects or manipulating various policies. Nevertheless, the major commonality of states wanting to maintain energy sector secure is an effort to ensure a stable and reliable flow of resources for consumers with the minimum economic harm.

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Rational choice theory helps to analyze the decision-making in international relations. States, just like individuals, seek to maximize the utility, hereby choosing the most rational alternative that will help to dominate the international arena. By prioritizing the economics and security countries create particular policies which affect their foreign policy strategies and approach towards other actors. Policy creation and strategic interests are usually highly influenced by states’ historical background or geopolitical aspects; therefore, they become key arguments when making a particular decision. Energy security became one of the principal areas in policy-making as it helps to run the country’s engine and provide the economy with the necessary means. Nevertheless, its policy is also highly influenced by the aforementioned factors. Finding the right alternative to secure the energy sector is a rather complicated task and concept of rationality is understood differently even between neighboring states.

RCT can serve considerably when analyzing NS 2 coalitions. As states understand security and energy security differently due to their geographical position or historical features, their approach towards the pipeline is rather diverse. RCT helps to analyze their perceptions and distinguish the key interests and concerns.
2. THE NORD STREAM 2 PROJECT: BACKGROUND, JUSTIFICATION, CONTRAVERSY

Volatile energy cooperation between Germany and Russia (or the Soviet Union previously) has been ongoing for decades and has proved to be successful; therefore Nord Stream 1 project was cast in a positive light. However, the Russian narrative changed soon after the NS 1 agreement was signed. Gas shortcuts and aggression in Ukraine made the EU re-evaluate its position towards Russia. The plan to build a new Russian gas pipeline no longer seemed like an appealing idea. Nevertheless, in 2014 five European companies signed an independent agreement with Gazprom thereby making NS 2 one of the most contentious energy projects in history.

Thus, before analyzing the versatile development of NS 2, it is necessary to understand the geopolitical and historical situation affecting the pipeline’s advancement more profoundly. This chapter presents the political choices and circumstances during the first NS implementation, analyzes the major affinities, and differences between the two projects. The official rationale of NS 2 is also explained in this chapter along with the arguments raising the biggest controversies about it.

2.1. Pre-history of NS project and the case of NS 1

NS 1 is one of the longest pipelines in the world and originates from Vyborg and goes directly to Greifswald, Germany, passing the EEZ of Finland, Sweden, Denmark, and Germany. Its annual capacity is around 55 cubic meters per year.\(^{42}\) According to Nord Stream AG, in 2017 the Nord Stream 1 pipeline has transported 51 billion cubic meters of gas in Europe with 93 percent of its possible annual capacity. It is the highest application since the start of pipeline’s finalization.\(^{43}\)

German officials affirm that Russia was always a reliable and trustworthy partner even during the Cold War era as West Germany was being supplied with the gas from the Soviet Union for many decades and no accidents occurred.\(^{44}\) Therefore, the roots of both Nord Streams can be found in the historical cooperation between Germany and Russia. West Germany’s eagerness to seek rapprochement through energy partnership, including gas and pipeline projects, was a part of so-

\(^{42}\) Sophie van Dam, “Pipeline Blues” (RADBOUD UNIVERSITY NIJMEGEN, 2017), https://theses.ubn.nl/bitstream/handle/123456789/4623/Dam_van%2C_Sophie_1.pdf?sequence=1.
called Ostpolitik – a block of Soviet Union-friendly policies. In 1969, 2 contracts were signed providing West Germany with Soviet gas for reasonable prices for the upcoming two decades, whereas German businessmen negotiated the construction of a new gas pipeline with the USSR in Vienna at about same time. Later on, in the early 80s, gas became the energy of future, henceforth; Germans were quick to negotiate with Soviets again, hoping to double their gas imports with the biggest deal to come. The situation led to diplomatic tension between the US and Federal Germany with Americans worrying about German dependency on Soviet gas. Americans tried to propose various plans but Germans successfully shut them down and closed the deal with the USSR once again, claiming that Soviets are the most reliable partners, unlike Algeria that was providing gas to neighboring France.

Cooperative approach among Russia and Germany remained after German unification and the collapse of USSR with German politicians maintaining friendly relations with Russian government. Plans for building the direct gas pipeline between Germany and Russia have been first discussed in the mid-1990s when Russian gas producers and Neste Oil Finnish Corporation started offshore examinations in the Baltic Sea. The prospective project was highly supported by German and Russian officials and was meant to link both states by the means of energy and technological partnership. After political debates and strategic considerations, the final agreement was signed in 2005 by Gerard Schröder, former German Federal Chancellor and by Russia’s President Vladimir Putin. Schröder, who was the Chancellor from 1998 to 2005, was known for maintaining a very close relationship with Russia and President Putin. After his defeat in the parliamentary election to Merkel, he became the head of the shareholders’ committee of Nord Stream AG and the strongest lobbyist for Russian energy and governmental interests in Germany.

In 2000 the EC has given Nord Stream 1 a status of “priority project.” The NS 1 was seen as a positive project which would increase the EU’s competitiveness in the energy market and improve the security of supply. In the context of the first NS, Russia was still seen as a reliable and stable partner and the direct gas pipeline between the EU and Russia was perceived as a deliberate

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and measured plan for the European energy market. NS 1 became a good example of diversification of routes and exporters to the European Union. Strong opposition against NS 1 project was seen only from Poland and the Baltic states. In 2005 Latvia, Lithuania and Poland presented Amber gas pipeline project to the European Commission. In the proposal, states asked the support of the energy project that could transport the gas from Russia to Europe through the overland gas pipeline. The Amber project was promoted as an alternative to direct transit-free Nord Stream. The European Commission expressed that there are no preferential projects but only the NS 1 project received a green light in the EU; whereas the Amber gas pipeline got lost in the EU’s corridors for years.

Nord Stream AG was established in 2006 as the independent project company to plan the realization of the pipeline. Nord Stream AG is co-held company as Gazprom possess 51%, while the German E. ON Ruhrgas and BASF Wintershall have 15.5% each with the Dutch NV Nederlandse Gasunie and the French Group GDF Suez those hold 9%. The construction work started in April 2009 and was fully completed in November 2011 and 2012, finally linking Russia and Germany with functioning direct pipeline.

### 2.2. Justification of the Nord Stream 2

The official rationale of Nord Stream 2 is the enhancement of European energy security as it would diversify and complement existing supply options connecting the world’s largest gas reserves with the European Union by the shortest direct route. The developers of the pipeline distinguish several arguments why NS 2 is the best option for Europe.

According to Nord Stream AG estimations, the domestic European gas production is declining by significant numbers and in the upcoming 20 years, it will decline by approximately 50 percent. Nevertheless, the need for a supply will remain the same. States such as the Netherlands or Germany will not be able to fulfill the demand of customers as gas production is decreasing in Dutch North and British Seas; therefore the EU will need to import more gas from foreign partners. According to project developers, exporters such as Norway (-25 bcm) or North Africa (-30 bcm)

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will not be able to keep up with present supply degree. Therefore, the EU has two possibilities to ensure the needs of consumers either by importing the liquefied natural gas (LNG) or Russian gas. Due to geographic proximity and current estimations of LNG development in the Asian-Pacific region, Russian gas is presented to be the best option for European buyers.

**Graph 1:** Growing share of natural gas and renewables in the EU’s energy mix. Primary energy mix in the EU by source

![Graph showing energy mix](image)


Furthermore, the EU is undergoing the change in the market and renewable energy means are becoming more important. Even though the renewables are highly advocated, the Union is not capable to rely merely on them yet. Hence, there is a need for an alternative, complementing supply. Gas is considered to be the cleanest fossil fuel (50 percent less emits than coal), thus, it is the best one in order to the EU to seek its climate change goals. According to pipeline’s developers NS 2 could provide Europe with “climate-friendly energy transition under sensible economic conditions.” 55 bcm of NS 2 transported gas could save about 14 percent of EU’s CO2 emissions if the hydrocarbon was used instead of coal. Furthermore, the short direct route via Baltic Sea would help to minimize the emissions and its green gas footprints (in comparison to LNG – twice as lower). NS 2 is capable of delivering the equivalent of approximately 650 LNG tanker loads. Hence, it would not only be more cost-effective but also more sustainable and eco-friendly.

*Nord Stream AG* also stresses the pipeline’s economic benefits in the global and domestic market. NS 2 would create a competitive European market which could already result in 13 percent

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61 Ibid.
lower wholesale prices since its operational start. Moreover, the competitiveness and availability of LNG could benefit European consumers by between 8 to 24 billion Euros on welfare effect. Moreover, the new project could simply create up to 31,000 workplaces in the European Union and about 51,000 jobs in Russia; hence, it is a smart investment into societies.\textsuperscript{62}

Therefore, the new Russian-built gas pipeline is presented as highly beneficial and environmentally friendly energy project. The NS 2 developers state that the new pipeline will be able to provide Europeans with competitive prices and compensate for the gap of demand while being environmentally precautious and highly efficient economically.

\subsection*{2.3. The Nord Stream 2 controversy}

While the first Nord Stream was accepted positively in the European Union, the undergoing project Nord Stream 2 still receives a lot of critique. Political circumstances and changes in gas market have changed the perspective on NS 1 and the resistance against the pipeline became more powerful and visible among the EU member-states in comparison to the first Nord Stream.

\textbf{Graph 2:} natural gas demand in the EU (1995-2014)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image}
\caption{natural gas demand in the EU (1995-2014)}
\end{figure}

\textit{Source:} Europe’s declining Gas Demand - Trends And Facts On European Gas Consumption, 2015, https://www.e3g.org/docs/E3G_TrendsEU_Gas_Demand_June2015_Final110615.pdf\textsuperscript{63}

First of all, major gas disruption in the winter of 2006 and 2009 affected the perception of Russia as a decisive supplier. The annexation of Crimea and Russian aggression in the territory of


\textsuperscript{63} Dave Jones, Manon Dufour, and Jonathan Gaventa, Europe’s declining Gas Demand - Trends And Facts On European Gas Consumption, 2015, https://www.e3g.org/docs/E3G_TrendsEU_Gas_Demand_June2015_Final110615.pdf
Ukraine further decreased Russia’s reliability. The European Union and the United States of America imposed economic sanctions on Russia for military actions and penetration of international law. Moreover, the global gas market context changed subsequently and due to decreasing prices of LNG and piped gas, the gas converted in oversupply. After reaching its peak in 2010, the demand was decreasing until 2014 until it reached its lowest point since 1995. The demand dropped off in all main sectors: industry, power and residential as states started to prioritize the renewable energy means. The need for one more Russian gas pipeline became highly questionable. Nevertheless, in 2015, Gazprom and 5 European energy companies have signed an agreement on the Nord Stream 2. The NS 2 would stretch for about 1200 km under the Baltic Sea and would double the capacity of the first NS making the delivery of 110 cubic meters per year together. The pipeline would directly supply the gas from the Bovanenkovo gas field in Russia to German coast close to Greifswald. In other words, it would not diversify the supply routes and suppliers as the EU is aiming, but on the opposite, would concentrate the whole gas market between Russia and Germany with the aggregated design capacity of 110 bcm per year summing both NS 1 and NS 2.

