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Russia's Nord Stream 2 Pipeline: A Push for the Finish Line

Recent reports suggest that the Russian government is trying to complete construction of Nord Stream 2, a controversial natural gas pipeline that will enable Russia to increase the amount of natural gas it exports directly to Germany and onward to other European Union (EU) member states (bypassing Ukraine and other transit countries). Pipeline construction was suspended in December 2019, after the United States imposed sanctions related to the project. The Trump Administration and Congress have expressed opposition to Nord Stream 2, reflecting concerns about European dependence on Russian energy and the threat Russia poses to Ukraine.

In May 2020, a pipelaying vessel owned by a subsidiary of Russian state-owned energy company Gazprom arrived at Germany's Mukran port, a logistics hub for Nord Stream 2. Observers expect Gazprom to use that ship and a second pipelaying vessel to try to finish the pipeline. About 100 miles of the approximately 760-mile pipeline remain to be laid and connected (see **Figure 1**). Russian officials have said the pipeline could be completed by the end of 2020 or early 2021. Analysts note that even if Gazprom can finish construction of the pipeline, the company still would need to make significant changes to the ownership structure of the pipeline to comply with EU energy regulations.

Background

Nord Stream 2 is being constructed alongside the Nord Stream 1 pipeline, in operation since 2011. Nord Stream 1 has a total capacity of 55 billion cubic meters (BCM) per year. In 2018, it ran at 107% of stated capacity. Nord Stream 2 also has a capacity of 55 BCM per year, which will double the Nord Stream system's total capacity.

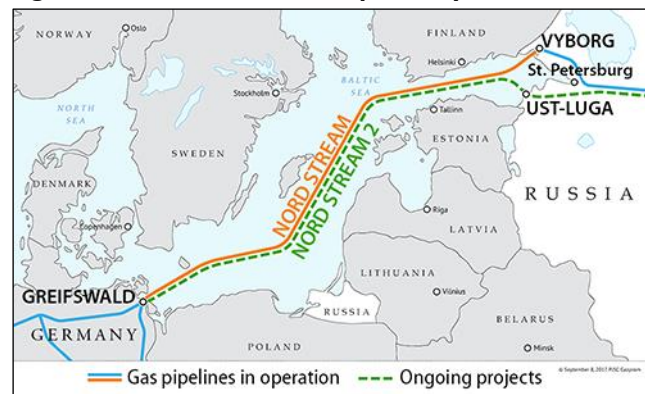
Nord Stream 2 is estimated to cost about \$10 billion. It is owned entirely by Gazprom. Half the cost is being financed by five European companies: Engie (France), OMV (Austria), Shell (Netherlands/UK), Uniper (Germany), and Wintershall (Germany). This ownership structure is different than that of Nord Stream 1, in which Gazprom has a 51% stake; four European companies—Engie, Wintershall, E.ON (Germany), and Gasunie (Netherlands)—own the rest.

Support and Opposition

Although the EU has articulated an ambitious energy diversification strategy, some European governments have not reduced dependence on Russian gas, which accounted for 46% of EU imports in 2018. Factors behind continued European reliance on Russian supply include possible rising demand for natural gas, diminishing European gas supply, financial investments by Russia in European infrastructure, and the perception of many Europeans that Russia remains a reliable supplier.

Supporters of Nord Stream 2, including the German and Austrian governments, argue that the pipeline will enhance EU energy security by increasing the capacity of a direct and secure supply route at a time of rising European demand for gas. German officials and others have said that once the gas reaches Germany it could be transported throughout Europe. These advocates say they support developing additional infrastructure to ensure this is possible. The German government stresses that it also supports broader European energy supply diversification efforts, including by backing construction of new liquefied natural gas (LNG) terminals in northern Germany.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

Opponents of the pipeline—including, among others, some EU officials, Poland, the Baltic states, Ukraine, the Trump Administration, and many Members of Congress—argue that it will give Russia greater political and economic leverage over Germany and others that are dependent on Russian gas, leave some countries more vulnerable to supply cutoffs or price manipulation by Russia, and increase Ukraine's vulnerability to Russian aggression.

Critics of Nord Stream 2 were initially hopeful that the European Commission (the EU's executive agency) would block the project by invoking EU regulations intended to prevent monopoly control of energy projects. In early 2019, the EU amended an existing gas directive to extend its rules to EU territorial waters. In May 2020, Germany's national energy regulator upheld the regulations, ruling that Gazprom could not own both the portion of the pipeline in German territorial waters and a majority of the gas flowing through it. Analysts speculate that Gazprom could seek to sell or transfer ownership of that portion of the pipeline in order to comply with the regulations.

Impact on Ukraine

In recent years, Russia has sought to reduce the amount of natural gas it transits through Ukraine. Before Nord Stream

It opened in 2011, about 80% of Russia's natural gas exports to Europe transited Ukraine, which received approximately \$2.3 billion in fees in 2010. In 2018, around 40% of these exports transited Ukraine, and Ukrainian revenues from gas transit totaled \$2.65 billion.

