

POLICY MEMO

Energy policy in the European Union: Sovereignty, Interdependence, and the implications of Nordstream II in a multi-polar world.

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**ECSA-C Research Group - Environment, Climate
Change and Energy**

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Executive Summary

The last few weeks have witnessed unprecedented tension between the US and the EU over the now nearly-complete Nord Stream 2 pipeline. A new round of American sanctions could target German political figures and has been received by both German and European officials as unwelcome interference in their bilateral energy relations with the Russian Federation. Current Gazprom board member and former German Prime Minister Gerhard Schröder went so far as calling the US position a catalyst for the end of the transatlantic partnership; in any case, the EU's response will indicate whether or not it chooses to assert its geopolitical independence from the United States. Germany and the EU can either choose to acquiesce to US demands, thereby compromising their long-standing and essential energy interdependence with Russia, or they can reject American demands and consider counter-measures, which would further inflame already-high tensions between the erstwhile allies. While both the US and the EU have many interests in common, relations with Russia remain essential to the energy security of Germany and of the broader European Union. The widespread unpopularity of the nationalist policies of US President Trump and the ongoing multidimensional crises in the United States suggest that this may be a good moment for the EU to reject decisively what it has rightly characterized as American interference in its affairs. This memo suggests that this may be the moment for the EU to begin more assertively articulating its independence from the US on the global stage.

Background / Research Question / Policy Issue

Washington has periodically waded into the ongoing energy policy discussion between European and Russian

representatives, but the current atmosphere appears to be one of unprecedented tension. The Nord Stream 2 gas pipeline, presently under construction between Vyborg in Russia and Greifswald in Germany, is now the site of geopolitical salvos between the US and Germany. The last round of US sanctions impacted the former contractor, Swiss-Dutch company Allseas, to such a degree that it was forced to pull out of the project with over 93% of work completed. This resulted in the suspension of construction during much of 2019. Work is now set to resume as the Russian-owned Akademik Czerny, previously deployed in the nation's eastern waters, has made its way into the Baltic Sea.

The current round of sanctions comes at a particularly volatile moment in the US-German relationship, given US President Trump's plan to withdraw around 10,000 troops from Germany while increasing troop numbers in neighbouring Poland. While Trump himself has repeatedly brought up what he regards as the German government's unwillingness to pay its fair share towards NATO, the move also has been viewed as a consequence of German refusal to participate in joint exercises, presumably directed at Iran, in the Persian Gulf. This narrative appears to be geared towards US domestic politics as part of the Trump administration's broader retreat from global governance networks like the WHO and the Paris Accord. More concerning for the EU is the fact that the American plan rubs salt in a fault-line between two factions within the EU, distinguished by their views on Russia. The German-led faction regards Russia as a natural energy partner. Germany has maintained energy relations through pipelines with Russia since before the end of the Cold War. The other faction, including Poland and the Baltic states, regards Russia with a combination of distrust and fear. A bipartisan proposal to expand sanctions against the pipeline, introduced in the US Senate by Ted Cruz and Jeanne Shaheen, is "likely to be included in a defense bill winding its way through Congress" and could potentially even target German officials;

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Niels Annen, German foreign minister of state, characterized the move as “direct and grave interference in Germany and Europe’s sovereignty”.¹ This interference is even less welcome given the increased tensions between Southern and Northern Europe over the COVID-19 response. The US’ picking at old wounds between Western and Eastern Europe certainly comes at an unwelcome time.

Considerations

There are three primary spheres, which EU policymakers will have to consider. The first is the economic sphere, centered on the balance between the affordability and security of supply on the one hand and the enforcement of liberal market policies on the other. The pipeline represents a precarious point in that balance, as the EU and Russia are deeply interdependent energy markets undergoing a shift to more liberal EU standards on antitrust law and fair competition. German analysts, in this case, have adopted a discourse in line with liberal free-trade narratives and one that questions American intervention. Abandoning Nord Stream 2, they suggest, could force the EU into paying more for US natural gas, benefitting American producers at the cost of the European consumer. This economic logic suggests that the EU should focus on giving its consumers the most affordable choice, and therefore stick with Gazprom and the pipeline. Another sphere is the geopolitical sphere. The US has presented the EU with a challenge to its own energy sovereignty and autonomy, as well as the EU-Russia relationship with a heightened external complication. American concerns over the EU’s dependence on Russian energy are shared by EU members like Poland and the Baltic states, which are dependent on Russian gas and nervous of Russia’s geopolitical intentions. The third sphere EU policymakers must consider is internal, as the divisions within the EU must be accounted for, with German attitudes differing considerably from those in Poland and the Baltic.

