

European Energy Firms Agree to Expand North Stream Pipeline with Russia's Gazprom

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On June 18, Russia's Gazprom announced at the International Economic Forum in Saint Petersburg that it intends to expand the North Stream gas pipeline in cooperation with European energy firms. The North Stream pipeline runs from Russia across the Baltic Sea to Germany. The first two lines became operational in 2011. Gazprom, along with Austria's largest energy firm OMV, Germany's E.On and the British-Dutch Royal Dutch Shell have now signed a statement-of-intent for the building of two additional lines.

The announcement that North Stream is to be expanded came as a surprise. In January, Gazprom chief Alexei Miller declared that in the face of increased political tensions in Europe, Gazprom would refrain from building new pipelines.

At the forum, Gazprom also penned an agreement with Shell to expand Sakhalin-2, a facility for the production of liquified natural gas (LNG) in the Pacific. The facility's capacity will be expanded from 10 million to 15 million tons annually. Gazprom and Shell plan to exchange oil exploration equipment. Shell took over British energy firm British Petroleum (BP) several months ago, becoming the world's largest producer of LNG.

According to the head of Gazprom, further European firms could still join the project. Gazprom is anticipating that Wintershall, a subsidiary of BASF, which participated in the first two North Stream pipelines, will also take part. According to Gazprom, negotiations on this will occur in July. A decision is expected in September.

The French energy concern GDF Suez, which also was involved in the first two North Stream pipelines, has not commented on these latest developments.

Precise details on the implementation of an extension of North Stream have yet to be released. One of the pipelines will be connected with Britain. In Germany, the capacity of North Stream could also be expanded. Gazprom stated that the construction will cost some €9.9 billion.

With Gazprom's declaration of intent to expand Nordstream, the Kremlin makes clear its continued focus on the European energy market. Russian Energy Minister Alexander Novak recently became a member of Gazprom's board. In response to the growth of military tensions with western countries over Ukraine, Gazprom announced a series of projects with China last year, such as the "Kraft Siberia" pipeline. However, progress on these efforts continues to lag.

On the question of energy policy and Russia, clear differences are emerging within the European Union (EU), as well as between the EU and US.

Together with European firms, Russia has been trying for years to bypass Ukraine as a transit country. The North Stream pipeline was a milestone in this effort, being the first pipeline capable of supplying gas directly to Germany from Russia. The pipeline not only significantly reduced Ukraine's importance as a gas transit country, it also made Germany an important energy centre within the EU. For this reason, the American government was against the project from the outset.

The US backed the EU's competing Nabucco pipeline project, which was aimed at bringing gas to Europe from Central Asia without involving Russia. However, the project was abandoned in 2013. In place of Nabucco, a significantly smaller southern corridor is to be built by 2018, including the Trans-Anatolian Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). Azerbaijan and Turkey are playing important roles in these pipelines.

The South Stream pipeline, another Russian-backed effort that was to have supplied gas to southeast Europe across the Black Sea and bypassing Ukraine, was systematically torpedoed by the EU Commission. Confronted with this political pressure, Russian President Vladimir Putin [halted the project](#) last December.

Instead, the Kremlin began talks with Turkey over the building of Turkish Stream. As with South Stream, this pipeline would also supply gas to southeast Europe. However, Turkish Stream is to be constructed up to the Turkish-Greek border, meaning it will not run through any EU member. The Russian and Greek governments signed a declaration of intent at the Petersburg economic forum to expand Turkish Stream to Greece.

While Gazprom has set a date of December 2015 for works to begin on Turkish Stream, not a single contract has been agreed between Russia and Turkey on the capacity of the pipeline, the deadline for construction or its operational start. In addition, it is not clear who will buy the gas from the pipeline, which is to supply 63 million cubic metres annually.

Economic sanctions, which are having a major impact on the financial and energy sectors, have pushed Russia into a corner. In spite of several significant concessions by Gazprom, China has been reluctant to expand cooperation. The Russian energy firm has committed itself to taking on the majority of the costs to build pipelines to China, but having suffered major losses since the beginning of the Ukraine crisis, it is unclear if the concern will be financially capable of doing so.

While the British and US press coverage of the announcement was limited, the German media hailed the expansion of North Stream as a "major coup" (*S ü ddeutsche Zeitung*). *Handelsblatt*, one of the main mouthpieces of German industry, welcomed Gazprom's "new European strategy."

The participation of three important European energy firms in the project sends a political and economic signal. They are making clear that they intend to expand economic relations with Russia in spite of political tensions. The European companies are exploiting the fact that the economic warfare produced by the sanctions of the EU and US has significantly weakened Russia, placing them in a favourable negotiating position with Russian firms. Prior to the Ukraine crisis, Gazprom was compelled to cut its gas prices to Europe, where gas continues to be sold at higher prices than anywhere else. Gazprom's income accounts for almost a quarter of Russian state income.

The participation of the Austrian firm OMV, one of the largest gas firms in Europe, was

particularly noteworthy. OMV had previously been a driving force behind Nabucco and is heavily active in the Balkans. However, the company underwent a change in leadership and has been headed now for several weeks by Rainer Seele. Seele not only has close ties to Gazprom, but also to former German Chancellor Gerhard Schröder, a close associate of Putin who assisted in the construction of North Stream in Germany.

In addition, Seele has headed the chamber for German-Russian foreign trade since 2012. According to Gazprom, OMV could build an extension to Turkish Stream from the Turkish-Greek border. Talks on this are currently under way. The change at the top of OMV was decided in consultation with the Austrian finance minister. The Austrian government is one of the sharpest critics of the sanctions against Russia within the EU.

Criticism among German firms of the sanctions against Russia is also rising. According to a study by the Austrian Institute of Economic Research, the economic warfare against Russia is endangering half a million jobs in Germany—more than any other country in the EU.

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