



## SOUTH STREAM AND NORD STREAM 2 – IMPLICATIONS FOR THE EUROPEAN ENERGY SECURITY

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### ABSTRACT

Energy security is the main issue on EU agenda. While the European Commission is looking forward to diversifying its gas imports and tackling any further energy crisis, and climate change, Russia – the major exporter to Europe does not intend to lose its share of the European market. In the past ten years several energy projects have been initiated and lobbied by both businesses and politicians. In this paper we will discuss two of these projects – Nord Stream 2 and Turkish Stream. While their commercial aims, though most certainly in contradiction with EU legislation, are more or less clear, their political feasibility is questionable. While the Turkish Stream is almost suspended, the Nord Stream 2 is still under discussion. Many speculations are made around the geopolitical aims of the stakeholders and their partisanship. That because energy is highly politicised and any project in the area influences and is influenced by the political and geopolitical context. National interests collide within European Union and go against its legislation and energy strategy. We will try to draw an overview of the both political and economic motives that drive these projects, make an analysis of their feasibility as well as give an explanation to their failure or potential success. We will do that against the current political backdrop trying to connect all the variables and draw a conclusion of the possible future implications for European Union. For that we used the most recent and updated literature and newspaper articles.

**Keywords:** energy security, Third Package, South Stream, Nord Stream.

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## RESUMO

*South Stream e Nord Stream 2 – Implicações para a Segurança Energética Europeia.* A segurança energética é a principal questão da agenda da UE. Embora a Comissão Europeia esteja ansiosa para diversificar as suas importações de gás e combater qualquer futura crise energética e as alterações climáticas, a Rússia - o principal exportador de gás para a Europa não tem a intenção de perder a sua quota no mercado europeu. Nos últimos dez anos, vários projetos de energia foram iniciados e pressionados por empresas e políticos. Neste artigo vamos discutir dois desses projetos – Nord Stream 2 e Turkish Stream. Enquanto os seus objetivos comerciais, certamente em contradição com a legislação da UE, são mais ou menos claros, a sua viabilidade política é questionável. Enquanto o Turkish Stream esteja praticamente suspenso, o Nord Stream 2 ainda está em discussão. Muitas especulações são feitas em torno dos objetivos geopolíticos dos intervenientes e do seu partidatismo. Isto porque a energia é altamente politizada e qualquer projeto na área influencia e é influenciado pelo contexto político e geopolítico. Os interesses nacionais colidem dentro da União Europeia e vão contra a sua legislação e estratégia energética. Tentaremos esboçar uma visão geral dos motivos políticos e económicos que conduzem a estes projetos, fazer uma análise da sua viabilidade e dar uma explicação para o seu fracasso ou sucesso potencial. Faremos isso contra o pano de fundo político atual, tentando ligar todas as variáveis e retirar uma conclusão sobre as possíveis implicações futuras para a União Europeia. Para isso, foram utilizados os mais recentes e atualizados artigos académicos e de imprensa.

**Palavras-chave:** segurança energética, Terceiro Pacote de Energia, South Stream, Nord Stream.

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## 1. INTRODUCTION

Nord Stream 2 and Turkish Stream could increase the inflow of gas into Europe. Given EU's priority – energy diversification for both routes and sources – these two projects contradict EU's policy. In fact, the South Stream, which preceded the Turkish Stream, has been closed due to legal incompatibility. Now Turkish Stream is suspended too. Nord Stream 2 is still on the agenda, the fierce opposition within EU notwithstanding. This paper will focus on the potential implications of the pipelines for EU as well as for Member States. Also, we will analyse whether and how EU policy on energy issues and national interests within EU collide, and the political and commercial interests of major stakeholders.

While there is vast academic literature on the energy policy and strategy of Russia as well as of European Union, there are few academic contributions on the Turkish Stream and Nord Stream 2 cases. That because these are relatively “young” projects. Concretely, the projects appeared on the agenda roughly after the Ukrainian crisis. Since then they have been subject to political and geopolitical variations. That is, both projects are highly politicised. Instead, there are several contributions in the form of opinions and critical articles, mostly as answers to the unfolding process of the projects as well as contributions by experts in the area. The available literature focuses on the energy strategy of Europe as well as on its energy legislation and on the incompatibility of the discussed pipelines. What definitely misses is a broader overview encompassing the political and economic motives and implications of all shareholders with a comparison of the two projects.

In this paper we will treat Nord Stream 2 and Turkish Stream separately as well as jointly given the inseparability of their motives and implications. While geographically the pipelines have different routes, capacity and shareholders, they are designed in a highly interconnected political context. Thus, we will try to make a comparison of Turkish Stream and Nord Stream 2 and hypothetically assess which of them is politically, economically and technically more feasible and whether the two are interchangeable, given their capacity and value.

For a better understanding of the picture, we will try to present the implications of these pipelines for the European Union as a whole as well as for Member States. At the same time, to identify a more clear-cut logical chain of the motives, we will connect the political, geopolitical and economic interests of major shareholders – Russia, Turkey and Germany – as well as other stakeholders, and whether these collide or match each other. Our intent is, after thoroughly analyzing and describing each project, to assess them jointly against the current political backdrop. The result will be a broad picture of motives and implications of the projects. The paper will also clarify whether each of the two pipelines could have the same implications for EU and whether these are the very obstacle to EU energy diversification.

The paper will be structured in chapters, each of which will address a certain topic. We will start with an overall picture of the current political situation in Europe. We will show how eventually politics influenced and continue influencing the development of Turkish Stream and Nord Stream 2. We will also briefly describe the gas market so that to eventually assess the profitability of the discussed pipelines. We will introduce the energy strategy of Russia and its commercial and political interests, as well as the Union Energy and the Third Package – in order to assess to which extent these two energy strategies collide and the legal compatibility of the pipelines. In the next two chapters, Turkish Stream and Nord Stream 2 will be analysed as single cases. First, a historical and political account will be given and the chain of events and reasons behind the projects. Then, the project will be assessed in connection with the energy diplomacy of EU and energy strategy of Russia, Germany and Turkey. Here, the major shareholders will be presented with their potential interests and potential future implications for collateral actors.

The last chapter will be a comparison that will be made between the two pipelines regarding their feasibility – political, technical and economic. Here, again a broader picture will be drawn of all the national and political interests – presented as a network – that influenced and continue orchestrating the energy market in Europe and Nord Stream 2 and Turkish Stream in particular. We will thus conclude with all the potential implications for EU and the directly concerned Member States.

## **2. RUSSIAN AND EU ENERGY SECURITIES**

Two-thirds of the natural gas consumed in Europe is imported. For its gas imports, Europe is highly dependent on Russia – 30% of the imported amount in 2013. Russia exports gas to Europe through Gazprom – its gas giant. Basing its strategy on the assumption that gas is scarce, “Gazprom has been pursuing a policy of vertical integration in Europe, regional infrastructure control, and preference for oil-linked long-term supply contracts” (Giuli, 2015b, p.1). European Union started the liberalization of its gas market in 1998, seeking to provide a more competitive and

transparent environment. Gazprom has adjusted to these changes by adopting a strategy of downstream expansion as well as selling gas to EU countries through a policy of asset swaps, based on preferential political relations, instead of competing on the trading platform on the spot market (Giuli, 2015b).