Map 1: The route the NS 1 and the NS 2


In addition to NS 2, Gazprom is also working on a south-European pipeline called Turkish Stream (TurkStream), going through the Black Sea. The agreement for TurkStream was signed in December 2016, a year later after NS 2’s deal. The project followed South Stream pipeline plans. After negotiations over South Stream, the project was declined by the EU arguing that it contradicts with European energy rules as Bulgaria is a part of the EU. The Turkish pipeline, on the other hand, did not receive any opposition because it ended in Turkey, where the European Union law do not apply. It was finished and put into operational start at the beginning of 2020 carrying over 31 billion bcm of Russian gas to directly to Turkey. Approximately half of this volume will be shipped to Central Europe and Balkan Peninsula states which are responsible themselves for building the connecting pipelines from Turkey. Until the end of 2019, aforementioned regions were supplied with gas via a Ukrainian transit route. Therefore, Russia has strengthened its position in the gas market not only in the Western part of Europe but in the South-Eastern part as well with Turkish Stream being able to control both most important gas corridors to the old continent.

The idea of NS 2 has caused strong debates on project’s weight on security, environmental and foreign policies. Moreover, the opposition is questioning if the pipeline is actually just a purely commercial deal. The opponent state that the Russian pipeline would not only greatly affect the transit states, but would have an impact on the pricing power of the LNG terminal in Świnoujście, Poland. Critics stress out that land-based pipelines are significantly cheaper than the ones built underneath the sea, therefore, building a twin Yamal pipeline or developing the aforementioned Amber pipeline – a route via Baltic States - would have been lower-priced and more considerate alternative for the EU. The debate over its necessity is not only the economic one but also affects the fundamental values of the EU. The agreement was signed independently without the approval from the EU and violated the principle of solidarity, affecting the Member states and Ukraine as well, which was risking to be influenced by the changes in the energy market. Ukraine, the key partner of EU, is facing the total shutdown of current gas pipelines and is risking to lose the important amount of finances in an already trembling economy. The most vocal and sceptical states towards the NS 2 are the East European ones as historically their relationship with Russia was noticeably strained. Germany, on the other hand, is on the other side of argument. Nord Stream 2

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seems like an advantageous opportunity that would help to strengthen its position in European energy market.

The NS 2 is hardly only a commercial deal as majority of arguments are related to political issues. Countries are raising concerns about NS 2 and its necessity. Hence, the project represents the test over the European solidarity and unity. The fraction can be seen in the transatlantic relations as well.

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The first NS pipeline was welcomed and awaited in the EU. The project was seen as a great diversification strategy and did not encounter a stronger criticism from the Western states. Unlike the first NS, NS 2 became a highly discussed issue after Russia decided to short cut gas transmission in 2006 and 2009, and illegitimately entered Ukrainian territory in 2014. Nevertheless, Germany and five European energy companies signed an independent deal rationalizing the project as a pragmatic gas market strengthening strategy thereby making NS 2 one of the most controversial pipeline projects in history. According to the EU principles, the project threatens European energy security as it will allow Russia to control all principal gas routes to Europe. Over 50 percent of Gazprom’s shares are held by Russian government and NS 2 can become a powerful political tool to influence European policies or might permanently hurt EU ally Ukraine’s political and economic situation.
3. THE INTERESTS OF NORD STREAM 2 OPPOSING AND SUPPORTING COALITIONS

The complex nature of NS 2 pipeline has attracted various external and internal European actors, that later on formed anti and pro-pipeline coalitions. The interaction of these political groups significantly influenced the process of the NS 2 construction and legal execution time.

First of all, the NS 2 has provoked strong debates over its necessity and divided the European Union itself. As Germany and other powerful European states are openly or silently advocating for the NS 2 and its urgency, the Baltic States and Poland are standing against it. Denmark’s decision to switch on the green light for the NS 2 has also symbolized about country’s resistance towards the NS 2. The European Union’s bodies and institutions likewise are creating policies and regulations to hinder the implementation process, arguing it to be a threat to the Union’s security and advocated values.

Besides the internal European groups, several external actors are also playing an important role and are directly involved in the NS 2 project’s agenda. The ally of the European Union the United States of America has demonstrated a negative approach and announced burdening policies towards the NS 2. As well as Ukraine, that was risking losing significant budget extend due to the expiration of gas transit agreement with Russia in 2019. The project’s conceptual guide Russian Federation, on the other hand, has been promoting NS 2 as an important strategic objective and proving its political relevance by investing significant amounts of money, despite the constantly increasing price.

Table 1: Most important external and internal players in the NS 2 development

<table>
<thead>
<tr>
<th>EXTERNAL</th>
<th>INTERNAL</th>
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<td>• The United States</td>
<td>• Denmark</td>
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<tr>
<td>• Russian Federation</td>
<td>• The Baltic States and Poland</td>
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<tr>
<td>• Ukraine</td>
<td>• The German Alliance</td>
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<td>• The European Commission</td>
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Source: compiled by the author

Hence, the complicatedness of actors and their instruments raises a need to analyze their interests and importance in the project’s execution. Therefore, this chapter will provide a presentation of major players and their key interests. Why did particular states or interest groups
choose to divide in supporting and opposing camps and what tactics did they use to impact the outcome of the NS 2?

3.1. Nord Stream 2 supporting coalition

Even though tensions towards NS 2 has caused significant effects on German-European and transatlantic relations, it has improved Germany’s friendship with Russia. Both Germany and Russia are openly advertising the importance of new pipeline and promoting its economic relevance while presenting new energy project as a great diversification strategy which would provide Europe with cheaper gas. Hence, the current German approach towards Russia reminds the aforementioned Ostpolitik – West German cooperation with the Soviet Union during the Cold War.70 The new gas pipeline is presented as a possibility to improve European-German relations through trade and strengthening European energy security. Germany is openly supported by Austria and some other silent strategic partner states.

This subchapter will present the real interests of the pro-pipeline coalition. Why Nord Stream 2 is so important and why countries are risking worsening their reputations but are willing to finish the project at all cost?

3.1.1. Russian geopolitical game

Even though the European Union is trying to diversify energy supplies and routes, the Russian Federation remains the dominant supplier of gas for European states.71 Both Germany and Russia state that NS 2 is simply a business deal, however, the real rationale of both states has strong political roots. Currently Gazprom’s gas exports to Europe composes about 70 percent of its revenue and its overall sales account more than 5 percent of annual Russia’s GDP.72

Concurrently Russia has three principal routes to supply Europe with its gas. Nord Stream 1 is the only direct pipeline transmitting the resource straight to Germany, whereas the remaining routes require transit states, more precisely – Ukraine and Slovakia, Poland and Belarus, and Turkey. Hence, Russia per se is rather reliant on gas transmission through partner-states’ onshore

pipelines. Nevertheless, the possibility to avoid transit fees by building a direct pipeline is beneficial
to Russia not only for economic reasons but also political ones. Ukraine remains the most sensitive
country after experiencing Russia’s short-cuts in the energy sector and violent acts in its territory.
The likelihood to lose the transit fees would farther halt the state giving Russia the possibility more
actively influence the disputed areas. According to the estimations, Gazprom was able to renovate
and upgrade the Ukrainian gas pipeline system for reasonable prices. Moreover, the reforms in the
current Ukrainian gas market would have ensured competitive tariffs for transit. The Brotherhood
pipeline owner assured the contribution to network preservation and reconstruction. Nevertheless,
instead of investing in the repair of an old pipeline, Gazprom chose to build a new, considerably
more expensive underwater tunnel. Eastern European states and the US highlight that Ukraine
became a victim in Russian-Nord Stream 2 geopolitical game and the projects is related to the
continuing conflict in its territory. Losing transit income is dangerous as it could deepen Ukraine’s
strategic vulnerability, thereby increasing Russia’s asperities towards Ukrainian policies.

Another benefit of NS 2 is the possibility to strengthen Russia’s political leverage in
European Union. Russia’s willingness to use energy as a geopolitical tool was rather public during
the past decades. Temporary gas supply disruptions in 2006 and 2009 wintertime have significantly
affected European citizens in some Eastern Member States after its decision to cut the transit via
Ukrainian line due to political and economic disagreements. With the NS 2 Russia would gain a
stronger tool to influence European energy market, being able to control its gas prices directly,
thereby having more influence in EU’s political decisions as well. This situation could put Central
Eastern European states back into a safety risk of their markets and could highly affect their
general security and economic policies. Poland has expressed its concerns emphasizing that
revenues from NS 2 might enhance “Russia’s ability to pursue an aggressive policy.” Moreover, the
energy project might also be used as an argument to “increase military presence and activities in the
Baltic Sea region”, which might have an influence in NATO activities.

Therefore, Russia has proved that the project is perceived as a political one, building the
pipeline regardless of the increased financial costs or attempted judicial boundaries. Transit-free NS
2 could become a direct instrument to finally control Germany and other parts of Europe. Having
four direct pipelines to Europe, Russia would be able to further control its energy market and

74 Cory Welt, “Ukraine: Background, Conflict with Russia, and U.S. Policy” (Washington D.C., 2020),
75 Steven Pifer, “Heading for (Another) Ukraine-Russia Gas Fight?,” Brookings, August 30, 2019,
76 Balazs Sziklai, Laszlo A. Koczy, and Dávid Csercsik, “The Geopolitical Impact of Nord Stream 2,” USAEE, 2019,
https://doi.org/10.2139/ssrn.3360783.
certain policies, making the EU more reliant on its relationship. Thus, Russia’s rationale and strong determination to build the NS 2 is understandable: the gas pipeline would help strengthen its posture in Europe and help to implement its foreign policies and strategy more efficiently and effectively.

