

Nord Stream 2 Pipeline. Role of German-Russian Energy Cooperation for Poland

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Abstract The paper deals with the planned Nord Stream 2 pipeline and its impact on Poland. The author describes actions undertaken to implement this investment and the controversy around it. When Nord Stream 2 will be build Poland may lose the status of a transit country and revenues from the transfer. Germany and Russia, in pursuit of their economic goals, sometimes ignore the interests of other states, including Poland. Nord Stream 2 is of benefit neither for Poland nor for the European Union. The planned pipeline would increase the security of gas supplies to Germany, it, however, violates the principle of solidarity in the EU. Another threat to Poland's gas security could be the expansion of Katharina gas storage, which would be controlled Gazprom. According to the author, Nord Stream 2 will strengthen Russia's strong position as gas supplier.

Keywords Nord Stream 2, Pipeline, Energy, Poland

1. Introduction

The extension of the Nord Steam gas pipeline by two additional lines, i.e. building Nord Stream 2, raises concerns in many countries significantly dependent on the supply of raw materials from Russia. Increasing the capacity of Nord Stream is from an economic point of view more cost-effective than building pipelines across the European continent by land. However, Nord Stream 2 project undermines the European solidarity as the gas pipeline, like its predecessor, is planned to circumvent Poland. This jeopardizes Polish gas security and decreases its status as a transit country.

2. Research Problems

The aim of the article is to analyze the problems related to the possible development of the Nord Stream 2 gas pipeline running along the bottom of the Baltic Sea and linking Russia and Germany as well as to show how important is this investment for Poland.

There are three questions to be answered when analyzing the researched problems:

1. What is the purpose of Nord Stream 2?
2. What does Nord Stream 2 mean for Poland?
3. What are the potential threats?

3. Framework of German-Russian Cooperation

The issues related to Nord Stream 2 need to be reviewed in the context of ensuring energy security, more precisely gas security, to the countries of Western Europe. The power of today's Russia is predominantly based on energy resources located in its area: natural gas and crude oil. In Russia there is one powerful state-owned concern Gazprom responsible among others for extraction and delivery of gas, and used as well to manage foreign policy. When building Nord Stream Russia intended to connect to the infrastructure not only of Germany (its strategic partner) but indirectly of other Western European countries. The energy strategy of Russia is based among other things on breaking up the energy union of the EU countries by cooperating with selected partners from Europe (with Germany in particular) and concluding gas agreements with individual states instead of the EU as a whole. At the same time, Gazprom seeks to keep the status as a key importer of raw materials to the EU¹. To ensure this Russia wants to create further transmission infrastructure and maintain control over the existing one.

The Russian Federation wants to cooperate with the EU on its own terms and this is reflected in its actions: Russia opposed to ratify the Energy Charter Treaty and sign the Transit Protocol as it would limit its freedom to deliver gas to Western Europe. The strong economic relations (including energy area) between Germany and Russia have been

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1 T. Młynarski, "Bezpieczeństwo energetyczne w pierwszej dekadzie XXI wieku. Mozaika interesów i geostrategii", Kraków 2011, p. 172.

demonstrated by creation of the first two Nord Stream lines. It is an expression of the energy cooperation between Germany and Russia, which started when the USSR existed. German energy companies benefit significantly from the cooperation with Russia and this fosters collaboration regardless of other factors. In general, however, Russia supports the Nord Stream investment predominantly out of political reasons, while the German side gives priority to economic arguments.

When exporting raw materials to Europe Russia wants to increase sales and maintain outlets whereas European states are interested to buy resources for the lowest price and to ensure continuous supplies². Geopolitical factors made the Baltic Sea a place of gas cooperation between Germany and Russia. The vast majority of gas has been transported to Europe across the territories of three states: Poland, Ukraine and Belarus. When Nord Stream was build, the transfer of gas through these countries has been reduced and another lines (Nord Stream 2) may further decrease the significance of the transit countries. The gas conflict between Russia and Ukraine in 2009, when delivery of raw materials to Ukraine was cut off, impacted several countries, consumers of Russian gas, and this become a symptom of existing threats.