In the last 16 years since Russia has started re-nationalizing its energy sector, Russia also started to more assertively use it to promote its interests both home and abroad (Milov, 2009). Russia exports to Europe more than 50% of its gas. Gazprom, Russia's gas giant responsible for the gas trading, has been selling gas on the basis of long-term oil-linked contracts. The recent downturn in oil prices made this type of contracts less profitable. Gazprom has been adjusting to the situation by selling gas through auction, thus putting its spare gas into the spot market (Giuli, 2015b). Russia is the major gas exporter to Europe and intends to amplify its market share. Until recently, the transportation routes passed only through Ukraine and Belarus, which made Moscow dependent on transit states, something Russia has been seeking to avoid. The idea to bypass transit countries has gained more attention after the "gas war" with Ukraine in 2006 and 2009, when several EU countries suffered gas shortages. It cost Gazprom \$1.5 billion and damaged reputation among EU customers (Riley, 2015b).

In the last years, the EU has been adopting concrete measures to tackle the "Russian monopoly". In particular, the May 2014 European Energy Security Strategy, the February 2015 Energy Union Strategy, and the July 2015 EU Council conclusions on Energy Diplomacy point at adopting a common position to any third supplier (Vinois, Pellerin-Carlin, 2015), namely Russia, and thus avoid disruptions in energy strategy and bilateral contracts. EU's Energy Union aims at diversifying gas suppliers and routes, creating a common, more integrated and mutually supported energy market for Europe. The idea is to build pipeline interconnections between Member States in order to increase the resilience of the EU internal energy market and thus decrease the risk of energy shortage (Hedberg, 2015). The EU is looking forward to building an energy policy based on security, diversification, and liberalization. On February 16, 2015, the EU Commission presented its energy security package – the first major delivery of the Energy Union agenda. It contains a mandatory "solidarity principle", stating that in case

of supply disruption the non-protected consumers in a given Member State have to be supplied by the neighboring states, to which its transmission network is connected. In fact, EU has been lately engaged in building various interconnectors, increasing storage capacity and upgrading existing pipelines capable of reverse flow, thereby allowing natural gas travel all the way in the region (Giuli, 2016a).

The EU energy strategy is devised around the Third Package – a set of laws aimed at liberalizing the energy market and decreasing its dependence on supplies from Russia. In particular, its “ownership unbundling” clause does not allow the supplier to own the pipeline. On the grounds of this clause, the South Stream has been suspended. Additionally, the “third-access” clause obliges the supplier to give competitors access to the pipeline. In April 2015, the EU’s Antitrust Regulator pressed charges against Gazprom over the company’s alleged abuse of its market dominance. Gazprom is accused of imposing territorial restrictions, charging unfair prices to certain EU members, and using its dominant position to obtain unrelated infrastructure commitments from some customers (EU Commission). The intention of EU to constrain Gazprom to operate and respect the EU legislation is undermined by the bilateral agreements that Members States strike with the gas giant. So far, there is no unity within EU over the energy market since national political and commercial interests prevail.

Currently, the EU domestic gas extraction and production is decreasing. Additionally, after the Fukushima nuclear disaster in 2011 many EU countries, led by Germany, are closing their nuclear plants. Lately, Europe has been replacing natural gas with coal of domestic production, breaching the Energy Union principle of “de-carbonisation of the economy”. Though gas is not emission-free, it is still more environment friendly. LNG is not expected to replace natural gas in the near future due to infrastructure and transportation costs (Giuli, 2015a). Nevertheless, in the last years, due to the crisis and production arrest, Europe’s gas demand has slightly decreased. Experts argue that it would rise from 64% now to 80% in the coming decades (Pourzitakis, 2015). So, natural gas is still a crucial energy resource for Europe – fact

proven by EU's interest in suppliers from Caspian Sea and North Africa, in its bid to diversify.

Long before the Ukrainian crisis, EU, as mentioned above, has been implementing its long-term objective of energy diversification, and Russia has been bypassing Ukraine as a transit country for its gas exports. Diversification has become more urgent for both parts in 2009, when the Ukrainian gas crisis disrupted supplies to Europe due to a dispute between Russia and Ukraine over energy prices. While for Europe this means diversifying the routes and the sources of gas, for Russia it means building new pipelines towards Europe fostering bilateral agreements with several EU Member States.

In the aftermath of Ukrainian and Crimean crises, EU-Russia relations have considerably worsened with repercussions on the energy agreements. This situation forced Moscow to more arduously search alternative routes to bypass the European legislation and the Western sanctions and look for more lucrative partners. Forging agreements with Member States circumventing EU law has always been Moscow's prerogative and in line with its diplomacy. Currently, it is under discussion the construction of Nord Stream 2, which would run parallel to the first one – a project supported by Russia and Germany and fiercely opposed by EU Commission.

Another pipeline directed to Europe was the South Stream, which was blocked by the EU Commission for breaching the Third Package. In particular, the Commission questioned the legal compliance of several intergovernmental agreements between Russian and EU members as well as the monopolistic nature of the contracts. It has been replaced by the Turkish Stream, a 63 bcm (billions of cubic meters) project sealed with Turkey – cancelled after the shooting down of the Russian plane and the subsequent worsening of relations between the two countries.

Transit countries oppose both projects. This would deprive them of transit fees and it would increase their gas and possibly political dependence on Russia. Since Soviet times, the bulk of pipelines carrying gas from Russia to Europe passed through Ukraine. In 2009, 80% of gas exports to Europe still crossed Ukraine (Giuli, 2015a). The amount decreased when Nord Stream started operating – now about half of gas

exports transits Ukraine. For years, Ukraine has benefited from discount prices, which have been the object of several disputes between Ukraine and Russia, ending in gas cuts in 2006 and 2009. Nevertheless, EU is now succeeding in providing Ukraine with gas through flow-reverse. Ukraine would lose its position whether one or both the pipelines were implemented. Poland, Slovakia and Hungary would also lose the privileges of transit countries, while the Baltic States are more concerned about their security. Besides environmental concerns, EU countries fear Gazprom monopoly and Russian political influence. On overall, EU Commission and transit countries are divided in their position over EU energy strategy.

Russian and EU energy diplomacies collide on many aspects. The EU-Russia energy security relationship is a security dilemma – “neither side can improve its energy security without undermining the security of the other” (Pourzitakis, 2015, p. 2). EU is trying to decrease its dependence on the single supplier for both commercial and political reasons. EU has been engaged in negotiations over the Caspian gas, first with the failed Nabucco and now with the Southern Gas Corridor. Politically, EU considers Russia as too assertive in its foreign policy towards Europe. EU sees Russia as using its energy policy to promote its interests in EU and influence policymaking. An Energy Union is also undermined by some EU Member States preferences to foster bilateral agreements with Russia, with the later taking advantage of it. Both the Nord Stream and Turkish Stream are highly politicized: along commercial interests, they pursue political ones, besides being vulnerable to political and geopolitical shifts. Volatility of politics has repercussions on energy, hence the importance of analyzing the two pipeline projects in a broader geopolitical context.