3.1.2. Germany’s strategic interests and supporting countries

NS 2 agreement was signed between the shareholder Russian Gazprom and five European investor companies: Engie (France), OMV (Austria), Shell (Netherlands, UK), Uniper and Wintershall (both Germany). Therefore, these companies became the biggest beneficiaries of the project. The support for NS 2 can be sensed in aforementioned states’ governments as well. The European veterans Austria and the biggest NS 2 defender Germany are the most outspoken countries publicly advocating the importance of the new pipeline; whereas the French and Dutch governmental approval is still apparent, yet so overt in the EU’s corridors. Therefore, even though the proponent group of the NS 2 is relatively small, it involves powerful and influential actors.

From the commercial perspective NS 2 is most profitable for Germany and Russia. Nevertheless, other aforementioned proponent states will benefit from the project as well, if the gas price will fall as a result of the project. Both Germany and Austria decided to publicly express their support for the NS 2, stressing a strong division among the governmental policies and commerce. Austria wishes to become a gas hub as Baumgarten – local European gas distribution center – might become one of the pillar NS 2 platforms. Austrian Chancellor Sebastian Kurz during a meeting with the US President Donald Trump said that Austria is supporting the project because the state has “an interest in securing its gas supply.” France and the Netherlands, on the other hand, chose to maintain a relatively neutral stance and not to comment excessively on their companies’ plans to collaborate with Gazprom. Both states argue that NS 2 will diversify the European gas infrastructure and the project should be separated from politics as it is bluntly a commercial deal. France and Germany bilaterally agreed that Berlin will be responsible for the remaining negotiations over NS 2 but remained neutral saying that French position is "not for or against Nord

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However, the attempt to remain impartial did not help to avoid criticism from the opposing group. For instance, the Dutch government was openly criticized by the American ambassador Pete Hoekstra for not stepping aside from the project alongside with companies. “We would have hoped that the Dutch government, with those companies themselves, would have decided that they would not participate in the construction of Nord Stream 2” said the ambassador and highlighted that the US is disappointed.

The official rationale of NS 2 supporters remains the provision of reasonable acceptable prices and diversification of the energy infrastructures in the EU. Hence, that the new pipeline is straightly business related deal. The possibility to build and, later on, operate a gas pipeline is not only beneficial for energy security but also it creates additional income in human recourses field. The ports and onshore enterprises require workers, create new work places, therefore it is profitable for the local employment situations as well. The possibility to boost the national budgets additionally became one of the main aspects in lobbyist discourse promoting the construction of NS 2. In reality commercial business companies plan is highly interlinked with political streams. Germany, the major NS 2 supporter, draws the best example.

Germany – the leading supporter

About 40 percent of Germany’s supply comes from Russia and it makes the state EU’s greatest consumer of natural gas. Therefore Germany’s rationale to strengthen its market understandable with NS 2: the project will provide the state with accessible and affordable gas via a direct pipeline. Nevertheless, more strategic arguments can be found in the country’s narrative.

NS 2 has been supported from the start by a number of leading figures and, most importantly, by the Social Democratic Party of Germany. The official stand for the Nord Stream 2 remains to be only a commercial and economic deal, the building of NS 2 can be perceived as a strategic objective. The NS 2 project would deepen its key position in the European Union while strengthening its power in the gas sector in the future. It could contribute to Germany becoming the major gas hub and a dominant energy market. Under current estimations, NS 2 would increase its

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85 Ibid.
transit gas volumes by 12 bcm by 2030\textsuperscript{86} making Germany a pivotal country for natural gas distribution. Being able to control European gas market, the state could strengthen further its position in the EU. Its significance will increase after the United Kingdom’s secession from the EU. The additional income from gas would enhance its economic and political capabilities yet more. Thereby NS 2 could become a pressure tool for states to implement favorable laws and regulations.

On the other hand, Germany’s rationale can be actually more positive for the EU. With the direct pipeline, the state can seek leverage on Russia. About 40 percent is made of exporting natural resources from which a significant part is made of natural gas. Trading is similar to diplomacy in the sense that it executed in a reciprocal way. Hence, not only Germany is getting depended on Russia, but also Russia is becoming more subjected to Germany’s ability to import. Right now Russia does not have many possibilities to change its export map and besides that is still struggling with the international sanctions. Nord Stream 2 is highly important to keep Russia’s economy and budget alive. Germany itself together with the European Union can use it as a political tool to control Russia’s economy and some political choices. In spring of 2018, the Chancellor Angela Merkel finally stated that NS 2 has strategic and political implications for Germany and Ukraine saying “it is not just an economic issue but there are also political considerations.\textsuperscript{87}” Hence, the project is not strictly commercial but does include geopolitical implications as well. Her sudden chance of tone was perceived as a pressure tool for Gazprom to secure more favourable prices for Germany by the NS 2 critics.\textsuperscript{88} On the other hand, it raises a concern that the Nord Stream 2 in reality is a political tool as is used not only to gain economic benefits and secure Germany’s energy security, but provide help for Ukraine ensuring its role as of a transit country and assuring not to lose it contract with Gazprom.

Therefore, even though Germany is facing a collision with the opposing group, the short-time political implications of a weakened reputation are temporary. NS 2 project would benefit the state significantly. Being able to expand its budget for future developments can be seen as a profitable choice. These arguments confirm that Germany’s interests are based not only on commercial benefits but geopolitical ones. With the new pipeline Germany will be able to influence EU’s policies stronger; moreover, it will have leverage over Russia itself.

\begin{footnotesize}
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3.2. Opposing Nord Stream 2 coalition

The controversy towards NS 2 has extended over the European borders and created a tension on transatlantic relations. Both European states and the US are highly criticizing the new Russian-German energy project. Anti-pipeline coalition is stating that Germany’s independent decision to act unilaterally is breaching EU’s solidarity principle and values and causing a huge risk to Ukraine. Moreover, the new pipeline will make the Union too depended on Russian energy and decrease region’s energy security, therefore, states are creating various policies and using different instrument to halt the implementation of the NS 2.

The most vocal actors in the anti-pipeline coalition are the Baltic States, neighboring Poland and Ukraine, Denmark and the aforementioned United States of America. Not to mention the European Union itself and its institutions. As the geographical position of Denmark is crucially important for the project’s route, Ukraine is more focused on its transit passage and keeping the financial revenue flowing. The Baltic States and Poland are highly influencing in drafting energy security policy and overall European security, whereas the US is aiming its attention in strengthening European energy resilience towards Russia. All above-mentioned actors are significantly important at the present and further NS 2 development and implementation. Therefore, this subchapter will seek to present their particular positions and actual interests more profoundly in the process of NS 2

3.2.1. The United States factor: ambitions of energy dominant nation

The US official position over NS 2 is to ensure European independence and security, therefore, the project is perceived negatively as it compromises the strategic aims. But besides the American willingness to assure energy security in the EU and Ukraine, pragmatic interests can be found in the strong opposition of Washington likewise. The disagreement over NS 2 is raising new concerns about American-Russian geopolitical competition and causing a fraction in transatlantic relations.

First of all, the US administration publicly opposes NS 2 as it is highly compromising European energy security policies. The United States of America has supported the European Union’s attempts to strengthen its energy security and reduce the reliance on Russian gas since the early 1990s. The support for diversification has intensified after gas short cuts in 2006 and 2009 when Russia has shut off the pipelines via Ukraine. During a briefing in 2018, Francis R. Fannon, Marco Giulì, “Nord Stream 2: Rule No More, but Still Divide,” 2018, http://aei.pitt.edu/94377/1/pub_8613_nordstream2.pdf.
assistant secretary in the Bureau of Energy Resources said that the energy security of European allies “has been a longstanding strategic priority for the United States.” According to Fannon, NS 2 is a Russian political tool to increase leverage in the West and separate Ukraine from Europe. The project is deepening the energy dependence and clashes with Western commerce values, as energy is used as an instrument to achieve “coercive political aims by Russia.” Washington stresses that NS 2 can generally affect the strategic and economic security of Ukraine and the Baltic States. In 2018, Member of US Congress called for the cancelation of NS 2, which was seen as a tool to further halt Ukrainian stability, after undergoing Russian attacks on Ukraine’s vessels. US Secretary Mike Pompeo said that the project “undermines Ukraine’s economic and strategic security and risks further compromising the sovereignty of European nations that depend on Russian gas.” Hence, the American policymakers perceive NS 2 as Russia’s geopolitical weapon in Europe and see a high risk of the divided European bloc as Germany is considered to be one of the most important EU partners. In July 2019 American President Donald Trump publicly called Germany of being a “captive and controlled by Russia” as the state will become even more reliant on Russian energy supplies. President Trump’s concerns are also related to NATO. “We’re supposed to protect you from Russia, but Germany is making pipeline deals with Russia,” said the head of the US. 

Despite the official US rationale of not supporting the NS 2 is the European energy security and safety of Ukraine, the real motive of Americans can be found to be more pragmatic: the US is aiming to convince the member states to transport its liquid natural gas. In December 2017, the newest version of the American National Security Strategy was released where energy became an important objective. Promotion of exports of American energy resources, technologies and services was highlighted as a priority matter to strengthen its energy dominance in the global energy system. Moreover, in May 2019 the US Department of Energy released a statement for approving extra exports of American gas: “Increasing export capacity from the Freeport LNG project is critical to spreading freedom gas throughout the world by giving America’s allies a diverse and affordable source of clean energy.” According to the statement, the export of “molecules of U.S. freedom” would not only provide American allies with clean and diverse source of energy, but also

92 Welt, “Ukraine: Background, Conflict with Russia, and U.S. Policy.”
would create more jobs in the US itself and accelerate its economy.\textsuperscript{96} Even though, Benjamin Schmitt, European energy security advisor at the US State Department, denied that the US position against the NS 2 is an attempt to sell its LNG; it undoubtedly plays an important role in American strategic objectives.\textsuperscript{97} Therefore, the US is trying to find ways to Russian dominant European gas market with its LNG using various tactics and didactics. Anti-NS 2 discourse and hostile approach are financially beneficial for the US as dominance in the energy market is a part of the American economy plan and National Security Strategy.

Hence, American opposition for NS 2 project has been rather strong and vocal. The state’s approach can be analyzed from two angles. First of all, from strategic grounds, the project is perceived as a threat to European energy security as it might result in overdependence on Russian gas. On the other hand, the US per se is interested in becoming a significant player in international gas trade aiming to become a leader in LNG exports. Therefore resistance against NS 2 might help to reach the goal of Trump administration’s energy policy more efficiently.