4. Genesis and Meaning of Nord Stream 2

The plan of building a gas pipeline linking Germany and Russia and running along the bottom of the Baltic Sea was prepared in the first half of the 1990s. The project was predominantly supported by Germany and Russia, the countries create so-called strategic partnership, including mainly energy cooperation. It is primarily designed to ensure the export of Russian energy resources to Germany, in return Russia expects i.a. technological and investment support. The leaders of these two countries signed the agreement on the construction of the Nord Stream 1 in Berlin in 2005. The construction work of the pipeline started in April 2009 and was completed in November 2011. Due to increasing demand, this pipeline proved insufficient and, as a result, there were plans to build a South Stream pipeline running through Southern and Central Europe. However, construction of two additional strings of the already existing pipeline (so called Nord Stream 2) proved economically more feasible.

The new pipeline would, like its predecessor, transfer natural gas from Vyborg in the Russian Federation across the Baltic Sea, to an exit point near Greiswald in Germany. Going from there the gas would reach the European internal energy market, connecting with other pipelines to further transport the raw material. Nord Stream 2 would have

around 200,000 12 metre pipe sections³. The two gas pipelines would have an annual capacity of 27.5 billion cubic metres each. In September 2015, at the Eastern Economic Forum in Vladivostok, representatives of Gazprom and the Western European companies: E.ON, BASF/Wintershall, Royal Dutch Shell, OMV and ENGIE signed the shareholders agreement to build the Nord Stream 2 gas pipeline system. The newly created company New European Pipeline AG was to be responsible for realization of the project. In this company Gazprom was to own the controlling interest (51 per cent of shares), BASF-Wintershall, E.ON, Shell and OMV were to receive a 10% stake in the company each, while Engie 9%⁴.

The Nord Stream 2 project is another initiative to ensure the transport of Russian energy resources to Europe. The construction of this pipeline has become particularly urgent when the project to build South Stream gas pipeline sending natural gas through the Black Sea to Austria collapsed. Nord Stream 2 would allow significant amounts of natural gas to be transferred from Russia directly to Germany without any other transit countries often reluctant to support the neo-imperial actions of the Russian authorities. This investment, however, denies the EU's desire to diversify energy sources and routes and increases the dependence on a single supplier. Nord Stream 2 also cuts across the principles of consultation and co-operation within the Energy Union. The implementation of this project would reduce the likelihood of new routes and terminals being developed, making it more difficult for the EU to meet one of the main Energy Union's objectives of developing a single European gas market⁵. When Nord Stream 2 would be build it would transport gas that could otherwise flow through Poland and Ukraine. Russia could sell the raw material without any intermediaries and this is something the country is very much looking forward to.

5. Controversy around Nord Stream 2

The Nord Stream 2 project, similarly to Nord Stream 1, is a source of serious controversy and raises concerns in some European countries. The basic problem of this investment is the economic feasibility. It is noteworthy to mention that 1998 Rem Wiachiriew, the then head of Gazprom, claimed the Nord Stream project to be economically unjustified⁶. Nord Stream 2 intensifies the dependence on one supplier, Russia, hindering the diversification of routes and suppliers.

3 Nord Stream 2, <https://www.nord-stream2.com/project/construction> (24.03.2017).

4 M. Zborowska, Nord Stream II – implikacje dla polityki energetycznej Unii Europejskiej, *Pułaski Policy Papers. Komentarz Międzynarodowy Pułaskiego*, 09.02.2016,

https://pulaski.pl/wp-content/uploads/2015/02/Pulaski_Policy_Papers_Nr_04_16.pdf (27.03.2017).

5 A. Riley, Nord Stream 2: A Legal and Policy Analysis, „CEPS Special Report”, November 2016, No. 151, p. 25,

<https://www.ceps.eu/system/files/SR151AR%20Nordstream2.pdf> (26.11.2016).

6 W. Paniuszkin, M. Zygar, „Gazprom. Rosyjska broń”, Warszawa 2008, p. 247.

2 K. Rokiciński, T. Szubrycht, „Gazociągi podmorskie w polityce bezpieczeństwa energetycznego północnej części Europy Środkowej”, [in:] P. Mickiewicz, P. Sokołowska (red.), *Bezpieczeństwo energetyczne Europy Środkowej*, Toruń 2010, p. 172.