### **3. TURKISH STREAM**

Having shown briefly the background which led Moscow to consider alternative routes for its gas exportations, it is easier now to describe in the forthcoming chapters the main points of the Turkish Stream project and to try to define the motivations and the implications for Europe, concerning the Southern Gas Corridor. The method will be

a political realistic and pragmatic approach, defining the priority aims of the players, the states as rational actors in the international system looking to optimize their own self-interests, and showing the facts how they are, trying to foresee a future development starting from the present situation. Also, we will assess the current situation within the Geoeconomics theory by Luttwak, in which the "security dilemma" is replaced by the "paradox of cooperation", namely, the parts involved are much more interested in violating the law and agreements as much as other sides respect them (Jean, 2003).

The first subchapter provides an overview of the South Stream project and the reasons behind its failure. The second subchapter is a prelude to the Turkish Stream. First of all, it explains the Russian-Turkish energy diplomacy before the shooting down of the Russian jet SU-24M by the two Turkish jets F-16, as well as describes the current situation and its implications for the Turkish Stream project. The third subchapter is the core of the essay. After describing the background, this subchapter focuses on the Turkish Stream, the project, the Russia's goals and the implications for the European energy security, taking into account other states interested to continue the construction of the Turkish Stream. The fourth subchapter is a conclusion on the economic and political feasibility of Turkish Stream, of its implications for EU energy security and interests of the stakeholders.

### **3.1. South Stream**

On December 1, 2014, following a meeting between the Russian and Turkish presidents, President V. Putin and Gazprom CEO A. Miller announced that South Stream had been cancelled. What is the South Stream project and why had it been cancelled? The South Stream project was announced for the first time on June 23, 2007, when Eni CEO Paolo Scaroni and Gazprom Vice-President Alexander Medvedev signed, in Rome, a Memorandum of Understanding (Rogers, 2007). On November 22, 2007, Gazprom and Eni signed a further agreement, in Moscow, on establishing a joint project company for the realization of the project. Later on, the joint venture South Stream AG

was registered in Switzerland in January 2008. On September 16, 2011, a shareholders' agreement was signed among Gazprom, Eni, EDF and Wintershall (Gronholt-Pedersen & Torello, 2011). Gazprom retained 50% of the capital in the project, Eni, 20%, and both Wintershall and EDF, 15% (Hafner & Tagliapietra, 2015). Technically, the South Stream project consisted of a 900 km-long offshore pipeline across the Black Sea, composed of four strings with a joined capacity of 63 bcm per year, namely, two-third of the gas transiting through Ukraine and one-third of which have been available for additional gas (Hafner & Tagliapietra, 2015). In early 2012, the designed offshore route was disclosed: from Anapa along the Russian Black Sea coast to Varna in Bulgaria, traversing up 2.25 km in deep water (Hafner & Tagliapietra, 2015).

In December 2012, Gazprom and the other partners announced the final investment decision in order to start the construction of the first South Stream's string, with a capacity of 15.5 bcm per year, supporting the idea of completing the other three strings by 2020 (Hafner & Tagliapietra, 2015). As reported by Stern, Pirani and Yafimava (2015): "The total cost of the South Stream (for the full 63 Bcm/year of capacity) was estimated at around \$40 billion in mid-2014, comprising \$17 billion for the Russian Southern corridor, \$14 billion for the offshore section and \$ 9.5 billion for the onshore European sections" (p. 2). South Stream represented a crucial point for the Russian gas export strategy, finding an alternative route bypassing Ukraine and undermining the competition from gas coming from Central Asia and Caspian Sea. Moreover, it could have meant a major gas connection to the Central and South Eastern Europe countries, delivering directly to Bulgaria and then to Serbia up to the other customers.

Despite the project was ready to start, Gazprom and his partners (which kept a low profile) had to face the European law. In 2009, the EU Third Energy Package (TEP) was adopted. The TEP prescribed "third party access (TPA) to pipeline capacity based on published tariffs (or their methodologies) approved by national regulatory authorities (NRAs) as well as unbundling of transmission assets and certification of transmission system operators, unless an exemption from these rules is granted by an NRA and approved by the European Commission (EC)" (Stern et al., 2015, p. 3).

Gazprom did not apply to the EC for an exemption of the South Stream, since the project was based on a set of intergovernmental agreements signed with the receiving countries. Anyway, the EC judged these agreements as a violation of the TEP, urging the signatory countries to re-negotiate or renounce them, otherwise threatening infringement procedures against the contractor Member States (Stern et al., 2015). Moscow argued that the intergovernmental agreements were stipulated before the entered into force of the TEP and filed a request for consultations under the WTO, sustaining the idea of the discriminatory nature of the TEP (Stern et al., 2015). On the other side, the EC (European Commission) started two infringement procedures against Bulgaria, one on the base of TEP incompatibility and the other on the legal aspect of the acquisition of the pipeline; it eventually led to the cancellation of the pipeline construction in Bulgaria, in August 2014 (Stern et al., 2015).

Using the legal tools, EU halted the construction of the South Stream, "punishing" Bulgaria because of its attempt to become an "energy hub" and to develop a remarkable role in the European Energy issue. Given that, the main reason for the failure of the South Stream project seems to be found in the incompatibility with the TEP. The EU uses this lever in order to force Russia to agree on a compromise, fiercely opposed by Russia (De Micco, 2015). Despite that, nothing prevent from a re-negotiation of the South Stream's construction if it will be in compliance with the European law. The EU deemed the South Stream generally negative, because of the potential threat that it could represent for the European supplies diversification, in accordance with the European Energy Security Strategy (2015). According to the Russian side, the project was abandoned because of the sanctions and the falling oil prices, even after the works have started. In fact, the pipeline for the first offshore line is already on the dock in Varna, Bulgaria, as well as the barges for the other two pipelines have been chartered. Also, the construction of Rysskaya compressor has started (Stern et al., 2015).

### **3.2. Russia and Turkey: a political background**

Since the era of empires, Turkey and Russia has been foes due to their competing interests. Even nowadays their interests still clash in Caucasus, Central Asia and Middle East. Despite that, economic ties, especially in the energy sector, have grown over the end of the Cold War. Turkey strained its relation with the Western partners because of the stalling of the EU accession negotiations and its domestic policy – not in line with the European democratic principles. Turkey is also a pivot for the NATO and it is one of the major states by its number of military forces. Nevertheless, in the wake of the war in Georgia in 2008, Ankara did not concede the American navy to moor in the Turkish docks on the Black Sea, following the Montreux Convention (1936), which limits the access of non-littoral countries (Bechev, 2015). Furthermore, Turkey has not followed the European line of sanctions against Russia when Crimea was annexed. Moreover, during the 2014 Winter Olympics at Sochi, 15.000 Turks worked for over two years constructing a lucrative business with Russia. Lastly, Russian tourists own properties or are residents in Turkey. Indeed, the two governments aim to increase the turnover from \$35 billion to \$100 billion by the end of the 2020, boosting the cooperation through the High-Level Cooperation Council (Bechev, 2015).

Turkey is the second biggest energy market for Russia after Germany. In fact, in 2014 Gazprom supplied Turkey with 27.4 bcm through Blue Stream and the Trans-Balkan pipeline (Gazprom). The EU is worried about a "geo-economic alliance" between Moscow and Ankara, which could undermine the European energy security – both Russia and Turkey could become a real threat for the European route of gas (Sidar & Winrow, 2011). Remarkable is the investment made by the Russian society Rosatom, which spend \$20 billion in order to build the first Turkish nuclear power plant near Mersin at Akkuyu, following an agreement signed in May 2010 (Sidar & Winrow, 2011). The Russian government was also interested in a financial investment in order to construct an oil refinery and gas liquefaction plant at Ceyhan, to build a gas storage in

central Anatolia and acquire market shares in Turkish distribution networks (Sidar & Winrow, 2011).