3.2.2. Ukraine’s interests in retaining transit state position

Ukraine has been Russia’s major transit route for years since the collapse of the Soviet Union. Since the beginning of the NS 2 Ukraine was facing a collapse of its economy: lucrative 10-year long transit agreement with Russia was set to expire at the end of December 2019, moreover, Gazprom has expressed its desire to stop transporting gas via Ukraine entirely after the operational start of the NS 2. Therefore, as a result of the NS 2 operational beginning, the country would have lost billions of Euros each due to lost transit fees. NS 2 is causing a geopolitical and strategic risk to Ukraine and is weakening its position in its territorial conflict with Russia. Ukraine’s main interest is to keep transporting Russia’s gas through its territory for a maximum period of time. The influx of gas transit fees keeps the state’s economy alive thereby making the state more resistant to political asperities. The country is strongly supported by both the United States and the European Union.

Russia has been aiming to reduce gas volumes via Ukraine since NS 1 operational start in 2011. Before that, the majority of Russian gas exports to Europe were transported via Ukrainian transit pipelines. First Nord Stream decreased these numbers up to 40-50 percent. Nevertheless, the transit line remained certainly important to Russia. As of 2019, both Russia and Ukraine were highly dependent on each other. Whereas Ukraine relies on the transit fees, Russia was still using it


as its gate into Europe. About 41 percent (93 bcm) of European gas supply was transported via Ukrainian transit pipeline in 2018. Such amount supported Ukraine with approximately 2.7 billion of Euros that aggregated up to 3 per cent of GDP. In order to remain in competitive in energy market, Ukraine suggested to renovate its transit system. Under current estimations, the technical condition of Ukrainian pipelines is sufficiently adequate and would not require extensive foreign investment. Yearly maintenance constitutes approximately 100-300 US dollars and it ensures a transit up to 110 bcm. Nevertheless, Russia decided to further decrease its dependence on Ukrainian line and invest into a completely new pipeline. Owning both Nord Streams and TurksStream, Gazprom will be able to control European gas market and completely eliminate Ukrainian gas transit system in the future. After active negotiation, in April 2018, Gazprom’s CEO said that Ukraine will still be used as a transit line to Europe only the volumes will be reduced from 10 to 15 billion cubic meters a year. This equals only 15 per cent of current transit capacities.

Ukrainian president Volodymyr Zelenskiy expressed his concerns that “the geopolitical project is not only weakening Ukraine, but also the energy security of the EU.” As Ukraine is a strategic partner of the EU, the bloc is also highly concerned about keeping its neighbour economically and politically safe. The Ukrainian government backed the European Commissioner Maroš Šefčovič’s proposed plan for a new 10-year contract. The deal would have guaranteed Ukraine a minimum of 60 bcm a year, with possible adaptability of extra 30 bcm. In 2019, Gazprom suggested signing a short-term, 1-year long agreement. Ukraine disagreed with such proposals stating that it is both economically unreasonable and in a long term perspective it would leave the country without any inflows which could highly affect state’s security and stability. Yet any official agreements have been made until the end of 2019. It is important to stress out that German politicians have agreed on NS 2 implementation only if it will not cause any economic damage for Ukraine. During a meeting in 2018 with President Putin, Chancellor Merkel said that Ukraine needs to be guaranteed with continuation of gas export, although she could not specify how it could be
ensured, nevertheless, both Germany and Russia understand that Ukraine as a transit country remains "essential, so very, very important." Therefore, Ukraine remains the most sensible country that will be highly affected by the operation of the newest Russian pipeline. Nord Stream 2 is causing Ukraine a double threat as the country is risking to lose gas transit revenues in the future. It will not only hurt financially but also from a strategic perspective making the country less resistant to political asperities no longer having leverage pipeline in its territory.

3.2.3. Denmark’s strategic calculation and geography

Denmark has been the major physical hurdle in the building of Nord Stream 2 remaining the last state to grant permission for pipeline’s building in its territorial waters since 2017. NS 2 pipeline passes through exclusive economic zone of Sweden and Finland alongside the territorial waters of Germany and Russia. All states have approved permissions for construction works, leaving Denmark the last one to do so. Even though Nord Stream AG submitted its applications for the permit in 2017, the authorization was not given for more than 2 years. Denmark’s decision was vitally important for the NS 2 future as it could have postponed the project for quite some time or even generally stopped.

Denmark’s hesitation and political actions demonstrated its resistance towards NS 2 since the beginning; hence, the state became one of the biggest adversaries of the project. On October 2017, Denmark’s parliament parties called on the government to refuse permission by vetoing the pipeline. Scandinavians found several arguments to validate their opposition. First of all, the NS 2 provoked strong debates over its safety in the Baltic Sea. Protecting the preservation of ecology was one of the key concerns as Denmark was actively seeking to avoid any damage to the environment. Around 55.000 tons of chemical weapons and 11.000 tons of explosives used

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during the World War II can be found in the coast of Bornholm which was suggested as a route option for the NS 2.\textsuperscript{108} Therefore, any inconvenience could affect the habitat of the Baltic Sea.

In addition, to environmental security, Denmark has expressed similar concerns as Central-Eastern European states, stressing out that NS 2 is threatening the general European security and stability by growing Russian influence in the region. Therefore, in November 2017, the law has been passed to allow reject pipelines on states’ security and foreign policy matters, if those are perceived as a threat.\textsuperscript{109} The situation in Ukraine was also taken into consideration. In March 2019, Foreign minister of Denmark Anders Samuelsen stated that Russia is “definitely not working in the interest of Denmark in general” implying on the Russian aggression in Ukraine.\textsuperscript{110} Thus, the government was not willing to grant permission as easily as it diverges with the state’s values of peaceful cooperation.

The delay to grant permission and new regulations in domestic laws symbolized about Danish resistance towards NS 2. Danes highlighted three main reasons why the decision making was so prolonged and get all the necessary assessments to grant permission. The preservation of the Baltic Sea flora and fauna and potential pollution were the first reasons to start opposing the NS 2. Furthermore, NS 2 is risking to cause threat to European stability and might deepen problems in Ukraine. Therefore, the project is harmful and does not bring any advantageous meaning to European Union.

3.2.4. The threat perception: Poland and the Baltic States

The Baltic States and Poland have been the most active in advocating against the NS 2 and expressed the highest concerns over the implementation of the Russian gas pipeline arguing that the project would compromise EU’s energy security and their general safety. The approval of the Nord Stream 2 was perceived as a betrayal on both economic matters and European values as aforementioned East European states have experienced violence and hostilities from Russia or the Soviet Union years before.


Even though the Baltic States are not facing any direct consequences, countries are concerned about the NS 2 indirect political repercussions.\footnote{Bros Aurélie, Tatiana Mitrova, and Kirsten Westphal, “German-Russian Gas Relations” (Berlin, 2017), https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2017RP13_wep_EtAl.pdf.} Having complicated historical relations, states perceive Russia as a dangerous and unreliable supplier having experienced its coercive endeavor using energy as mean to influence political decisions. Majority of 55 supply interruptions (1991-2006) in Russia neighboring states were related to economic or domestic legislative factors.\footnote{Dimitar Lilkov and Roland Freudenstein, “The Case Against Nord Stream 2,” Wilfried Martens Centre for European Studies, 2018, https://www.martenscentre.eu/sites/default/files/publication-files/european-energy-security-nordstream2.pdf.} Therefore, the project is understood as another Russian instrument to influence European politics. Since the implementation of the first Nord Stream, states have been also apprehensive towards the growing relationship between Germany and Russia. The division of East and West has been a long-lasting problem; hence, the project was criticized for sharpening the edges in the current times and farther isolating south-east Baltic region states.\footnote{Bros Aurélie, Tatiana Mitrova, and Kirsten Westphal, “German-Russian Gas Relations” (Berlin, 2017), https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2017RP13_wep_EtAl.pdf} After the signing of the second NS’ agreement, the resistance towards the German-Russian energy plans intensified. During a meeting with German Foreign Relations Minister Heiko Maas in May 2018, the leaders of the Baltic States stated that the project does not comply with European energy market policies and priorities. Lithuanian Minister of Foreign Affairs Linas Linkevičius said that the NS 2 is threatening European common energy policy and its consistency, therefore, the project is just disrespectful for the states that are trying to diversify their energy sources and following the complied EU energy market rules.\footnote{“Linkevičius Užsienio Žiniasklaida: Rusijos Grėsmė Yra Reali Ir Turi Būti Vertinama Rimtai,” LRT, June 20, 2019, https://www.lrt.lt/naujienos/lietuvoje/2/1071381/linkevicius-uzsienio-ziniasklaida-rusijos-gresme-ycra-realituri-buti-vertinama-rimtai.} The Baltic States also distinguish the importance of external actors and how the NS 2 might affect their affairs. First of all, the NS 2 might become a contentious topic in the transatlantic relations.\footnote{“Nord Stream 2 Project Can Become Collision Point in Transatlantic Relations - Rinkevics,” The Baltic Times, August 28, 2018, https://www.baltictimes.com/nord_stream_2_project_can_become_collision_point_in_transatlantic_relations_-rinkevics/.} In August 2018, Latvia’s Minister of Foreign Affairs Edgars Rinkēvičs stated that the NS 2 can become a collision point in the transatlantic relations as energy is no longer just a matter of EU security but also a relevant issue in the cooperation with the US.\footnote{“Nord Stream 2 Can Sour Transatlantic Relations, Says Foreign Minister,” LSM.LV, August 27, 2018, https://eng.lsm.lv/article/economy/economy/nord-stream-2-can-sour-transatlantic-relations-says-foreign-minister.a290184/.} Moreover, states vocally support Ukraine and believe that a stronger emphasis should be put on its economic safety during the development of the NS 2. Henceforth that the partner state should be provided with the

reassurance that it will maintain its role as a transit country.\textsuperscript{117} In September 2019, Polish Prime Minister Mateusz Morawiecki publicly said that both Lithuania and Poland consider the NS 2 as “a threat to security in Central and Eastern Europe.\textsuperscript{118}

In order to counterbalance Nord Stream 2, Poland has decided to invest into a new offshore gas pipeline Baltic Pipe.\textsuperscript{119} The finished project will allow Poland to become an independent gas hub for Central and Eastern Europe. Lithuania likewise invested into an LNG terminal in Klaipėda.\textsuperscript{120} Latvia is willing to follow its steps afterwards.\textsuperscript{121} Therefore, states are actively seeking to become less depended on Russia and promote an example of route and supplier diversification.