At the same time it increases security of gas supplies to Germany and this fact is essential for this influential country of the European Union. Having regular and safe gas supplies from Russia, Germany can send gas to other countries and become a physical gas hub in Europe. It is noteworthy that former German Chancellor Gerhard Schröder became the chairman of the board of Nord Stream 2 AG.

Poland as well as other countries in the region feel anxious about Nord Stream 2 project as they have no confidence in the policy of the Russian Federation. Poland has not decided to participate in Nord Stream even though Ryszard Schnepf (then prime minister's adviser) presented an idea to include this project into the Polish foreign policy. According to the Polish press, Schnepf suggested that Poland could join the project and it would be likely to introduce a Polish representative to the supervisory board of Nord Stream. What is important to note, in Poland, there were no public, political and economic discussions on the possibility to join the Nord Stream system as a security measure in case of energy conflicts between Russia, Belarus and Ukraine. This was due to a specific internal political situation in Poland as well as the priorities of Polish foreign policy and energy security at the time, and above all the fact that the project would lead to even stronger dependence on Russia⁷. An alternative to Nord Stream was a second line of the Yamal gas pipeline as well as the Amber gas pipeline running from Russia through Lithuania, Latvia and Poland to Germany, however, there is no chance to build either them.

Further, the construction of Nord Stream 2 raises legal uncertainties related to European Union law (much more legitimate objections are related to land legs than to the maritime legs of the gas pipeline). The main objective of the EU policy is to create a common energy market within the EU and its gradual liberalization by successively removing barriers to energy flows between countries and building energy interconnections between them⁸. The investment undermines in particular the fundamental principle of liberalism in the EU gas market (when Nord Stream 1 was built the third energy package was not yet in place). When the third energy package was introduced, it undoubtedly limited monopoly practices and encouraged competition increasing liberalization of the gas market. The provisions of the third liberalization package have in particular limited expansion of Gazprom in the markets of the EU member states (so called Gazprom clause is one of the significant measures). The restrictions introduced were intended to reduce the delivery of Russian raw materials to allow gas export from other suppliers.

6. Poland and Nord Stream 2

Poland is one of the countries that need to import the

energy raw materials. In 2015, 4.1 billion cubic metres of natural gas were produced in Poland, while 16.7 billion cubic meters were consumed⁹. Geopolitical and historical factors (like the existence of the "Eastern Bloc") made Russia the main gas supplier. After World War II, Poland was in the zone of the USSR's influence, which impacted also the supply of hydrocarbons. Since the Polish People's Republic has been supplied to Poland from the Soviet Union based on long-term contracts through two pipelines: Orenburg and Yamal. A Yamal gas pipeline crossing Poland from the East to the West has been built already after the collapse of the Soviet Union. The demand for natural gas in Poland increases continuously thus the country has for years been seeking to expand and diversify gas supplies reducing dependence on Russia. The Liquefied Natural Gas (LNG) terminal in Świnoujście as well as project to build a pipeline linking Norwegian gas resources with Poland are examples of diversification. It is, however, essential to reduce the share of Russian gas supplies in the total gas delivered to Poland. Germany is displeased with Poland's opposition to Nord Stream 2 and this has a negative influence on bilateral relations. As a member of the EU, Poland seeks to influence the countries of this organization to increase the level of gas safety. Already in 2006 Poland supported the idea of "NATO dedicated to gas" which would force EU member countries to introduce a solidarity clause when one of the countries has its gas supplies cut off. The essence of the proposal was that the member states commit to reciprocal supplies of raw materials if delivery is at risk¹⁰. Poland objects to the plan of building two more Nord Stream 2 lines as it fears to lose its status as a transit country and to increase dependence on supplies from Germany and other states of gas originally sent from Russia.