The Turkish state-owner BOTAS has implemented a policy of condescending toward Gazprom, in order to gain discount over the gas price (Sidar & Winrow, 2011). In December 2014, Putin pledged a 6% discount while Turkey was requesting 15%, after having already received a 4% break in January 2013 (Bechev, 2015). One of the greatest Turkish ambitions is to turn into a hub for the gas network, becoming a bridge between West and East. In fact, Turkey is the natural passage from the Caspian Region to Europe. Additionally, Azerbaijan permits Turkey to re-export the gas coming from the Caspian Region through the Baku-Tbilisi-Ceyhan (BTC) pipeline to other markets. Furthermore, Ankara has to face serious territorial issues: from the Greek border to the Syrian war and the inner Kurds. Turkey, not being a self-sufficient energy country, is highly dependent on exports. Interestingly, Turkey has no interest in becoming a transit country like Ukraine. Instead, it aims at becoming an independent energy hub with and independent energy policy, able to lead in the contract deals.

### **3.3. Turkish Stream**

The Turkish Stream is the heir of the South Stream project, endowed with all the main features of the buried project. On December 1, 2014, president Putin only announced the idea of the Turkish Stream – name strongly desired by Erdogan. The first official document undersigned is the Memorandum of Understanding between Russia and Turkey in December 2014 (Franza, 2015). Soon after the declaration of the Turkish Stream, Gazprom's CEO Alexei Miller stated that one of the company's objectives is the willing of terminating gas transportation through Ukraine by 2019. Reasonably, it explains Gazprom's new strategy of transporting gas only up to the European border, pushing the European customers to develop plans to connect their infrastructure to the new delivery point (Franza, 2015). For the Turkish Stream, the delivery point will stand at the Turkish-Greek border at Ipsala, close to the intended entry point of the Trans-Adriatic Pipeline (TAP).

Gazprom's plan was to construct a new pipeline, with origin in the Russkaya pumping station and run 660 km under the Black Sea, along the old route of the South Stream up to the Bulgarian Exclusive Economic Zone (EEZ). Also, a new 250 km route will be built southwest running through the Turkish EEZ, reaching the Turkish coast near the village of Kiyikov and eventually to the delivery point in Luleburgaz (Hafner & Tagliapietra, 2015).

This route might be more expensive than the original one, which was supposed to run parallel to Blue Stream. However, the final route was strongly preferred by Turkey, which offered to finance, through BOTAS, the construction of a much shorter onshore segment in Turkey. On the other hand, Gazprom will finance the building of the offshore sector (Franza, 2015). Remarkable is the fact that "Turkish Stream remains the inheritor of a series of contracts signed in 2014 by the Gazprom-led and Amsterdam-registered South Stream Transport Company" (Roberts, 2015, p. 9). Among these, there are "contracts worth €1 billion awarded in January 2014 for the initial 15.75 bcm/y string; contracts worth €800 million awarded in March 2014 for the second string; contracts worth €2 billion awarded in March 2014 to Italy's Saipem to lay the first string" (Roberts, 2015, p. 9). Additionally, it included contracts for an unspecified amount, presumably at least \$1.2 billion, awarded in April 2014 to the Swiss company, to lay nine hundred kilometers of the second string, and for Saipem, to carry out complementary works on the second string (Roberts, 2015). The official plan was to construct primarily two pipelines out of four with a capacity of 63 bcm per year in total – the same of the South Stream. According to Gazprom, the first string under the Black Sea would be constructed by December 2016, with a capacity of 15.75 bcm per year to satisfy the Turkish market, replacing the gas delivered via the Trans-Balkan pipeline (Roberts, 2015). The second string with the same capacity will be used to cover the gas-deficient Istanbul area at least. The remaining part of its capacity may be for the European market.

The choice of Ipsala as the terminal is very significant. Indeed, the border crossing between Ipsala and Kipoi is the meeting point of two important pipelines of the Southern Gas Corridor: Trans-Anatolian Pipeline (TANAP), with 1,840 km, and the

Trans-Adriatic Pipeline (TAP), with 840 km, which will connect the TANAP at Ipsala/Kipoi, carrying gas from Azerbaijan to Italy, after passing through Greece and Albania (Roberts, 2015). This geographic set opens the door to new political and economic issues for the European energy security. The distance between the Turkish Stream future delivery point and TAP is only 10 Km (Franza, 2015). In case Gazprom has already available surplus quantitative of gas, it could deliver a capacity of 20 bcm per year through TAP, which would require an upgrade of the compressor station (Franza, 2015). On the other hand, EU granted an exception to its law on the third party access to TAP for the first 10 bcm per year coming from Shaz Deniz Stage Two to buyers in Greece (1 bcm), Bulgaria (1 bcm) and Italy (8 bcm) (Franza, 2015). Gazprom has the opportunity to make use of TAP under the TEP law, in case the gas demand for TAP rises, undermining the Azerbaijan's gas exportations to the Turkish and European markets.

Moreover, the Russian influence in the Southern Gas Corridor could increase due to the fact that some countries are more prone to forge lucrative partnerships with Russia. Greece does not have enough funds to invest into the pipeline infrastructure, being at the same time an appetitive market for the Russian investments. On May 7, 2015, in a phone call, Putin would have said to Greek prime minister Alexis Tsipras that Russia was willing to support financially the Greek companies for an extension of Turkish Stream, but the financial project is not clear (Roberts, 2015). This policy is in line with the "third party access" clause, so the EU has its hands tied. On June 19, 2015, Greece and Russia signed in Saint-Petersburg a Memorandum on development of a €2 billion joint venture, with the task of extending the Turkish Stream (Roberts, 2015).

Despite all these factors, the Turkish Stream project was stopped after the shooting down of the Russian jet SU-24M by the two Turkish jets F-16. On December 5, 2015, Turkish President Erdogan, during a meeting in Istanbul, stressed that the Turkish Stream project was abandoned by Turkey before the plane incident, because of non-compliance with the Turkish demands. Despite this, the construction of the Nuclear Power Plant at Akkuyu, with the financing of Rosatom, will continue. Ankara might find alternative suppliers in Azerbaijan and Qatar. Both of these states were visited in the

first days of December by Turkish President (Qatar) and the Prime Minister Davutoglu (Azerbaijan), seeking to reach a deal on gas and LNG (Daily News, 2015).

Nevertheless, President Erdogan's apologizes on June for the Russian jet shot down, and the ensuing meeting on August 9 in Saint-Petersburg between President Putin and President Erdogan, have opened the window for a new revival of the Turkish Stream project. Alexander Novak, the energy minister of Russia, stated that Russia submitted to Turkey its roadmap for building the Turkish Stream. The agreement, which is still "working in progress", will be followed by working groups from both sides and it is expected to be signed as an intergovernmental agreement (IGA). The project remains substantial with the same steps before its interruption. The first string with the capacity of 15.75 bcm could be built in the second half of 2019; while the second string is a possible project of exporting Russian gas to European market through Turkey. President Putin declared that this second string has to be negotiated with the European Commission (NGE, 2016).