Therefore, the Baltic and Polish resistance towards the project is eminently strong and countries are willing to oppose it by various methods. Both Poland and Baltic states have contributed significantly in the dispute over the NS 2 since its very beginning both on national and international levels not only publicly expressing their worries but also when implementing new energy projects.

### 3.3.5. The political and judicial barriers of the European Union

The EU is not rich with the natural energy resources and it needs to import the majority of energy or supplies from other regions or non-member states. The imports take almost 70 per cent of gas and about 90 per cent crude oil (in general it sums up to half of its consumed energy) and cost about a billion euro a day.\textsuperscript{122} Russia remains the major natural gas exporter, constituting approx. 46 percent of EU’s imports (2018).\textsuperscript{123} The reliance on raw recourses is not that big of a problem itself. However, being dependent on one supplier of natural gas can create major issues. The problem of reliability from foreign supplier intensified significantly when in the winters of 2006 and 2009 Russia cut off its supply for some Eastern member-states and the later greatly affected their citizens. The question of strengthening Europe’s energy security became a crucial issue in


policymaking. The European Commission as a major executive branch of the European Union, has expressed strong disagreement over the building the NS 2 gas pipeline. As the EU’s main priority is energy security, it seeks to create a well-diversified and competitive gas market. The EC does not consider NS 2 as a contributor to the EU’s strategic energy policy aims and states the project does not devote to the Energy Union’s objectives.\textsuperscript{124}

**Graph 3:** EU imports of natural gas by partners in 2018

![Graph 3](image)

**Source:** EUROSTAT, 2018

According to experts’ calculations, the Nord Stream 2 would cost billions of Euros while other priority areas would be left out.\textsuperscript{125} Furthermore, the European Commission states that the existing infrastructure is efficient enough to import gas. The new gas pipeline would serve to diversify neither from energy source nor from a route perspective as the NS 2 would follow a very similar transit passage as the NS 1.\textsuperscript{126} To the contrary, it would strengthen Russia’s position and would surpass to a concentration of routes into the so-called, Baltic corridor. The EU officials also stress out that Nord Stream 2 represents the violation of European Union values, as the project has already divided member states into opposing and pro-NS 2 ones. NS 2 is causing a breach in the Union and is called to be a “Trojan Horse” of Russia as it would be possibly used as supplier’s political and economic tool to influence EU’s policies and challenge the plans to create an efficient Energy Union.\textsuperscript{127} Another concern of the EU is its neighbor Ukraine. As Ukraine is a priority partner in the Eastern Partnership, the EU’s strategic importance is to keep a close relationship with the state while increasing political and economic cooperation and helping to maintain its international status. After violent Russia’s acts and unlawful annexation of Crimea, the Union started to provide various support in order to help stabilize the situation in Ukraine. The EU aims to maintain the gas transit role for Ukraine and publicly states that NS 2 risks to endanger its energy


\textsuperscript{126} Ibid.

\textsuperscript{127} Ibid.
security and overall geopolitical situation. The NS 2 project can become Russia’s political tool to weaken Ukraine’s economy when shutting down gas transit routes consequently affecting state’s economy.\textsuperscript{128} The EU is publicly supporting Ukraine’s plans to remain gas transit state.

The EU’s principal interest is to keep the bloc secure and avoid various disagreements among member states. Meanwhile, the NS 2 project is bypassing all the strategical objectives at is not following the diversification of supplies, suppliers and routes. On the contrary, the project is causing political implications as EU member states are dividing into pro-NS 2 and the opposing ones. It causes geopolitical threat to Ukraine with whom the EU has tight political and economic ties as well. Even though EU’s and EC’s perceptions towards NS 2 are rather negative, the Union had to maintain relatively neutral stance. The EC did not have a legal privilege to completely stop NS 2 implementation as energy security issues are commonly solved only at national level using the subsidiarity principle.\textsuperscript{129} Hence, even though NS 2 project is affecting many important areas and, according to EC’s Vice-President Maroš Šefčovič “goes clearly beyond the legal discussions,” the EU can only ensure that the new pipeline is fully aligned with EU’s key policy aims.\textsuperscript{130}
4. CRITICAL JUNCTURES IN THE CASE OF NORD STREAM 2: INTRODUCING MEANS, EXPLAINING OUTCOMES

After discussing the major coalitions influencing the Nord Stream 2’s implementation it is important to distinguish and analyze the major critical events and decisions that had a significant impact on its implementation process or can influence the eventual outcome. Even though the official beginning of the NS 2 project is dated in 2015, the starting point can be found in previous projects or political events. Many individual and also multilateral variables played a role in NS 2 operation that pressured the parties to take particular decisions affecting the future of the project.

Distinguishing the critical junctures – major events that had a significant impact on NS 2 development and either hindered or pushed the project further – can help to understand the process and its dynamics better. Analysis and evaluation of the focal points can further contribute to assessing the future perspectives and potential risks.

Table 2: Chronology of events related to NordStream 2 project development

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 -</td>
<td>Nord Stream AG evaluation of an expansion project consisting of two additional lines</td>
</tr>
<tr>
<td>2014 –</td>
<td>Russian military aggression in Ukraine</td>
</tr>
<tr>
<td>September 2015</td>
<td>the signing of bilateral NS 2 agreement between Germany and Russia</td>
</tr>
<tr>
<td>December 2017</td>
<td>American National Security Strategy</td>
</tr>
<tr>
<td>February 2019</td>
<td>the proposal to amend the Gad Directive from the European Commission</td>
</tr>
<tr>
<td>February 2019</td>
<td>ratification of Borhlon ownership</td>
</tr>
<tr>
<td>April 15th 2019</td>
<td>adoption of Amended Gas Directive</td>
</tr>
<tr>
<td>April 2019</td>
<td>Nord Stream 2 submitted an application for an alternative route north-west of Bornholm (South-Eastern Route).</td>
</tr>
<tr>
<td>May 23rd 2019</td>
<td>amended Gas Directive’s entry into force</td>
</tr>
<tr>
<td>September 10th 2019</td>
<td>The removal of OPAL exemption regime</td>
</tr>
<tr>
<td>October 30th 2019</td>
<td>Denmark’s permit for the NS 2</td>
</tr>
<tr>
<td>December 20th 2019</td>
<td>Signing of the bill of sanctions for NS 2 building companies</td>
</tr>
<tr>
<td>December 21st 2019</td>
<td>The withdrawal of pipe-laying company Allseas</td>
</tr>
<tr>
<td>December 31st 2019</td>
<td>Naftogaz and Gazprom's gas transit agreement</td>
</tr>
</tbody>
</table>

Source: compiled by the author

Hence, seven critical events were distinguished as the most important ones that had an important direct or indirect impact on NS 2 development, pushing it to move forward or, vice versa, blocking it from its ultimate finish. This chapter analyzes how each event affected the project, what
consequences it had or might possibly have in the future. This section of the paper is finished with
the presentation of the current situation and prognosis of future development.

4.1. Russian aggression in Ukraine in 2014

Russia’s credibility as a gas supplier for the EU significantly deteriorated after the gas
short-cuts in 2006 and 2009. Nevertheless, it still remained an important supplier of resources. The
operational start of NS 1 in 2011 further strengthened its position. At the time the Russian pipeline
was perceived as an important strategy of route diversification. Therefore, the EU was willing to
cooperate with Gazprom and European energy security was not a big issue itself; hence, no
particular policies were implemented in order to secure the energy market. In March 2014, Russia
state breached international order by annexing Ukraine’s territory of Crimea claiming to be
protecting the native Russians in a foreign state. Moreover, the military in actions in Donbass
region were launched that further destabilized already insecure Ukraine. Henceforth, the position of
a trustful partner Russia has changed drastically in the EU. European states understood that Russia
is willing to use coercive tactics for foreign policy purposes. Energy could very likely become an
important instrument to do so. Therefore, the policies strengthening the energy security were finally
drafted.

First of all, European Union’s energy security strategy was proposed in 2014 by the EC
and more consideration was taken into account in regard with energy safety.\(^\text{131}\) The EU’s idea of
energy security was defined as “ensuring the availability of energy supplies at affordable prices.”
Short term strategy seeks to diversify its import capabilities instead of depending on one supply
route from Russia. Mid- and long-term strategies focus on the development of alternative energy
resources or making available resources even more efficient. According to the strategy, member-
states should focus more on collective approach, improve internal interconnections an engage in a
political and trade dialogue with Southern partners by deepening LNG supply capabilities.\(^\text{132}\)
Alongside with the strategy, Energy Union was created in 2015.\(^\text{133}\) The Union majorly aims to
establishing diversification of energy sources and development of competitive market. It starts with
the growth of solidarity between states.\(^\text{134}\) As states can encounter disruption of supplies due to
different circumstances, they need to cooperate in order to avoid or deal with these issues efficiently

\(^{132}\) Ibid.
and rapidly. Moreover, states should engage fully-integrated internal energy market. Barriers, such as technical or administrative issues, should be avoided. Both strategies finally defined the energy security principles and aimed to build resilience against possible supply interruptions. The key principle to reach those goals was meant by solidarity and trust, making joint decisions and diversifying sources, suppliers and routes. Moreover, after the Russian aggression in Ukraine, both the European Union and the United States of America decided to put the diplomatic and economic sanctions regime on Russia due to its aggression and breach of international law which farther deepened the hostile relationship and mistrust over the state.

Therefore, the annexation of Crimea can be perceived as a first breaking point towards the upcoming NS 2 project as it has significant influence in the states perception onto Russia and its aggressive behavior. After Russia’s illegitimate actions the principles of energy security were finally drafted in the EU energy security strategies with a focus on gas import policies. Outlined rules on had a substantial impact on Union’s approach over NS 2 and upcoming policies related to the new Russian-built pipeline.

4.2. The signing of Nord Stream 2 in 2015

After Russia’s aggression in Ukraine, the official European approach towards Russia and its political reverences has changed significantly. Nevertheless, in September 2015, the new project was born meant to connect Europe and Russia by energy means once again. The agreement on gas pipeline Nord Stream 2 was signed between five European energy companies and Russian Gazprom. By primary estimation NS 2 cost was meant to total about 9.5 billion euros. Just 2 months before, on June, 2015, Gazprom has expressed its intentions to stop transporting gas to Europe through Ukrainian gas pipelines. When having a direct Russian-German joint pipeline the plans could have very plausibly become the reality.

