

Recommendations for the European Commission regarding the highly debated Nord Stream 2 gas pipeline project and various problems associated with it January 24, on the PACE session

On January 24th, at the PACE, there was a discussion regarding the debate on Nord Stream 2 gas pipeline project and various problems associated with it. The event was organized in cooperation with Marianne Mikko, the Vice-President of the Parliamentary Assembly of the Council of Europe (PACE) with the aim to discuss the Nord Stream 2 project during the PACE session week.

The following speakers presented reports on the political, economic, environmental and climate impact of the Nord Stream 2.

- Natalia Arno, President and Founder of the Free Russia Foundation (FRF), a U.S.- based NGO, which assists Russian pro-democracy forces, civil society in Russia
- Evgeniya Chirikova, an environmentalist and a grassroots activist from Russia, [Goldman Environmental Prize winner](#), the coordinator of environmental and civil society portal www.activatica.org
- Mikhail Korchemkin, Head of the East European Gas Analysis, USA

Summarizing the debate, the following recommendations are presented to the European Commission.

The Nord Stream 2 project, promoted by the Nord Stream 2 AG company and fully owned by Gazprom, is about building a 1,200-km offshore gas pipeline between Russia and Germany along the Baltic Sea. The project creates worse environmental, economic and political impact than the Nord Stream 1 pipeline.

Nord Stream 2 is a move from diversification to the concentration of the EU gas supply in a single route

While Nord Stream 1 was conceived as a project of diversification of gas supply routes, Nord Stream 2 would concentrate over two-thirds of the total Russian gas imports in a single route along the Baltic Sea. Combined capacity of the Yamal-Europe pipeline (33 billion cubic meters a year) and Nord Stream 1 & 2 (110 bcm/y) indicates that Germany would receive some 88% of the all EU supplies of Russian gas.

It makes the EU dangerously dependent on the bilateral relations of Berlin and Moscow. Russia has used gas tap as a tool of political and economic pressure in Europe. For example, in the winter of 2014-2015 daily exports via Nord Stream were reduced 50% by the order of President Putin, who did not like the reverse sales of natural gas by German firms to Ukraine. There are no doubts Gazprom would use the tap again

in response to another "wrong" action of German firms or a "wrong" decision of a German judge. Only a "good behaviour" can guarantee a stable flow of Russian gas.

One should also keep in mind that the concentration of gas supply in a single corridor contradicts the official EU policy of diversification of energy imports.

Nord Stream 2 can create shortage of "winter gas" in Central Europe

Consumers need gas in accordance with the seasonal and short-term demand. Geological and economic constraints limit the expansion of underground storage facilities in the EU, which increase the value of flexible supplies.

The route from West Siberia via Ukraine to Slovakia, Poland and Hungary has a lot of spare pipeline and storage capacity allowing gas flow fluctuation from 50 to about 250 million cubic meters per day. On the contrary, Nord Stream 1 and 2 are designed to supply roughly equal daily volumes through the year. The Russian route from Yamal to the Baltic Sea does not have spare pipeline capacity and underground storage capacity of the North-Western Russian is very limited.

Gazprom suggests to sell LNG in winter time, but there are no pipelines to deliver gas from LNG terminals to Central Europe (even if the EUGAL is built).

Closure of the biggest UK gas storage facility (Rough) and the drop of Groningen production (the Netherlands) increases the gas demand in winter, so the timing of Nord Stream 2 with its equal daily flow through the year is bad.

This problem of daily deliveries of gas to Central Europe (including Southern Germany) should be addressed urgently before any decision is made on Nord Stream 2.

Nord Stream 2 shifts the supply balance to offshore pipelines that are much more difficult to repair

Paradoxically, the Baumgarten accident showed a high reliability of land pipeline route via Ukraine and Slovakia. It took just one day to restore the flow after the failure.

It may take several months to repair Nord Stream. Unfortunately, the risk of terrorist attack on underwater pipelines is growing as remotely operated vehicles are getting more available.

Environmental problems of the Nord Stream 2 project

The Nord Stream 2 project poses major environmental problems. The gas pipeline runs through the Kurgalsky nature reserve, which will lead to the destruction of rare species of birds, other animals, and plants.