### **3.4. Conclusion**

The potential gain from Turkish Stream is obvious. The Russian strategy is to accomplish three main goals: strengthening EU's dependence on Russian gas exportations; building alternative routes, circumvent Ukraine; and enhancing Gazprom position in the Turkish market (Koch, 2015). The Russian strategy has its ground on a long-term vision – almost all the Gazprom's contracts will expire in the 2019-2020. Furthermore, Russia has several interests to accomplish its goals: avoiding loss of already engaged work, recouping the financial investment, a new wave of financial benefit and moving its political influence in the South Europe. The lack of a stable supplier in the SGC is the door for the Russian access. Indeed, one of the Turkish Stream's aims is to be a competitor in the SGC, acquiring a share of market in countries that rely on unstable suppliers. Italy, for instance, is connected with Nord Africa only by two pipelines from Algeria: one is the Galsi, with a capacity of 10 bcm per year, and the other one is the Transmea, with a capacity of 30 bcm. Moreover, Italy is connected to

Libya by the Greenstream, passing through Sicily with a capacity of 11 bcm per year (Koch, 2015). Plus, Spain is linked to Algeria as well through the Medgaz pipeline and to Marocco through the Mahreb-Europe pipeline (Koch, 2015). The lack of infrastructure in Italy and Spain to deliver gas into the Northern European countries make these pipelines underexploited, and the precariousness of the current political situation in Nord Africa makes these suppliers not reliable in the long-term. Reasonably, Italy and other European countries have invested in TAP and TANAP, seeking safe provisions of gas from Azerbaijan.

On the other hand, LNG could be a sustainable alternative. Currently in the South Eastern Europe the Greek LNG terminal Revithoussa (5.3 bcm) is the main existing option for reducing the dependence on Russian gas (Yafimava, 2015). Also, in case Revithoussa's capacity could be expanded to 7.3 bcm, it would cover demand from Greece and Bulgaria – both are expected to import 1 bcm each of Azeri gas by 2020. Nevertheless, domestic networks will have to be updated in both Greece and Bulgaria in order to assure the gas flow (Yafimava, 2015). The current situation makes it impossible to follow this path for many reasons: the Greek's economic situation, for lacking of investment funds; the interconnected capacities in the Balkan area and the issues concerning the price; and the delivery of the LNG from United States.

In conclusion, EU will continue to depend on Russia exports, although the TEP and the common European Energy Policy are attempts to curb the Russian gas imports. Nevertheless, Russia will continue seeking ways to contain the development of SGC and the flows of gas from the Caspian Sea. In fact, on February 24, 2016, Gazprom, Depa and Edison signed a Memorandum, aiming to bring Russian gas under the Black Sea to Greece and Italy, through still unknown transit countries.

#### **4. NORD STREAM 2**

Nord Stream 2 is currently the most controversial energy-related issue in Europe. While the proponents insist it is a commercial deal only, the critics reply it breaches EU legislation and the Energy Union, and it harbor veiled political interests. In

this chapter, we will provide a short description of Nord Stream and thoroughly present the Nord Stream 2. We will draw a picture of the implication of the project for Europe, as well as the interests that the major shareholder harbors. Finally, we will try to assess whether Nord Stream 2 could be considered a playground for Russia's political interests and whether Nord Stream 2 could be considered an obstacle to EU energy diversification.

#### **4.1. From Nord Stream 1 to Nord Stream 2**

The idea of building an offshore pipeline in the Baltic Sea goes back in 1997, when Russian gas producers, in conjunction with Neste Oil Finnish energy company, created the North Transgas Company and started offshore surveys in the Baltic Sea (Pavlova, 2013). After several bureaucratic procedures, economic and strategic considerations, changes in shares ownership as well as political shifts, the final agreement on the pipeline construction was signed in 2005 by German Federal Chancellor G. Schroeder and President V. Putin. Nord Stream AG has been established in 2006, where Gazprom holds 51%, the German E. ON Ruhrgas and BASF Wintershall got 15.5% each, the Dutch NV Nederlandse Gasunie took 9% and the French Group GDF Suez got 9%. Nord Stream transports gas from Vyborg, Russia to Greifswald, Germany through Line 1 and Line 2, constructed in 2011 and 2012, respectively. The route crosses the Exclusive Economic Zones of Russia, Finland, Sweden, Denmark, and Germany, as well as the territorial waters of Russia, Denmark, and Germany (Pavlova, 2013). Before the construction, several permits had to be granted by single countries and EU. In fact, several consultations on environmental side effects, security, and commercial feasibility have been made. EU Commission has given Nord Stream status as a "priority project, which would contribute to increase competitiveness in the energy market and increase security of supply" (Whist, 2008, p. 21). Before Nord Stream started operating, almost 80% of Russian gas to Europe passed Ukraine. In 2015, the twin pipeline system has delivered 39.1 billion m<sup>3</sup>, which constitutes 71% of the pipeline's

total capacity (Nord Stream AG). Germany, the UK, the Netherlands, France, and Denmark receive deliveries through Nord Stream.

At the Eastern Economic Forum, in early September 2015, Russia, Germany and a consortium of Western companies have signed an agreement for the implementation of Nord Stream 2 project. The consortium consists of Gazprom, OMV, E.ON and BASF, Gasunie, Royal Dutch Shell, and Engi. Though unexpected, the deal is not new. Already in June 2015, at the St. Petersburg International Economic Forum, Gazprom signed a set of Memorandums with E. ON, Shell and OMV (Ugrosdy, 2015). Gazprom is the major shareholder with 51% and each of the other shareholders got 10%; Engie initially got 9%, and eventually Gazprom sold it 1%. Interestingly enough, already in 2013, Nord Stream AG has issued a project on the planning and construction of additional two pipelines of the same capacity as the previous ones, preliminary scheduled to be constructed from 2016 to 2018 (Nord Stream AG). The re-emergence of the project in 2015, amid political conflicts, made it more controversial.

Current EU-Russia gas trade is based on three routes: the Yamal pipeline through Belarus and the Nord Stream – with the overall capacity of 86.5 bcm per year, and the Ukrainian pipeline system (Tagliapietra & Zachmann, 2015). Nord Stream 2 would add two more strings to the existing ones, which have a capacity of 55 billion cubic meters per year. Thus, the overall capacity would double, bringing it to 110 billion cubic meters, enough to cover roughly 75% of the current Russian natural gas export to EU (Ugrosdy, 2015), versus the capacity of the Ukrainian route – 142 billion cubic meters. However, Gazprom was prevented from operating Nord Stream at its full capacity. OPAL, the onshore line on German territory, which connects Nord Stream to European markets, is currently operating at 50% of its capacity (Sokol, 2012). Here, EU Commission defies the vertically integrated monopoly of Gazprom and blocks the full implementation on the basis of the Third Package “unbundling ownership” clause – in fact, Gazprom acts as the supplier and co-owner of the transmission infrastructure at the same time. Experts say that OPAL’s underutilization as well as the “third-party access” rule undermines Nord Stream 2 profitability.