Hence, in autumn 2015, European companies signed an initial shareholder’s deal aiming to create a joint venture with Gazprom. The join-venture was meant to be responsible for construction, operation and all the further development of NS 2.¹³⁵ Before, the official agreement, Nord Stream 2 AG has also successfully endorsed a settlement with pipe-laying company Allseas which has already contributed to the building of the first NS. The agreement concluded Allseas vessels’

engagement in the pipe building operation, providing the process with three ships Pioneering Spirits, Audacia and Solitaire.\textsuperscript{136}

NS 2’s signing was not welcomed positively in the EU. About a year later after the first agreement, Polish antimonopoly company the Polish Competition Authority (PCA) has blocked the joint venture, arguing stronger Gazprom’s dominance in Europe and its further possibility to influence Polish consumers. Event though, the NS 2 does not cross the territory of Poland, aforementioned energy companies have assets in the state. Polish laws give the antimonopoly watchdog the right to fine them, if the enterprises proceed in NS 2 share selling without its approval.\textsuperscript{137} After receiving Poland’s pressure proposed partners subsequently decided to withdraw their merger notification whilst PCA decided not to proceed with further procedures. Gazprom was set to become the singular shareholder of the pipeline’s project enterprise Nord Stream 2 AG and continue NS 2 works on its own. On April 2017, Nord Stream AG signed the investment agreement with European energy companies which with a decision to provide the financing for 50 percent of NS 2 building work. All six companies decided to work as partners and fund up to 950 million euros.\textsuperscript{138}

Nevertheless, even after stepping down from the project, the companies did not avoid any inconveniences, in November 2019, Polish anti-monopoly body The Office of Competition and Consumer Protection (UOKiK) fined French company Engie Energy 40 million Euros.\textsuperscript{139} Engie, which is one of NS 2 investors, has refused to provide official documents regarding the deal with Gazprom for UOKiK’s investigation. According to UOKiK, all European investing companies ignored the watchdog’s decision to take into consideration the fact that Nord Stream 2 would undermine competition. Additionally, Engie’s delay resulted in a lag in activities relating to financing the building of NS 2, as it was expressed in UOKiK’s statement. French company disagrees with the decision and is planning to appeal.\textsuperscript{140}

Hence, NS 2 signing received negatives reactions and encountered obstacles from the beginning. Nevertheless, after adjustments and shareholder changes, the foundations were laid for the project’s farther implementation.

\footnotesize{\textsuperscript{137} Max Seddon, “Nord Stream 2 Partners Withdraw amid Poland Pressure,” \textit{Financial Times}, August 12, 2016, https://www.ft.com/content/97491341-152b-3c13-8961-7f6f3b857540c.}
\footnotesize{\textsuperscript{139} James Shotter, “Poland’s Regulator Slaps Fine on Engie over Nordstream Project,” \textit{The Financial Times}, November 8, 2019, https://www.ft.com/content/5718865a-021e-11ea-b7bc-f3fa4e77dd47.}
\footnotesize{\textsuperscript{140} Ibid.}
4.3. Change of governments in the United States in 2017

The hostility towards the Russian energy projects was seen even before the NS 2, when President George W. Bush has questioned the first Nord Stream’s necessity.⁴¹¹ Therefore, the new Russian pipeline was not welcomed positively in the US as well and the state has been criticizing the need of it since the project’s beginning in 2015. Both administrations of Barack Obama and Donald Trump have expressed negative approaches and promoted the anti-Russian energy policies. Such antagonism can be related to the continuing American policy towards the EU and administrations’ inclination that European energy security should be a core element of the US foreign policy goals.⁴¹²

According to the American decision-makers, the NS 2 project is harmful for the EU’s and Ukraine’s energy security and could be used as a tool to influence European politics. In 2016, Amos Hochstein, the U.S. State Department’s special envoy for international energy affairs in B. Obama’s administration stated that NS 2 will “become Russian instrument that will serve to follow the state’s narrative”, as well as it “creates a chasm” between European states and damages EU’s unity.⁴¹³ Governments not only questioned Germany’s loyalty⁴¹⁴ but also have raised ideas of economic sanctions due to the state’s hypocritical attitude. Nevertheless, despite being vocal, the administration of Barack Obama did not take specific actions that could influence the outcome of NS 2. The situation changed with the presidency of Donald Trump when the real fraction between transatlantic relations became apparent.

After presenting country’s new version of American National Security Strategy in 2017, the stance of the US converted into noticeably more adverse one. As the US aimed to become a new superpower in energy sector, the competition with its biggest rival Russia in European gas market evoked US’s stronger opposition towards NS 2. The US was seeking a stronger cooperation with European states; therefore, the new Russian pipeline became an obstacle to reach its goal. US President Trump called “inappropriate,” and several times publicly warned Berlin to stop NS 2, but no result was achieved. Au contraire, Foreign Affairs Minister of Germany, Heiko Maas has accused the US of interfering into European business. “Questions of European energy policy must

be decided in Europe, not in the U.S.,” he said.\textsuperscript{145} American discourse changed drastically when Germany has decided not to react. Finally, the United States have officially raised an idea of implementing sanctions over the NS 2. In summer 2019, two bills of sanctions were presented in the House and the Senate aimed to target pipe-laying companies involved in the NS 2 construction work. The president Trump and also Energy Secretary Rick Perry publicly supported the idea of sanctions.\textsuperscript{146}

Hence, the tactics of D. Trump’s administration are much more aggressive than the previous governments. Instead of publicly opposing the NS 2, Trump and other administration officials are actively seeking the imposition of sanctions. Such penalties can slow down the process of new gas pipeline’s startup for months or even years. Therefore, the change of the United States its administration became a critical juncture as the US started to perceive NS 2 as untoward project and started to securitize the pipeline’s affairs on a global scale.

4.4. Amended Gas Directive in 2019

Even though European Commission is a legislative organ of the EU, not many actions are possible to stop the building of Nord Stream 2 as the project is considered to be of a national interest of Germany. Nevertheless, the EU bodies decided to take some decisions that might have a significant influence in the NS 2 future operation. The most significant one was the proposal to amend the Gas Directive which has been in place in institutional regulation for about a decade.

The initial idea to change the rules was proposed in November 2017. Around 16 months later, in February 2019, the EC finally transmitted the recommendation and European Council has presented the amended Gas Directive\textsuperscript{147}. The Directive was voted in the European Parliament, then adopted by the Council in April and entered into force in May 2019.\textsuperscript{148} The official reasoning for Directive’s extension was to improve the internal energy market and build a stronger solidary between states. Nevertheless, as the modification process took a remarkable short time which was unusual for European institutions, and cut down the transpositions period (from a customary procedure which takes year to nine months), the adjustments were perceived as an ad hoc

\textsuperscript{148} Ibid.
instrument to have institutional leverage against the NS 2. According to the new rules, from now on the regulations of the EU’s internal gas market will be also applicable to pipelines from or to third countries. It also creates extra barriers as the energy policy decisions are transferred from member states to Brussels. In this case, states independently are no longer able to negotiate and build pipelines with third countries.

After the Directive will be swapped into German law, Germany will be obliged to ensure its implementation. In this case, if NS 2 will not be finished until the Directive upholds in national level the EC will be able to delay the start of its operations due to regulatory issues. The Directive’s amendment creates barriers for Gazprom to fully operate NS 2 as pipeline’s route is going via German territory and is subjected to EU laws. Currently Gazprom is both the owner and supplier to NS 2. After the directive will enter into force, company’s double amenability, will violate the terms of decree. The amended law would force Gazprom to split the pipeline to independent operators as it requires separate ownership of gas and transmission canals from 3rd non EU states. Hence, the company administrating the NS 2 should be independent of Russian Gazprom. Moreover, it creates regulatory barriers of general utilization of the pipeline alongside with degree of operation of EUGAL, the terrestrial NS 2 pipeline.

Currently, the directive includes the statement that interconnectors may ask for an exemption regime for a determined period of time, which after the request needs to be approved by the EC. Therefore, the possibility that NS 2 will be excluded from the rules still exists, if any of the companies, Russian Gazprom for example will ask for it. Nevertheless, based on past examples (Poland sued EC on granting OPAL an exemption regime), there is a high chance that EC would be sued for obeying to Germany afterwards. Hence, on July, 2019, Nord Stream 2 AG asked EU’s General Court to annul the amendment of Directive stating that it is discriminating the NS 2 pipeline and infringes the principles of equal treatment. Proceedings to conclusions might take around twenty months.

On July 25, 2019, Nord Stream 2 AG brought an action for annulment before the General Court. Nord Stream 2 requests that Directive (EU) 2019/692 amending the EU Gas Directive be annulled because of an infringement of the EU law principles of equal treatment and

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150 Ibid.


proportionality. This would lead to the cancellation of Directive (EU) 2019/692 as the amendment was clearly designed and adopted for the purpose of disadvantaging and discouraging the Nord Stream 2 Pipeline.

Therefore, even though the EU institutional powers seemed incapable to influence the NS 2 development significantly, as no institution was able to stop the construction work, it might alter the final outcome of the NS 2. The regulatory reforms ask for compatibility with EU law, security of supply and negative effect on gas market competition. As a result NS 2 farther implementation and operation should be adjusted to the EU official rules.

4.5. The removal of exemption regime on OPAL in September 2019

One of the strongest opponents of the NS 2 are the Baltic States and Poland. Therefore, countries have tried to influence the development of the pipeline by various instruments. The most critical decision, influenced by the aforementioned group of states, was suing the European Commission to European Court of Justice (ECJ). Court’s adopted verdict might have a significant influence in the NS 2 development as well.