If Western European companies (the ones who signed the shareholders agreements with Gazprom) would acquire shares of Nord Stream 2 AG, an international consortium would be formed and its activities would directly impact the situation in the gas market in Germany and Poland. In 2015, therefore, pursuant to the relevant German and Polish law, all participants of the Nord Stream 2 project submitted a request to initiate antimonopoly proceedings in both countries in order to investigate whether it would not distort competition when EU companies acquire shares in a joint consortium with Gazprom. The consent of the Polish Office of Competition and Consumer Protection (UOKiK) was a necessary condition for Western European companies participating in the project to finalize the transaction. In July 2016 the UOKiK issued a statement expressing serious objections to the planned concentration and indicating that it might lead to restriction of competition as Gazprom has a dominant position in the gas supplies to Poland and the

7 R. Rosicki, G. Rosicki, "Znaczenie gazociągu Nord Stream dla Polski", "Przegląd Bezpieczeństwa Wewnętrznego" 2012, nr 6, p. 154.

8 P. Soroka, Bezpieczeństwo energetyczne: między teorią a praktyką, Warszawa 2015, p. 123

9 BP Statistical Review of Global Energy, June 2016, <https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf> (23.03.2017).

10 M. Kaczmarski, "Bezpieczeństwo energetyczne Unii Europejskiej", Warszawa 2010, p. 95.

transaction could further strengthen position of the company with regards to consumers in Poland. This didn't prejudice the final outcome of the proceedings, however it was possible that there will be no consent to the concentration. In August 2016, participants of the Nord Stream 2 project withdrew the request submitted in December 2015 to the UOKiK to control the acquisition of shares by EU companies in Gazprom's Nord Stream 2 AG (so called concentration control procedure). This decision of the companies does not stop the Nord Stream 2 project, though it may delay its implementation (i.a. make negotiations on funding more difficult)¹¹.

7. Consequences of Nord Stream 2

Nord Stream 1 and 2 express policy of Moscow, to make natural gas an important asset in the game for Russia to regain its influence. The possible construction of Nord Stream 2 may result in a decreasing significance of existing transit countries, including Poland and Ukraine. If Russia would have four lines (so both pipelines) available, the Yamal pipeline would no longer be relevant and gas transmission to Poland through this pipeline might be suspended. Obviously, Poland may lose its significant role in gas transit to Western Europe even if this idea won't be realized.

Nord Stream 2 will make it difficult for the EU to create a single gas market, as it is ideal for gas to come from multiple sources, where buyers can choose between various suppliers of the raw material. Therefore, it is important to create new interconnections and terminals as an alternative to large pipelines providing gas often based on long-term contracts. Nord Stream 2 will increase Russia's influence in Western Europe, questioning initiatives that could diversify routes and sources of supply. It also undermines European solidarity and this is something Poland mainly objects to.

Poland has been for years using the gas imported from Germany, originally sent from Russia. It is noteworthy that in July 2015 there was a technical break in the so called reverse supplies from Germany to Poland (the metering station in the German town Mallnow enables the reverse flow physically supplying natural gas from Germany) which lasted six hours and occurred simultaneously with a technical break in the Nord Stream. Poland then realized that the German reverse flow may also be blocked. The gas transmission network at Lasów (about 1.5 billion cubic metres per year) and Cieszyn (about 0.5 billion cubic metres per year) as well as the German reverse supply (about 5.4 billion cubic metres annually) theoretically may satisfy 75% (about 10 billion cubic metres) of the demand for gas in Poland. Thus, further 5 billion cubic metres delivered from the Świnoujście terminal could make Poland fully

independent from Russian gas supplies. However, should the reverse flow from Germany be cut off, this will limit Poland's ability to diversify and the country will remain dependent on the gas supplies from Russia¹².

If Nord Stream 2 will be built this will bring benefits to Western concerns, German in particular. The reverse gas supplies to Poland will increase transit significance of Germany. Poland also raises objections to the use of German gas pipeline OPAL by Gazprom, a leg of Nord Stream. Based on the decision from EU, Gazprom can utilize 50% of the OPAL's capacity, this in turn increases the use of the Nord Stream causing concern in Poland. The Polish company PGNiG seeing risks related to increased use of the OPAL gas pipeline by Gazprom, raised objections referring to the EU law. The proposed feeder pipeline for Nord Stream 2 is EUGAL (also running across Germany) and it is planned to transport all the gas from Nord Stream 2¹³.