## **4.2. Supporters and opponents**

For the implementation of the project, Gazprom needs the approval of Russia, Germany, Denmark, Finland and Sweden, since the pipeline would cross these countries' Exclusive Economic Zones (EEZ) (Vinois & Pellerin-Carlin, 2015). Finland is believed to eventually support the project. In December 2015, Gazprom has announced selling 25% of its assets to the Finnish Gasum in order to complete the Finish gas facilities' renationalization (Jakobik, 2016). With Denmark, the situation is rather complicated – it is a Russia's rival in exploring Arctic's hydrocarbourn fields; in March last year, the relations turned a negative note when Russia threatened Denmark with nuclear weapons, if the later would join NATO's missile defense programme (Jakobik, 2016). The project has been supported by France, Austria and the Netherlands and, given the participation of important energy companies, the Western European business elite seems to support the deal too.

Germany is the most vociferous supporter of Nord Stream 2. Nord Stream is transporting gas directly to Germany, allowing it to bypass instable Ukraine. Germany is highly depended on gas imports, and the demand is expected to increase in the next decades. Germany's stance towards the project bewildered many in Europe. Germany was among the first to implement sanctions against Russia as well as being engaged in the Minsk negotiations over the war in Eastern Ukraine. Many in Europe regard it as the renovation of the German-Russian business; others fear a return to Ostpolitik (Dempsey, 2015). In fact, in the same day the Nord Stream 2 agreement has been signed, "an asset exchange between BASF and Gazprom was agreed upon, giving Germany access to Siberian deposits in return for letting Russia become a shareholder of industrial and storage infrastructure on Germany's territory" (Jakobik, 2016). Moreover, the center-left Social Democrats, Chancellor Merkel's coalition, criticize the sanctions against Russia for representing economic losses to German businesses.

Nord Stream 2 supporters justify their cause with several assumptions. First, Gazprom anticipates economic-financial recovery in Western Europe and, consequently, gas demand recovery by 2019. It is also expected that EU gas extraction in North Sea

would decrease, as well as the nuclear energy production. EU will also have to find an alternative to coal, as it has a high degree of pollution and breaches the “de-carbonisation of economy” principle. Second, gas from Russia should circumvent unstable and unreliable transit countries. Finally, it is argued that not only Germany would benefit from Nord Stream 2, since whole EU could eventually make use of the gas flowing through the interconnected pipelines.

Nord Stream would decrease Ukraine’s transit importance to a higher extent. Ukrainian pipeline system has a capacity of 142 billion cubic meters. Gas transit through Ukraine towards Central Europe passes by Slovakia, Czech Republic and Poland. The geographical position secured Ukraine transit fees and geostrategic leverage vis-à-vis Russia and the EU. In fact, Ukraine used its transit monopoly several times as a bargaining chip in price disputes. After the gas cuts of 2006 and 2009 (Riley, 2015b), which affected several EU members with shortages, Russia declared its firm intention to bypass Ukraine for its exports. Now Ukraine transits around 50% of Russian gas to Europe (Goldthau & Boersma, 2014) – 40 bcm, which account for \$73 billion. The Nord Stream 2 would cost Ukraine a loss of \$2 billion a year in transit fees (Riley, 2015a), hence the preoccupation of not only Ukraine, but also of EU members, which have been investing in Ukrainian economy. For instance, if Ukraine lose its transit role, external financing to upgrade its pipeline network will decrease. Additionally, Ukraine has been financially supported by EU and IMF. New loans would be necessary to cover the transit fees loss, with no certainty that Kiev would be able to repay (Loskot-Strachota, 2015).

Recently, Ukraine has been supplied with gas via reverse flow from Poland, Hungary and Slovakia. EU Commission has estimated the share coming from EU as high as 50%. The process is part of EU’s aim to create an interconnected network of pipelines within EU, so that all members would rely on each other. That would increase EU’s energy security and decrease the risk of unexpected cut and shortages. EU is also looking forward to integrate Ukraine in the European energy market (EU Commission). If Nord Stream 2 is to be built, the reverse flow to Ukraine will probably increase. Chancellor Merkel, who supports Nord Stream 2 as a profitable business deal, has stated that Germany is interested in a solution, where “Ukraine can also play a role as

transit country.” Sigmur Gabriel, the Vice Chancellor and the most vociferous supporter of the project, has reiterated, while visiting Poland, that Nord Stream is viable only if Russia does not cut off gas flows to Ukraine and CEE (Central and Eastern Europe).

For several times, Russia announced its intention to stop its gas flows to Ukraine by 2019. However, A. Miller, Gazprom’s CEO, said that the continuation of gas exports via Ukraine after 2019 is being negotiated (Ugrosdy, 2015). There may be several reasons. First, Russia is bothered with the reverse flow supply to Ukraine by the CEE countries, once it decreases Ukraine’s dependence on Russian gas and hence Russia’s political leverage over its neighbor. Second, there are still many countries in Europe depending on gas transited via Ukraine. Besides losing consumers and a considerable income, Russia risks losing its geopolitical leverage in the region too. Finally, Italy, Russia’s second-largest customer in Europe, is supplied via Ukraine and, until the South Stream and the Turkish Stream are not been replaced by a viable project, Russia will have to meet its commitments. Above all, Germany – the principal partner in Nord Stream – has insisted several times that the continuation of Nord Stream 2 project depends on Ukraine remaining a transit country.

The fiercest opponents of the project are the CEE countries. A letter signed by the Baltic States, Poland and other Central European countries was sent to the EU Commission. They argue that Nord Stream 2 would weaken EU’s energy security by increasing its dependence on Russian gas as well as undermines the Energy Union project of supply diversification (Jakobik, 2016). In particular, Poland, which would lose its transit fees and importance in the pipelines network, sees the project as a German-Russian alliance. Nord Stream 2 is accused of intentionally bypassing Central Europe. Back in 2008, when negotiations were held over the first Nord Stream, alternative pipelines have been proposed. In particular, Yamal 2 would have run parallel to Yamal 1, which brings Russian gas via Belarus and Poland to Germany. The proponents argued onshore pipeline would have been cheaper; and Yamal was so constructed to allow a second pipeline to be added (Whist, 2008). The Nord Stream consortium has rebutted there is a need to avoid politically unstable transit countries, recalling the 2007 dispute with Belarus. Even earlier, in 2004, the Baltic States and Poland proposed the Amber

pipeline, which would run Russian gas through Latvia, Lithuania to Poland, where it would join Yamal towards Germany. Amber would, thus, contribute to diversification and avoid transit countries. The consortium rejected over transit fees and higher costs of maintenance of an onshore pipeline (Whist, 2008).

Opposing the Nord Stream 2, the Baltic States have been questioning the environmental impact assessment (EIA) – it took roughly 3 years for the EIA for Nord Stream 1 to be issued. The Baltic countries are also concerned about their security. Another pipeline would justify Russia's military presence in the Baltic Sea for its protection. In the aftermath of Ukrainian crisis, the Baltic States have shown their concern over their territorial integrity and security and intensified the "NATO rhetoric". Czech Republic and Slovakia opposed also to the additional pipelines, since they would be deprived of transit fees, despite Czech Republic profits from Nord Stream. In fact, it has adjusted to the pipeline and it is now receiving most of its gas from Germany rather than Slovakia (Tsafos, 2015). Hungary, which has been building underground gas storage infrastructure, would lose its transit role and would buy gas from Austria (Ugrosdy, 2015). Southern European countries as well as Italy oppose Nord Stream 2 linking it to the annulment of South Stream, which deprived them of high incomes. They argue Nord Stream 2 should be suspended on the same legal basis as South Stream.