The roots of this trial can be found in the history of NS 1. In October 2009, the European Commission has adopted the exemption regime on Nord Stream 1’s onshore section OPAL, owned by Gazprom, in order to avoid the monopolization of energy infrastructures. Hence, for several years OPAL transmission was only half of its capacity. The destiny for Russia was favorable when in 2016 the EC has decided to revise its own decision on the restrain regime and granted Gazprom the right to use OPAL on its full capacity. Months later, Poland sued the European Commission to the ECJ for conniving to Russia and granting Gazprom the exemption regime for OPAL gas pipeline, which is an onshore link of the first Nord Stream154 and argued that it compromised the energy solidarity principle. The state was later joined by Lithuania and Latvia.155 Almost three years later, on September 10th, 2019, the ECJ overruled the EC’s decision it was subsequently sustained.156

The ECJ’s decision finally defined energy solidarity principle and rules.157 From now on, the principle requires the EU member states to take into consideration not only their interests but those of the EU as a whole, as well as separate member states if the decision will have a considerable effect on the European energy market. Furthermore, the OPAL case will lead the

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154 Poland v. Commission (General Court of the European Union, 2019, T-883/16)
155 Ibid
156 Ibid.
157 Ibid.
precedence to bring legal challenges for all parties interested in the breach of solidarity. Therefore, such cases as NS 2 and other bilateral agreements will not be possible as the parties will be facing legal issues.\textsuperscript{158} Moreover, as OPAL’s pipeline was put on restrictions again, EUGAL, the sister terrestrial extension of NS 2 might receive the same exemption regime.\textsuperscript{159} Hence, Russia who was expecting to double their gas transmission will only have pipelines that will be allowed to be used only half of their capacities. Therefore, the state would be obliged to build new terrestrial pipelines or try to find alternatives routes in the neighboring states.

Map 2: The NS terrestrial links

\begin{center}
\includegraphics[width=\textwidth]{map.png}
\end{center}

\textbf{Source: EUGAL, https://www.eugal.de/en/eugal-pipeline\textbackslash route}

Therefore, the appeal of Poland and Baltic States was a successful indirect claim to influence the NS 2 future and implementation. The OPAL transmission is already cut and it creates a new precedent for NS 2 future. It is likely that the same limitation regime will be applied on the EUGAL. Furthermore, Court’s decision to finally take substantial actions against Gazprom depicts that European Commission was willing to pressure Russia into negotiating with Ukraine and prolong the transit agreement. Even though, the EC had the opportunity to appeal, it decided not to, showing its stronger resistance towards the NS 2 and Gazprom.


\footnote{Ibid.}
4.6. Danish permit for the Nord Stream 2 in October 2019

Denmark has been hesitant to grant permission for NS 2 since April 2017 creating a major obstacle to finish the project according to the estimated schedule. Eventually, two and a half years later, Danish Energy Agency has issued the authorization to construct the pipeline in the Danish Exclusive Economic Zone.

According to estimations, if the permission would have been granted later than at the end of autumn 2019, the pipeline operation would have not been finished until January 2020 as the building process takes at least 5 weeks to be completed and the waiting period after the admission in Denmark is 4 weeks. Denmark’s indecision made Gazprom think about alternative routes in order not to stop the project in general even though it would have raised the NS 2 price by millions of Euros and postpone the finish by up to 8 months.

Therefore, the company has presented 3 possible route options to win Denmark’s positive response on at least one of those. The third possible route going through Danish territorial waters was not even applicable at first due to a 40-year-old border dispute with Poland. Southeast territorial waters of Island of Bornholm became an issue after the 1982’s Treaty on the Law of the Sea stating that coastal states have the right to use the territorial waters up to 200 nautical miles from its border by water. On February 2019, Poland and Denmark ratified the demarcation agreement and Danes won the right to use its the territorial waters. In April 2019 Gazprom proposed southeast route of Bornholm as an alternative passage for the NS 2 pipeline.

Map 3: NS 2 route proposals for Denmark


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Gazprom’s waiting ended on October 31, 2019, when Danish Energy Agency finally granted the permit to build the NS 2 on the shortest route going through aforementioned Bornholm Island, claiming it was obliged under the United Nations Convention on the Law of the Sea. The decision was highly criticized by Danish left-wing parties that responded of the decision as “disastrous for the climate and EU energy policy.” According to the Danish legislation, interest groups had 4 weeks to appeal which could have had possibly slow down the process of building but no appeal was submitted.

Danish permit was vital to complete the project with the least delay as bypassing the Denmark’s territory would have resulted in at least 6 months postponement of NS 2 operational start. Until Denmark’s decisions, about 87 percent of the pipeline construction has already been finished in the territorial waters of Germany, Russia, Finland and Sweden; making Denmark the last state to start the building process. The pipelay of 147 km long section was meant to start in southeast part of Danish Borlholm Island, although it is not yet known when the construction will be completely finished, it was stated in Nord Stream AG report in November 2019.

Hence, the Danish decision became breaking point in completing the NS 2 as the last physical hurdle was removed. NS 2 was granted with the permit for shortest route and no appeals were submitted that could possibly have stopped the operation.

4.7. Signing of the bill of sanctions for NS 2 building companies on December 20th 2019

The previously mentioned bill of sanctions in the United States was firstly presented in May 2019 by Senators Ted Cruz and Jeanne Shaheen. The proposed sanctions aimed to target the companies working on NS 2 construction work by freezing their assets in the US and denying visas for their shareholders. According, to Senator Cruz, the bill would protect European energy security and prevent Russia from using its new profit from gas to finance its aggressive actions.

Even though, after the original process, the United States did not have much time to finish up the enforcement process, the mechanism lingered and the decision-making was not immediate. After being passed in the House in summer 2019, it was approved by the US Senate only in

December. The permission to impose the sanctions by Trump was finally granted at the very end of 2019, on December 20th, only with a few weeks left until the official operational start of Nord Stream 2. It was signed as part of 2020 National Defense Authorization Act (NDAA).\textsuperscript{167}

The critics stated that the authorization for sanctions was belated and it will not stop the project as permanently it was planned in the beginning. Nevertheless, signing of the bill resulted in the immediate withdrawal of Swiss-Dutch company. Allseas, Switzerland based company, was one of the major companies, laying the NS 2 undersea pipeline. Just a day after the D. Trump’s decision to sign the bill, the company decided to freeze its operation and building works in Danish waters.

The firm was being threatened by the US Senate that its further operation in project’s development would follow up in a significant financial loss and reputation damage for company’s shareholders. Even though the company’s CEO Edward Heerema states that the withdrawal from the project already damages enterprise’s honor, they did not want to risk more, as the United States and the Gulf of Mexico is a significant market for Allseas. After being warned by the US by upcoming sanctions, the company decided to move their vessels from the construction site.\textsuperscript{168} In its official statement the company declared that they expect the US to develop compromising policies, those including the technical, regulatory and environmental ones and will proceed to legislation’s provision.\textsuperscript{169} Moreover, at the very end of 2019, the company announced they are not willing to resume the NS 2 pipe-laying works, its vessels have already left the Baltic Sea and company is preparing for another project. The withdrawal of the firm left the stretch of 160 km unfinished.

Therefore, the American bill of sanctions became another crucial juncture in the process as it is even partial success resulted in the operational start being postponed for months. Allseas’ decision has halted the finish of the NS 2 at its anticipated end on December 2019 – January 2020. This period gives an extra time for anti-pipeline coalition to find new instruments to stop or again postpone the operational start of the Nord Stream 2. Even though currently Russia is looking for possibilities to finish the pipe-laying as soon as possible, the operational start date remains indefinite.


4.9. Current situation and future observations

After the prompt withdrawal of Allseas, it was clear that the NS 2 will not be finished in beginning of 2020 as it was planned. Hence, Gazprom was forced to start immediate negotiations with Ukrainian Nazftogaz in order to keep their gas flowing into Europe. On December 20th, after 5 days of discussions in Vienna, Gazprom, Nazftogaz and Gas Transmission System Operator of Ukraine (GTSOU) took a decision to sign a new transit deal with only one day the old agreement was set to expire.

The new agreement guarantees Ukraine an annual transit volume of 65 bcm in 2020 and at least 40 bcm for the following four years that would support Ukrainian economy with 6.25 billion Euros by 2024. The contract could be extended for the ten years with the same conditions and terms those including the “pump and pay” clause. Therefore, if Gazprom will not carry out the minimum volumes, the company will be obliged to cover the difference and still pay the Ukrainian firm respective sums of money. “Pump or pay” clause was based on European methodology for tariff calculation and the EU’s Third Energy Package legislation. Even though Nazftogaz was going for a ten-year contract, Gazprom was hoping for a temporary year-long settlement. The head of Ukrainian company Andriy Kobolyey said that the new agreement is a successful result of “acceptable compromise”. Ukrainian president V. Zelenskiy likewise evaluated the accord positively calling it “energy security and prosperity for Ukrainians”, stressing out that Europe will not be failed as well. Moreover, during the negotiations companies decided to withdraw legal claims Nazftogaz had against Gazprom. The case in Stockholm Arbitration became one of the biggest commercial adjudications.

During the Vienna, Nazftogaz agreed to uplift legal attachments from Gazprom’s assets in Europe

and both companies decided to drop all unsettled court claims under 2009 contract.\textsuperscript{175} Therefore, arbitration settlements were one of the main parts of the new agreement.

Therefore, even if American sanctions over NS 2 were not able to cancel the energy project itself, they managed to postpone its operational start giving strong leverage to Ukraine during negotiations which was crucially important for the state in order to sustain its trembling economy.\textsuperscript{176} Furthermore, the opposing group has managed to win some time and halt the development of the NS 2 at least temporally. Gazprom was forced to rethink strategy and find alternatives ways to finish the project. Akademik Cherskiy, Russian ship, is seen to be the most possible substitute to complete the pipeline after the withdrawal of Allseas. The Russian vessel left Far East port in February and reached Kaliningrad in the beginning of May 2020. Cherskiy has yet participated in any pipe-lying operations, but had overcome modernization processes during the past years. Further adjustment need to be done for the ship to become applicable in NS 2 laying operation. Afterwards the vessel would be able to reach Bornholm are in approximately two days.\textsuperscript{177} Another plausible option is another Russian vessel Fortuna, stationed in German port, no too far from Denmark territorial waters. Although pipeline developers have yet presented information regarding the vessels to Denmark Energy Agency, they stressed that landfall and offshore works are under-construction as planned.\textsuperscript{178}

The opposing coalition is not willing to surrender and still is continuing to put the brakes on the project. European Energy Commissioner Kadri Simson said that the EU is not planning to “give a special treatment” to NS 2.\textsuperscript{179} According to the rules, Amended Gas Directive should be applied to the NS 2 as its completion was not finished till 23\textsuperscript{rd} of May 2019. Nord Stream 2’s owners, on the other hand, claim that they had already invested approximately 6 billion euros by that time and would like to receive a derogation regime as the final investment was made before the amendment. Hence, the argument of legal definition of “completion” arises as both sides try to interpret the same case differently. In the meantime, pipeline’s developers asked German regulator BNetzA asked for potential derogation of NS 2 in January 2020. The favorable decision would have had allowed Gazprom to full access to the new pipeline. In May 15th, BNetzA rejected NS 2 developers’ request noting that the criteria of “completion” has not been fulfilled completely by


\textsuperscript{176}Khakova, “The 11th Hour Transit Deal Is a Relief for European Energy Consumers and a Pivotal Opportunity for Ukraine’s Future Energy Strategy.”