The implementation of the Nord Stream 2 project has only just begun, but it has already led to violations of the Russian legislation. Recently in Russia there was a public hearing on this project at which the Russian authorities made an attempt to illegally change the territory of the Kurgalsky nature reserve in order to lower its ecological significance.

Thus, we assert that the materials from the Espoo convention were developed based on insufficient data. The route of the pipeline was determined before conducting publicly announced marine surveys and while withholding important information on the value of the southern part of the Kurgalsky nature reserve. Some facts about the value of the southern part of the Kurgalsky reserve, through which the gas pipeline is routed, were deliberately withheld from the consultations under the Espoo Convention.

Climate change problems and the Nord Stream 2 project

The main argument used by the Nord Stream 2 AG company when it speaks of the supposed climate safety of the project is that it will not be coal, but natural gas, which has half the climate impact. But, if the Nord Stream 2 project is implemented, this could lead to a significant increase in coal consumption in Russia, which at least neutralizes the positive effect in Europe.

First is because coal mining is now growing in Russia, while gas production is falling. If at the same time the supply of gas from Russia to Europe increases, it is logical to assume that in Russia more coal will be used to meet energy needs - despite the fact that today the share of coal in Russia's electricity generation is roughly the same as in Europe.

Second, almost a third of large thermal power plants in Russia operate on coal. Since many among them are old, without modern filtering systems, there have already been ecological catastrophes. Let us recall the effect of the "black sky" over Krasnoyarsk.

Today, the program for switching coal-fired thermal power plants over to gas in Russia is stagnating. And if the Nord Stream 2 project is implemented, then this program will likely be halted, since there will be no gas for Russian thermal power plants - it will be sold to Europe. As a result, Russia will continue and even increase the use of old climate-harming, coal-fired power plants - all the more so since the construction of new coal-fired power plants is already under way.

Natural gas is often touted as a bridging fuel compatible with a 2°C world and with the fight against climate change. Yet, gas remains a high-carbon dirty fossil fuel, emitting significant quantities of CO₂ when burnt and large volumes of methane all along its lifecycle. Methane is a highly potent greenhouse gas, 86 times more impactful than CO₂ on a 20-year timescale. If Europe is serious about achieving its 2°C climate commitment, its remaining carbon budget compatible with 2°C only leaves 6-9 years of current emissions before the budget is exhausted. If oil and coal were all replaced by gas, this would only give three more years of carbon emissions, [according to recent scientific findings](#). It is too late for gas to play a bridging role and does therefore not justify the construction of any new gas infrastructure such as Nord-Stream 2.

Note that cheap gas also competes with the wind, solar and other renewable sources of energy.

It further exposes Europe to the unpredictability of Putin's regime

It should be noted that the volume of gas sales from Russia to Europe has grown 1.5 times since 2012, while gas production in Russia decreased by 14 percent from 2012 to 2016. The volume of gas sales within Russia fell by 20 percent.

Along with the growth in gas sales to Europe, the price of gas for Europe is falling. Since 2012, the price of a cubic meter of gas in euros has fallen by almost 2 times.

At the same time, in Russia, along with a decrease in gas consumption, the price in rubles for gas has increased by 33%.

Right now, a third of Russia is not provided with gas at all, and the gasification program for Russians is being curtailed. Meanwhile, the price of Russian gas for Russians is growing and all this is in order to provide Europe with cheap gas at the expense of Russians.

We should consider what oil and gas revenues mean for Putin's regime.

Total oil and gas revenues account for 36% of the 2016 Russian Federal budget. That same year, the share of oil and gas in the country's GDP was a modest 23%.

In 2014 (when the war in Ukraine was started) oil and gas revenues formed more than 50% of the budget. In fact, Putin's regime has additional income due to the sale of oil and gas, which is added to usual taxes collected from the population.

With this money, one could do a lot of good - but what is it spent on in reality? The expenses for the police, the army, and the "secret" services amounted to 40 percent of the 2016 budget.

For comparison, the Ukraine - which is currently at war - spends only 17% of its budget for the police, the army, and the "secret" services, and NATO member Estonia spends only 9.2%.