Key findings / policy options

There are two clear policy options before the EU. Both options involve geopolitical as well as economic concerns. The first option would be to acquiesce to US concerns and step back from the pipeline project. This step would cause significant damage

to the EU’s energy relationship with Russia and jeopardize European energy security, as Russia remains an indispensable energy supplier with or without this new pipeline. Furthermore, it would undo decades of work that has been painstakingly processed through a number of initiatives including the EU-Russia Energy Dialogue. Hopes for an independent EU foreign policy would be dealt a considerable blow, but so too would EU autonomy over its domestic energy policy. However, this option would likely improve American perceptions of the EU and more firmly align the two actors on the global geopolitical stage. This option would thus reaffirm the long-standing transatlantic partnership between two central representatives of Western liberal democracy.

The second option is to continue with the pipeline project in spite of American pressure. The Akademik Czersky, a Russian ship partially owned by Gazprom, has been deployed to the Baltic Sea and will likely be able to complete construction work this year. Completing construction is, therefore, economically and logistically feasible even with strengthened US sanctions. Going forward with construction would indicate the EU’s ability and willingness to ensure reliable and affordable energy supplies for its citizens and companies in the face of foreign pressure. To grasp the importance of this step, it must be put in the broader context of heightened tensions both within and outside the Union due to the ongoing global COVID-19 crisis. It would further cement decades of mutually beneficial energy trade and interdependence with Russia. However, disregarding American concerns could lead to what former German leader and current Gazprom board member Gerhard Schröder called the end of the transatlantic relationship. This would signal a definitive end to a policy of EU-backed American leadership and, perhaps, the beginning of a transition towards an increasingly multipolar world.

Indeed, Nord Stream 2 faces hurdles even without added US pressure. The EU and Gazprom need to negotiate new rules on third-party competition in the European energy market. As a vertically-integrated and state-owned company, Gazprom is responsible for both ownership and transmission of gas and would thereby be impacted by the regulations specified in Directive 2009/73/EC, more commonly known as the EU’s Third Energy Package. It remains unclear whether the company’s Nord Stream 2 pipeline would be able to bypass this framework, as its application for exemption was rejected by the German Federal Network Agency in May. However, this rejection was, at the time, justified on the grounds that the pipeline itself had yet to be completed, and therefore could be reversed if and when the project is completed.

¹ Solomon, Chazan, and Manson, “Germany warns new US sanctions endanger Nord Stream 2 pipeline”

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Recommendations

This memo recommends that the EU continues with the Nord Stream 2 construction and defend its trade autonomy against what appears to be US interference in its bilateral relations with Russia. The German position is both in line with existing international law and in line with the best interests of the domestic energy consumer. Low energy costs will be even more important in the aftermath of COVID-19 and the economic crisis it has brought upon the EU. Although there are valid concerns over Russia's use of Gazprom as a political tool, these can be addressed and resolved within the EU's internal regulatory system for the energy market. It is therefore not an issue which requires foreign mediation, and as such the right to international trade should be respected by all parties, including the United States. In any case, US intervention risks further complicating a precarious situation and does not appear to present a reasonable alternative.

For the European Union, the benefits of Nord Stream 2 outweigh the drawbacks. German energy relations with Russia date back to the Soviet era. Since these relations are important for Germany, Western and Central Europe, and the Russian Federation, it would be unwise to upset this long-standing balance over American intransigence. Although Russia's use of pipelines as part of its geopolitical arsenal remains a common strategic concern for the EU, Ukraine, and the US, domestic energy security and addressing the consequences of COVID-19 for EU citizens should be given primacy over regional strategy at this point. This calls for more unity, autonomy, and sovereignty for the EU. The EU will be able to negotiate with Russia from a position of greater unity in the future if it can assert its sovereignty now in the face of US interference. Furthermore, adverse relations with the US are not a necessary consequence of a sovereigntist posture, as the prevailing atmosphere of uncertainty suggests that this issue will not occupy a central place in American discourse for long. The American side, by contrast, should pull back from politicizing and antagonizing the issue of Europe's energy supply. The US and EU are natural allies, but geopolitical grandstanding of this order can only harm their long-term relationship. This would be particularly unfortunate in an era of increasing instability and uncertainty on the global stage.

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