If EUGAL project would be implemented it would increase the technical capacity to transfer gas from Nord Stream 1 and 2 to the South up to 87 billion cubic metres. Central Europe would become not only an outlet but also an important link in the further distribution of Russian gas flowing through the Baltic Sea to Germany¹⁴. It is worth noting that the Russian side has taken control over a huge gas storage facility in Saxony, Katharina. If Gazprom Germania would like to put gas into Katharina, it could block the possibility to deliver gas from Germany to Poland. As a consequence, the physical reverse flow wouldn't ensure continuous delivery to Poland, it would operate intermittently, not guaranteeing security¹⁵. Having improved infrastructure and increased volumes of gas supplied to Europe Russia could also have a significant impact on the prices of the raw material.

8. Conclusions

Referring to the first question, Nord Stream 2 aims to supply natural gas from Russia to European countries. Gazprom's strategy has for years been to build more pipelines, including the ones running through seas. One of Russia's goals is gas trading without intermediaries. As a result, the transit countries are to become less important and

11 S. Kardaś, R. Bajczuk, "Antymonopolowe problemy projektu Nord Stream 2", Analizy OSW, 24.08.2016, <https://www.osw.waw.pl/pl/publikacje/analizy/2016-08-24/antymonopolowe-problemy-projektu-nord-stream-2> (24.03.2017).

12 Ł. Jakóbk, "Powrót Katarzyny Wielkiej. Polski plan dywersyfikacji dostaw gazu jest zagrożony": Biznesalert.pl, 09.10.2015, <http://biznesalert.pl/jakobik-polski-plan-dywersyfikacji-dostaw-gazu-jest-zagrozony> (07.04.2017).

13 A. Riley, Nord Stream 2: A Legal and Policy Analysis, "CEPS Special Report", November 2016, No. 151, p. 25, <https://www.ceps.eu/system/files/SR151AR%20Nordstream2.pdf> (26.11.2016).

14 A. Łoskot-Strachota, K. Popławski, "Projekt EUGAL – niemiecka odnoga Nord Stream 2", "Analizy OSW", 15.06.2015, <https://www.osw.waw.pl/pl/publikacje/analizy/2016-06-15/projekt-eugal-niemiecka-odnoga-nord-stream-2> (09.04.2017).

15 W. Jakóbk, W razie przerwy dostaw gazu z Rosji, Niemcy mogą zostawić Polskę na lodzie, Onet.pl, 05.11.2015, <http://wiadomosci.onet.pl/kraj/w-razie-przerwy-dostaw-gazu-z-rosji-niemcy-moga-zostawic-polske-na-lodzie/gtsne8> (06.04.2017).

the Yamal pipeline running through Poland is not to be used. Poland may therefore no longer have the status of a transit country and lose revenues from the transfer. To pursue their economic goals Germany and Russia execute the realpolitik, sometimes ignoring the interests of the less powerful countries.

Considering the second question, Nord Stream 2 will bring benefits neither for Poland nor for the European Union as an organization uniting majority of European countries. When two new lines of Nord Stream will be build, the transit significance of Poland will decrease. Poland protests against Gazprom using OPAL gas pipeline as the company deals with both extraction and transmission of gas and this is not in line with the EU law. Poland's gas security might also be exposed to danger if gas storage Katharine, which might be controlled by Gazprom, would be extended.

Answering the third question, Nord Stream 2 will build up Russia's strong position as a gas supplier. As declared by project participants, Nord Stream is not intended to harm any country but it negatively impacts the security of Ukraine and, to a lesser extent, of Poland. Further problem are difficulties to re-export gas. It is not convenient to be dependent on gas supplies from one direction and the two new lines of Nord Stream would violate the idea of diversity, increasing the significance of Russia. It is essential, however, that Nord Stream 2 increasing the security of gas supplies to Germany undermines the principle of solidarity in the EU at the same time. Referring to the EU law, it is important not to allow Gazprom to be both a producer and seller of gas transported by Nord Stream 2 as well as the owner of the pipe.

It is currently difficult to say what will be the future of the Nord Stream 2 project. Nevertheless, for historical reasons, political and economic agreements between Germany and Russia are for Poland of great importance. Poland expresses objections to the dominance of the energy axis created by Germany and Russia perceiving it as a threat to itself and the neighbouring Ukraine, as well as to the problem of divisions within the EU.

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