Expenditures of 40% of the state budget on the military-security apparatus would bring down economy - but the 36% total budget revenue supplied by oil and gas sales allows for the maintenance of a level of militarization, police control and propaganda that would be unthinkable in a "normal" economy.

It turns out that it is at the expense of European's gas money that the Putin regime has money for propaganda, a repressive apparatus and military campaigns.

The construction of Nord Stream 2 is a strange undertaking, since it will be difficult to organize the loading of the pipeline.

The design productivity of each line of the gas pipeline is 27.5 billion cubic meters per year. Together, there are 55 billion cubic meters - or 25% of the current amount of gas exported to Europe .

Today, the pipeline can be filled by further reducing gasification in the territory of the former USSR - which comes with the consequence of the inevitable arrival of coal as a cheap alternative and the corresponding consequences for the climate and local environment.

Another option for filling the pipeline to Europe to capacity is through the complete cessation of gas transit through Ukraine. The result of such a decision would be the escalation of hostilities from the side of Putin's regime and greater instability.

Russia's biggest monopoly -- Gazprom -- has a long history of both domestic and external corruption. Kremlin uses the company as its political weapon in Europe. The project Nord Stream 2, like previously the project Nord Stream 1, primarily benefits President Putin's cronies. It is implemented at the expense of Russian taxpayers and doesn't benefit Russian consumers.

With Nord Stream 2 the Kremlin uses its favorite method of "divide and rule" and sets German and other large energy corporate interests against several Eastern European countries. Nord Stream 2 dramatically undermines EU energy principles and the existing transatlantic security architecture.

The main argument for opposing the pipeline is that it poses a significant threat to the Western security and democracy.

Gazprom is one of the Kremlin's main cash generators and international political tools. The company funds Russia's hybrid and disinformation wars. By allowing the project NS2, the EU endorses the current Putin's regime and empowers the country whose policies are aimed at undermining the West.

There are an overwhelming number of corruption stories about Gazprom investigated by international and Russian journalists and activists including the slain Russian opposition leader Boris Nemtsov and current opposition leaders Alexey Navalny. Corruption accompanied the construction of Nord Stream 1. Undoubtedly, corruption and a new project Nord Stream 2 will go together as it's a mere nature of Putin's regime. This is how it operates.

There are long-term political and moral implications of Nord Stream 2 for both Russia and Europe. Cooperation with Putin's Gazprom shouldn't be considered as another trade deal. History shows that corrupt and authoritarian states don't change for the better by trading with the West. And business deals don't bring them closer to liberal market economies. The tendency is unfortunately opposite: hard currency revenues from hydrocarbon exports prolong the life of the regimes plus they bring their corrosive practices to the West.

RECOMENDATIONS

- The EU Commission should provide its decision-makers with detailed information of corruption in Gazprom, its projects in Europe and study full implications of Nord Stream projects for EU political institutions, economy, security and democratic values. This detailed information of Gazprom's corruption should include findings of Russian investigative journalists and activists. Those reports should be translated and publicized in Europe. Western law-enforcement agencies should release incrimination information about Putin's circle and its corrupt and subversive operations and act on it accordingly.
- The West should realize that energy propaganda is a significant part of global Kremlin's disinformation warfare. Relevant EU government bodies should counter Gazprom's propaganda about gas demand in Europe, reliability of Russia and Gazprom and unreliability of Ukraine, market reality and other popular Kremlin's mantras. Along with EEAS Stratcom Task Force, there should be also a separate analytical section countering specifically energy propaganda coming from Putin's Russia.
- Western civil society groups should partner among themselves and with Russian activists to hold Gazprom's partners in Europe to public account of rampant corruption in the Russian gas industry, and keep their standards on governance and corporate social responsibility values. We all should make sure our voice is heard louder than the voice of Gazprom and its enablers.

Summary

The Nord Stream 2 project creates a number of serious economic, political, environmental and climate problems both in the EU and Russia. Specifically, the project contradicts the EU policy of diversification of energy supply, reduces the energy security of Central Europe and the whole EU, kills gas transit business of Slovakia by transferring it to Germany, reduces gas-to-gas competition, contributes CO2 emissions, changes environmental balance of the Kurgalsky nature reserve in Russia.

Avoiding these problems is much better than addressing them after the difficulties are created by Nord Stream 2.