May 2019, which was key requirement of Amended Gas Directive. German energy regulator understands the term “completion” in technical point, whereas NS 2 developers perceive it an economical sense noting that the final investment was carried out before May 23rd of 2019. After receiving a rejection of application, the Nord Stream AG still has a possibility to examine the decision in court.\footnote{“No Derogation from Regulation for Nord Stream 2,” Bundesnetzagentur, 2020, https://www.bundesnetzagentur.de/SharedDocs/Pressemitteilungen/EN/2020/20200515_NordStream2.html?fbclid=IwAR10hKrgbVsklRI7zRJDgDJeScHVoObURoitnMBzPcRr2k8VBRiKC2ZYafGs.}

Nevertheless, even though the agency’s decision has put the underwater pipeline’s future in jeopardy, BNetzA still permitted EUGAL to be build with no bidirectional capacity.\footnote{Jacob Mandel, “Acer Backs Eugal Bidirectional Gas Flow Exemption,” Argus Media, May 13, 2020, https://www.argusmedia.com/en/news/2104884-acer-backs-eugal-bidirectional-gas-flow-exemption.} Hence, Germany and Russia are not willing to surrender and are continuing the implementation works, looking for scenarios to complete the NS 2 as successfully as possible. However, due to arising judicial boundaries from the EU and the US expected implementation with the maximum volumes of NS 2 is very unlikely to be performed in the future.

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At the time of thesis submission, the opposing group of states and institutions are winning the battle against the NS 2. Even though the general project was impossible to stop, the opposition managed to influence the further development of the pipeline. Danish hesitation for granting the permission won the time to amend the EU Gas Directive which might have a significant impact on pipeline’s maximum utilization and ownership model. Polish victory in ECJ and final definition of solidarity created a precedent in the EU which might affect the volumes of EUGAL. The results show that the threat of American sanctions became the pivotal instrument of the opposing coalition as it managed to postpone the estimated operational start of NS 2. After the immediate withdrawal of Allseas due to the US sanctions NS 2 building works stopped for an obscure period of time. In the meantime, new regulatory and legislative obstacles are arising. The uncertainty over the NS 2 operation increased profoundly.

The long-awaited energy project is risking to become a multi-billion failure for Russia, Germany and their supporters. Even though the possibility to stop the project completely is not very plausible, the reduced volumes will result in a huge loss for supporting coalition. NS 2 will not be able to function on its projected exploitation capacity and can only become an addition to the first NS. The permissible volumes of both pipelines can result in full capacity of one project; hence, the grandiose plans of NS 2 will not be accomplished. Briefly explaining, Russia has built two Nord Stream pipelines, but will be able to use the capacity of one.
CONCLUSIONS

1. Rational choice theory’s principal assumption is that every individual or actor seeks to make the most rational and pragmatic decision based on their priorities, aiming for utility maximization. The theory’s primary premises can be found in the market economy; nevertheless, later on, it expanded onto sociology and political sciences. Finding common ground for a mutual rationality definition is difficult as it means different things to different people. States, alike as people, seek to maximize the gains, therefore, after evaluation of alternatives, the decision is made aiming for the most beneficial outcome. Both realism and institutionalism perceive states as rational entities, although their understanding is different. Realists believe in power maximization and independent decision making, while institutionalism states that actors most usually will choose cooperation as their most rational strategy. The decision making can depend on actor’s priorities or current circumstances. For example, some states choose to cooperate as they do not have the necessary resources and capabilities to solve particular issues. Loss of sovereignty is still perceived as the most rational decision as it might help to deal with important and more serious problems. The approach towards security in the energy sector also depends on many different aspects. Some states are rich with natural resources, others need to assure the flow of energy from foreign actors. Therefore, their policies and understanding depend greatly of their geopolitical position. The main commonality of energy security definitions is that all states seek to assure energy flow and avoid economic or political harm. Hence, to be rational in energy security policies is to seek for utility maximization.

2. The project of Nord Stream 2 has provoked and reopened the old debates about energy security and EU-Russian relations both in the European Union and ally states. Whereas the first Russian-German built Nord Stream was comprehended as a beneficial diversification tool to secure European energy market and supplies, the NS 2 is creating a fraction among the countries. During the time of NS 1 development, in 2006 and 2009 Russia decided to short-cut the gas supplies transferred through Ukraine which significantly affected Central and Eastern European States, such as Hungary and Slovakia, therefore, countries have started to question its reliability. The uncertainty over Russian energy policy ambiguities and its willingness to use it as a political tool deepened when in 2014, the Russian Federation annexed Crimea (part of Ukrainian territory) and started military actions in Donbass region. The resistance towards the Russian projects increased. Nevertheless, in 2014, five European energy companies with Germany at the front signed an agreement with Gazprom on the NS 2 ignoring the decreasing gas demand in the EU and strong opposition from the European Union and many of its member-states. The primary argument of the
NS 2 supporters was that the new energy project is simply a commercial deal that will provide the EU with affordable gas. Therefore, it does not clash with European values of solidarity and will not cause a geopolitical threat to the EU. Nevertheless, many European states remained either sceptical or rather hostile against the project.

3. The controversy of NS 2 has attracted a big number of various actors on both sides of Atlantic. The new energy project had different meanings for each one of them and split the states into two coalitions. The supporter group remained rather small. Russia as project’s major designer sought to strengthen its position in the European gas market and implement its foreign policy more successfully alongside with Germany and its allies. Pro NS 2 alliance backed up the project arguing better gas prices in the EU and human resources merits in connecting states. On the other hand, the opposing group expanded not only in Europe, but included the US and Ukraine as well. The Baltic States and Poland’s approach toward the NS 2 was greatly negative as all countries have experienced historical hostilities from Russia or the Soviet Union. States argued that NS 2 is a geopolitical tool of Russia and it obstructs the general energy security of the EU, henceforth the member-states should seek to diversify the energy means. The United States also expressed concern about Russia’s strategy to build a new pipeline which might affect the security of the EU, although its position might be related to the willingness to become a major LNG exporter and a global energy power. Denmark stood against NS 2 as it could affect state’s general and Baltic Sea’s environmental security, moreover, the energy security of the EU. Ukraine was concerned about its security and sought to keep the Russian gas flowing via its pipelines that provided the state with significant financial assistance and assurance of stability. Ukraine’s safety was also one of the principal arguments of the European Union which did not perceive NS 2 as a good diversification strategy. Therefore, the NS 2 created a fraction in international relations and its development was highly influenced by each actor’s interests and pragmatic concerns.

4. The project was meant to be finished by the end of 2019, but it is not fully implemented at the thesis submission time - May 2020. It is related to the fact that, a variety of events pushed, or more often, hindered the development process. Russian aggression in Ukraine has resulted in the EU’s more precarious perception towards the state; thus, Energy security strategy and Energy Union were created. Even though they sought to diversify the suppliers and supplies, the second Nord Stream’s agreement was signed following its twin NS 1. The decision was highly criticized by both the EU and the US. As a result, several policies and decisions were made that affected the NS 2 process afterwards. Overall American opposition has strengthened significantly after the Presidential election in 2016. Donald Trump’s new policies have drastically changed the perception over NS 2 and the US became more active in advocating European energy independence. The EU,
additionally, has presented the Amended Gas Directive in May 2019, which threatened to create legal hurdles for estimated NS 2 implementation. Moreover, the EJC has cancelled EC’s decision to grant the OPAL pipeline an exemption regime on September 2019. This very likely might be applied for EUGAL, NS 2 terrestrial link as well. Nevertheless, Denmark has finally granted permission to build the NS 2 in its waters on October 2019. The process of the building should have ended in several weeks, and the opposing coalition would have lost the battle, but the US has signed the sanctions on pipe-laying companies in the very end of 2019 just before the estimated finish of building works. This critical event resulted in NS 2 building enterprise Allseas immediate withdrawal from the operation. Russia was forced to sign an agreement with Ukrainian Naftogaz in order to keep its gas pumping to Europe. In the meantime, Gazprom is deciding on the strategy on how to finish the pipeline. German energy agency has already announced that NS 2 will not receive derogation; hence, the Gas Directive will be applied to it creating uncertainty of its ownership and volume numbers in the future.

The so long-awaited energy project Nord Stream 2 is encountering new obstacles and its further implementation and operation might not be as successful as expected due to arising legislations and instruments applied by the opposing group. Even though Russia and Germany are not willing to surrender, the likelihood of NS 2 execution on full capacity seems no longer probable. If both Nord Streams will be allowed to operate by limited capacities, the supporting group will experience a huge loss, being able to execute the volumes of only one pipeline transmission’s extent. Therefore, it means that the grandiose plans of Nord Stream 2 will not be accomplished.
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ANNEXES

Questionnaire for semi-structured interview

1. Following a complaint by the Polish antimonopoly organization, the structure of the NS 2 shareholders has changed. Has this affected the project’s implementation? If no, why?

2. Why do you think the EU waited until the NS 2 gas pipeline was almost built, before taking strong measures against it?

3. Do you think that the amendment of the Gas Directive is linked to the attempt to maintain an alternative gas transit to Europe via Ukraine?

4. Do you believe that the decision of the European Court of Justice to revoke the European Commission's authorization to increase OPAL’s (NS 1 terrestrial pipeline) transmission is related to NS 2? If so, how can this affect the progress of the project?

5. Do you think that Denmark's delayed decision to grant permission for NS 2 could have been linked to the release and entry into force of the EU’s amended Gas Directive? Could Denmark possibly have delayed the process in an effort to create better conditions for the Ukrainian-Russian gas transit extension agreement?

6. Why do you think US sanctions were enforced just days before the gas pipeline’s planned completion date? Are there any indicators that these sanctions were part of a coordinated effort along with the European anti-pipeline coalition?

7. How do you see the hierarchy of actors in the NS 2 process? Which actors can influence the project development the most?

8. Are there any other measures available for the anti-NS coalition to oppose the project? If so, how can the project developer counterbalance them?

9. What do you think is the likely outcome of the NS 2 project? Do you think Russia will manage to finish the project on its own means? If yes, how long can it take? If no, why?

10. Would you like to add something else?