### **4.3. Implications of Nord Stream 2**

What is mostly questioned is the conformity of Nord Stream to the Third Package. Indeed, opponents are looking for ways to prove the project breaches EU law and competition regulations. It goes against the "unbundling ownership" clause since Gazprom holds 50% of the shares (Hedberg, 2015). There are claims saying that, since it is an offshore pipeline running through international waters, it is not subject to EU law. This claim is dubious, once the pipeline would cross the territorial waters of Germany and Denmark, and thus entering the EU jurisdiction (Riley, 2015). Nord Stream 2 would have to perfectly comply with EU energy legislation, i.e. it would have to meet all Three

Package criteria, including the “third-party access”, to allow other suppliers-competitors the use of the pipelines (Riley, 2015). In a report dated of November 2015, the EU Commission has stated that would assess Nord Stream 2 in the light of European regulatory framework. Thus, the deciding question would be whether Nord Stream fits the EU jurisdiction in terms of energy and internal market (Tagliapietra, 2015).

In April 2016, the debate “Nord Stream 2 – the Energy Union at the crossroads” was held at the European Parliament. The meeting was an occasion to discuss the arguments deployed in favor and against the gas project. The advocates of the pipeline insisted that it will provide the EU with gas in a period of decreasing domestic production; the gas pipeline responds to the EU’s climate goals as well as will stimulate competition in the liberalised European energy market. The critics rebated, instead, that Nord Stream 2 breaches the Energy Union’s principles of diversification of both suppliers and routes as well as environmental and climate directives; it would endanger Ukrainian transit route and deprive it of its transit fees; and finally, they considered it as a Russian geopolitical tool rather than a commercial project, endangering the energy security of Central and Southeastern Europe. Moreover, in July 2016, the Polish Office of Competition and Consumer Protection has filed a formal objection against the Nord Stream 2, on the grounds that the pipeline could harm consumers through “restriction of competition”. All in all, while the EC and the opponents of Nord Stream 2 insist the pipeline building should correspond to the Third Energy Package directives, Russia and Nord Stream AG assert the TEP is only applicable to the strands on the German territory, while the offshore pipeline is exempted.

Nord Stream 2 will definitely increase Russian role in the European market. Many in Europe fear Russia is promoting its veiled geopolitical interests. Apparently, Russia is driven by both commercial and political interests. Nevertheless, Gazprom, in response to the EU energy market liberalization challenges, is diversifying its customer base, especially in China, despite it considers Europe as its most lucrative export market (Giuli, 2015a). It is proven by Gazprom’s intentions to adjust to the internal energy market and diversification in Europe, thus defending its market share in Europe and possibly amplifying it. Gazprom has also to comply with the enforcement of EU

competition rules. Gazprom, in fact, is no longer able to insert destination clauses in its contracts, so its ability to negotiate prices, by preventing its clients trading with each other, is diminished (Giuli, 2015a). Thus, Russia will have to adjust itself to prices on the spot market. Consequently, Gazprom has already started selling gas through auction; 16% of its contracts at the end of 2014 were based on spot market prices. Additionally, Gazprom is challenged by falling prices and demand from Europe, which has started replacing gas with renewable, coal and, lately, LNG. For example, the Russian gas export to Europe fell by 9% - 15 bcm from 2013 to 2014 (Ugrosdy, 2015). According to current Russian estimates, in 2016, the average price of Russian gas will be approximately \$200 per 1000 bcm (Loskot-Strachota, 2015), the lowest in 11 years; in 2015, the price was approximately \$240. Moreover, Gazprom's domestic market share dropped from 83.5% in 2007 to 69% in 2014 (Loskot-Strachota, 2016). Here, Gazprom is facing competition from Rosneft and Novatek.

Gazprom is also challenged by LNG and its rising popularity. For European market, relying more broadly on LNG from USA and the Persian Gulf is still very costly, due to the sophisticated infrastructure. Nevertheless, EU is looking forward to LNG as a diversifying option. Gazprom perceives the wave and its "intention to sell more gas via auctions suggests that Moscow is preparing for a price war on the market place, targeting North American LNG especially" (Giuli, 2016, p.2). Also, Gazprom is planning to build a gas plant named Baltic LNG in the Ust-Luga region, with a yearly capacity of 10 million tons in partnership with British-Dutch Shell (Jakobik, 2016). All these projects show Gazprom's commitment to maintain its European market share and continue exporting. All that happens in a risky environment for Russia's gas strategy. It could lose its European market share to Iran, which could start its export to Europe, after the sanctions be lifted. At the same time, Russia is fiercely opposing the construction of the Southern Gas Corridor, which would transit Caspian gas. Since recently, Russia cannot rely on Turkey for its gas expansion in EU through the Turkish Stream pipeline.

Commercial reasons aside, Russia is believed to have relied on its energy leverage to promote its political interests and influence policymaking in Europe. In fact, by circumventing Ukraine and other CEE, Russia increases its influence over these

countries. Also, Nord Stream 2 shows a divisive EU over its main issue – energy security, thus unmasking EU weaknesses. Most importantly, given that commercial and political implications are mutually dependent, Russia would increase its political influence by raising its market power. By building Nord Stream 2, Russia would diversify its export routes, being able to choose which pipelines to flow the gas and which hubs to supply. It would enable a share of Gazprom on the hubs and its ability to influence prices (Loskot-Strachota, 2015).

Germany's support to Nord Stream 2 is seen as controversial given the actual political situation and the EU sanctions against Russia, promoted and supported by the German government. Russia could always rely on support from the German business elite as well as on the energy lobbying. Chancellor A. Merkel has several times reiterated that Nord Stream 2 is a purely commercial deal, which would be implemented only if in accordance with EU legislation. Her words have been questioned after a visit of Sigmar Gabriel to Moscow in October 2015, where he assured Russians that Germany would engage into keeping Nord Stream under German national competence, thus bypassing the restricting EU energy normative (Dempsey, 2015). The transcript of the meeting has been published by Kremlin, thus fuelling the rumors that Nord Stream 2 is only an instrument used by Russia to unmask a divided Europe and spur further internal conflict. On December 22, the German anti-trust authorities allowed the foundation of Nord Stream 2 consortium (Jakobik, 2016).

Germany's demand for gas is expected to increase, given the decreasing EU domestic production in the North Sea and the closing down of nuclear plants. Nord Stream 2 would allow Germany to avoid the risky transit via Ukraine, but it would also increase the dependence on Russian gas. Also, Nord Stream 2 would increase Germany's market power for gas in Europe. As a consequence, there would be more gas transit via Germany to other EU countries as well as further development of onshore gas infrastructure such as storage facilities and pipelines – all in line with EU's diversifying and interconnectedness policies (Loskot-Strachota, 2015). Nord Stream 2 is also likely to increase the importance of German and Austrian gas hubs in the European market and the eventual connection of other EU members to these. Again, it would be

in line with EU's interconnectedness and interdependence principle. Germany, already the first economy in the EU and an important player in EU politics, would increase its commercial and political importance, and the Energy Union would, on great extent, have its starting point in Germany. Thus, by becoming an "energy hub" (Sokolov, 2015) and the main center for the transit and storage of Russian gas and its onward distribution in Western Europe, Germany would secure higher sales revenues for its energy companies and transit fees for its federal and state budgets (Loskot-Strachota, 2015). In May 2016, the German-Russian GASCADE – a joint venture between Gazprom and BASF/Wintershall – announced the preliminary planning of the EUGAL, the 51 bcm land pipeline of Nord Stream 2. Through additional infrastructure, the pipeline could supply Central Europe and even the Balkans. EUGAL is expected to run parallel to OPAL toward the Czech-German border (Loskot-Strachota, Poplawski, 2016).