In December 2019, after the United States imposed sanctions on Nord Stream 2, Gazprom and the Ukrainian state-owned energy company Naftogaz concluded a renewal contract for the transit of Russian natural gas to Europe from 2020 to 2024. The contract provides for transit of at least 65 BCM in 2020, a volume equal to about 73% of the 2019 volume of 89.6 BCM, and 40 BCM a year from 2021 to 2024, a volume equal to about 45% of the 2019 volume. According to Naftogaz, the contract will lead to at least \$7.2 billion in transit revenue over five years.

If Nord Stream 2 becomes operational, observers expect it to further reduce gas transit through Ukraine. This would not necessarily increase Ukraine's vulnerability to energy supply cutoffs; Ukraine stopped importing natural gas directly from Russia in 2016. It could lead to declines in transit revenues, however, and increase Ukraine's strategic vulnerability, if reduced dependence for gas transit leads Moscow to be even less constrained toward Ukraine.

U.S. Policy

The Trump Administration's focus on European natural gas issues has primarily been on expanding U.S. LNG exports to the EU, part of a larger effort to diversify European energy imports, and oppose the Nord Stream 2 pipeline.

Congress also has expressed opposition to Nord Stream 2. The Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA, P.L. 115-44, Title II) states that it is U.S. policy to "oppose the Nord Stream 2 pipeline given its detrimental impacts on the EU's energy security, gas market development in Central and Eastern Europe, and energy reforms in Ukraine." In December 2018, the House of Representatives passed H.Res. 1035, which called for the cancellation of Nord Stream 2 and the imposition of sanctions with respect to the project.

U.S. Sanctions Related to Nord Stream 2

The Protecting Europe's Energy Security Act of 2019 (PEESA; P.L. 116-92, Title LXXV) establishes sanctions on foreign persons whom the President determines have sold, leased, or provided subsea pipe-laying vessels for the construction of Nord Stream 2 and TurkStream (another Russian pipeline that is to supply natural gas to Europe), or any successor pipeline, since December 20, 2019 (the date of the NDAA's enactment). TurkStream was inaugurated in January 2020.

PEESA provides for a 30-day wind-down period; exceptions for repairs, maintenance, environmental remediation, and safety; and a national security waiver. In addition, PEESA provides for the termination of sanctions if the President certifies to Congress "that appropriate safeguards have been put in place" to minimize Russia's ability to use the sanctioned pipeline project "as a tool of coercion and political leverage," and to ensure "that the project would not result in a decrease of more than 25

percent in the volume of Russian energy exports transiting through existing pipelines in other countries, particularly Ukraine, relative to the average monthly volume of Russian energy exports transiting through such pipelines in 2018."

On December 21, 2019, Allseas, the Swiss-Dutch company laying the Nord Stream 2 pipeline, stated that it had suspended its activities. On December 27, 2019, the State Department said that "the United States' intention is to stop construction of Nord Stream 2" and that PEESA's sanctions would be imposed "unless related parties *immediately* demonstrate good faith efforts to wind-down."

Other relevant sanctions legislation is included in Section 232 of CRIIEA, which authorizes (but does not require) sanctions on those who invest at least \$1 million, or \$5 million over 12 months, or engage in trade valued at the same amount for the construction of Russian energy export pipelines (22 U.S.C. §9526). In October 2017, the Administration published guidance noting that Section 232 would not apply to projects for which contracts were signed prior to August 2, 2017, the date of CRIIEA's enactment. Gazprom signed financing agreements for Nord Stream 2 with five European companies in April 2017.

Some European opponents of Nord Stream 2, including the European Commission, have joined supporters of the pipeline in criticizing U.S. sanctions established by PEESA. EU officials have stated that the EU rejects as a "matter of principle" the imposition of sanctions against EU companies conducting legitimate business in line with EU and European law. Other opponents of the pipeline, such as the Polish government, support PEESA as a necessary mechanism to prevent completion of the project.

Issues for Congress

Issues that Members of Congress may wish to consider include the following:

- Whether to encourage the Administration to impose or threaten sanctions on suppliers of Nord Stream 2 pipelaying vessels, pursuant to PEESA;
- Whether to consider additional sanctions in response to the construction or use of Nord Stream 2;
- Whether to engage with European partners to assess their current positions regarding the pipeline and options for further regulation of Gazprom and the pipeline;
- Whether to consider potential implications of the Ukraine-Russia gas transit agreement on U.S. policy toward Nord Stream 2.

For related products, see CRS Report R42405, *European Energy Security: Options for EU Natural Gas Diversification*; CRS In Focus IF11177, *TurkStream: Russia's Newest Gas Pipeline to Europe*; and CRS In Focus IF11547, *The Three Seas Initiative*.

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