#### **4.4. Conclusion**

Nord Stream 2 divides EU over the energy strategy. The division of EU members, between supporters and opponents of the project, shows how little unanimity there is within EU regarding its energy market and energy security. National interests do not fit the EU common vision and often collide, with countries arduously looking to bypass EU normative and promote their agendas. Bilateral agreements with Russia in the energy sector hinder the creation of a true common energy security strategy. Nord Stream 2 is thus a test for EU Energy diplomacy. Provided EU could import gas from others sources apart from Russia, if it does not succeed in securing unanimity, it will not have a common energy market. Transit countries have different interests from importing countries. Apparently, having an Energy Union is not profitable for all members, or better, not all criteria fit the interests of every member. While EU would be happy to integrate Ukraine within its Energy Union and develop the reverse flow, the latter strives to remain a transit country. So far, it is not only the source of gas that undermines EU's energy security, but also the national energy security policies instead of a common European one. Apparently, EU is not an embodiment of common interests and energy

seems to be the battlefield for national gains, with energy projects stemming from geopolitical considerations and consequently creating geopolitical shifts.

Supporters of Nord Stream 2 insist that, given the increase of gas demand in EU, the limited capacity of the Southern Gas Corridor below 20 bcm per year (Pourzitakis, 2015), and the firm intention of EU to increase reverse flows and pipelines interconnectedness within European market, Nord Stream 2 is the viable option. This, of course, provided that all EU members look in the same direction and through the same “energy strategy” lens. From the other side, it is rebutted that Gazprom should comply with EU jurisdiction, starting, for example, by selling some of its shares and open the pipelines to third parts, which would secure Gazprom’s shares of European market. That would be a viable option, as one of the obstacles to Nord Stream 2 is the financial constraint. In fact, Gazprom is assessed not financially capable to invest in the Nord Stream 2, given the weak gas prices (Riley, 2015a). Financing through capital markets is a difficult task now, since the sanctions have hindered international funding to Russian corporations. Moreover, Russian government apparently intends not to bail out energy companies anymore. But the truth is that the current debate around Nord Stream 2 goes beyond energy, as it questions the nature of Russian-EU relations, Russia and Germany relations, and most importantly the relations within EU and the supposed unanimity over Energy Union, fuelled by the lack of trust, both within EU and between EU and Russia.

## **5. OVERALL CONCLUSION**

Nord Stream 2 was announced in September 2015 when Turkish Stream was still a viable project. Interestingly, a €2 billion deal between Russia and Greece was signed for extending the Turkish Stream project into Greek territory, in the day after Gazprom signed a Memorandum of Understanding for the extension of Nord Stream 2. The projects are not interchangeable – more probably they are complementary, though of different capacity and costs. In fact, both projects are aimed at bypassing Ukraine: Turkish Stream would provide gas to Southern Europe, while Nord Stream 2 would

increase its gas flows to Northwestern and Central Europe. Thus, Gazprom and Russia would secure its share markets in Europe circumventing transit countries, Ukraine in particular, which has been called politically instable and risky for transit.

Each one of the projects has different political and economic implications, also because of their geographic routes and transportation capacity. The Nord Stream 2 would add 55 bcm to the European market, while Turkish Stream 49 bcm, roughly the same capacity as South Stream. While the South Stream route changed, it would have targeted the same markets; Nord Stream 2 is headed towards new, more lucrative markets in the Northwestern and Western Europe (Socor, 2015). However, the OPAL pipeline is not working at full capacity and Turkish Stream is now suspended and will hardly be back on the agenda in the near future; nevertheless, in December 2015, Russia announced that if EU guaranteed infrastructure and high priority to the route, Russia would be ready to continue talks. Instead, in February 2016, Gazprom signed a Memorandum with Italy's Edison and Greece's Depa to supply natural gas from Russia to Greece and Italy through third countries. The deal shows that a southern route is urgently important for Russia in its bid to supply Southern Europe, contrasting Southern Gas Corridor (SGC). Here again the national interests of EU Members States tend to prevail over the common energy strategy. EU feared that Turkish Stream could undermine SGC, but apparently the lack of unanimity within EU regarding energy security is still an issue to be tackled. EU is very critical of its members' "energy ambitions".

South Stream has been blocked because incompatibilities with EU's Third Package criteria. The crisis in Ukraine and Russia's role in it, as well as the annexation of Crimea, contributed to hinder the project. EU Member States that were involved in the South Stream project, with high income prospective, fiercely opposed the Nord Stream 2. They claim the latter should be closed on the same legal grounds as the South Stream. Nord Stream 2 is instead supported by Germany and other Members States, which expected economic and political gains from the pipeline. EU opposes the projects since it undermines its long-time energy diversification and Energy Union as well as increases dependence on Russia as a single supplier and raises Russia's political

influence on the continent. The Turkish Stream was suspended due to political reasons. Also, Turkish Stream was feared by EU as a geopolitical rise of Turkey and its potential influence in the EU energy market, while supported by the EU countries that would have benefited from it. Now that Italy and Greece are involved in new negotiation with Russia over gas transportation, the prospects of an Energy Union look bleak.

All the projects faced, and Nord Stream 2 still faces, judicial and technical constraints. But most importantly, they are all considered by EU as political projects. EU fears a Moscow-Ankara alliance as well as a Moscow-Berlin alliance. Germany is the first economy and a pivotal political player on the European continent and its leverage has been questioned by many in EU. In fact, what CEE countries fear is a German dominance in the energy market. On the other side, Turkey is emerging as the dominant country in the Middle East, expanding geopolitical and economic interests just on the border with EU. Both Germany and Turkey aim at becoming "energy hubs" and shape part of their geostrategy around the energy leverage. Both routes would transit gas from Russia, through its gas giant Gazprom, something that would hinder EU's aim of energy diversification. But, while EU's concern of Turkish energy and thus geopolitical lever is understood, the concern over Germany's "energy leverage" could be understood only if regarded out of the "common energy market" idea or Energy Union, or even out of the common interests and principles that all Member States encompass and on which EU is based.

The overall conclusion is that the feasibility of energy projects is not only about energy, finance and engineering to build the pipelines. It is a debate that involves geopolitics, domestic politics in view of the upcoming elections (2017 as for Germany), national interests, and not least identity. Here, there are two intertwined dilemmas. The first is the energy security dilemma within EU, where Member States have a national and not a common European approach to energy market and security and seek bilateral agreements promoting their national interests over those of the Union. The second is the energy security dilemma of EU-Russia relationship. Their energy strategies are pursued at the expense of one another. The prospects of a compromise on an energy deal between the world's largest gas producer and its most lucrative market

look bleak since their diplomacies are based on different, if not opposing, principles and values.

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