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US-Germany Nord Stream Two Agreement – A Victory for Russia

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Nord Stream Two construction (Source: Financial Times)

The announcement, on Wednesday, July 21, of the agreement between the United States and Germany allowing for the completion of Nord Stream Two natural gas pipeline project comes at a time when Russia is undertaking a full-scale effort to manipulate the European gas market, deplete European gas storages and send prices skyrocketing. Natural gas prices have spiked to \$10.30 per million British thermal units (MMBtu), reaching their highest levels in 13 years—when liquefied natural gas (LNG) availability in Europe was still limited ([Ycharts.com \(https://ycharts.com/indicators/europe_natural_gas_price\)](https://ycharts.com/indicators/europe_natural_gas_price), July 21). Gas spot prices at the Dutch Title Transfer Facility rapidly increased to \$451 per million cubic meters in July ([Interfax \(Interfax\)](https://www.interfax.ru/business/774406), July 9).

At the same time, European gas storage levels are at only 53 percent of their capacity, or nearly 27 percent lower than the average for the last five years. If Russian gas supplies do not increase soon, European gas storage will be filled at no more than 71 percent of its capacity by October, causing legitimate fears of another gas crisis ([Celsiusenergy.net \(http://celsiusenergy.net/\)](http://celsiusenergy.net/), July 19).

But Russia's Gazprom refuses to increase deliveries via Ukraine's gas transmission system during the period of maintenance works scheduled this month for Nord Stream One and Yamal Europe—the two other major Russian gas export lines to Europe ([Interfax \(https://www.interfax.ru/business/774406\)](https://www.interfax.ru/business/774406), June 29). Instead, it fulfils its long-term supply contracts by selling natural gas that has already been stockpiled in the large storage facilities in Germany and Austria—thus, depleting their volumes and raising fears among European customers of gas cutoffs in the winter. On July 19, storage in Austria was only 33 percent full, in Germany—47 percent ([Celsiusenergy.net \(http://celsiusenergy.net/\)](http://celsiusenergy.net/), July 19).

Gazprom has calculated that the increased natural gas demand in Asia this summer is pushing prices up and attracting most of the world's LNG exports. This leaves European customers with limited supplies from the spot markets ([Interfax \(https://www.interfax.ru/business/774712\)](https://www.interfax.ru/business/774712), June 30). Thus, if Gazprom shrinks deliveries by another 20 billion cubic meters (bcm) on top of the already lost 26.6 bcm in the last two years, this could not only mean a substantial profit for Moscow but also squeeze Europe to submit on Nord Stream Two.

Observers concluded that Russia is weaponizing gas supplies and using its dominant position on the European Union gas market to send a political message that Europe would face gas shortages if the Nord Stream Two pipeline is not completed ([Kyiv Post \(https://www.kyivpost.com/business/russia-puts-squeeze-on-europe-over-nord-stream-2.html\)](https://www.kyivpost.com/business/russia-puts-squeeze-on-europe-over-nord-stream-2.html), July 13). But instead of being punished for such behavior, Moscow is being awarded with the lifting of all political obstacles to Nord Stream Two's completion. Although the newly announced US-German agreement on Nord Stream Two contains provisions that threaten sanctions and other retaliation if Russia tries to use energy as a weapon or commit further aggressive acts against Ukraine, the timing of the deal makes it dubious that Moscow will indeed be punished for monopolistic or reckless behavior ([Al Jazeera.com \(https://www.aljazeera.com/news/2021/7/20/us-germany-warn-russia-in-draft-nord-stream-2-agreement\)](https://www.aljazeera.com/news/2021/7/20/us-germany-warn-russia-in-draft-nord-stream-2-agreement), July 20; [Moscow Times \(https://www.themoscowtimes.com/2021/07/21/us-germany-pipeline-deal-warns-russia-seeks-ukraine-transit-a74578\)](https://www.themoscowtimes.com/2021/07/21/us-germany-pipeline-deal-warns-russia-seeks-ukraine-transit-a74578), July 21).

Unveiling some of the details of the agreement, Victoria Nuland, the undersecretary of state for political affairs, said Germany had agreed to work alongside the United States to press Russia to extend by ten years a transit agreement through Ukraine that is due to expire at the end of 2024 (Moscow Times (<https://www.themoscowtimes.com/2021/07/21/us-germany-pipeline-deal-warns-russia-seeks-ukraine-transit-a74578>), July 21). Success in such an endeavor is highly unrealistic, however. As soon as the diversionary Nord Stream Two pipeline is operational, Russia will not need Ukraine as a gas transit route, and the West has no practical means to force Gazprom into another ten-year agreement with Kyiv

Nuland reiterated that Germany has pledged to take measures at the national level, as well as to seek action at the EU level, including sanctions, if Russia uses energy as a weapon or takes aggressive steps against Ukraine (Interfax (<https://www.interfax.ru/world/780074>), July 21). Few in Ukraine or Central and Eastern Europe are convinced that Berlin would take such drastic measures against Moscow, particularly ones that would affect German commercial interests. Judging by Germany's consistent efforts to appeal every European court decision regarding the onshore pipelines connecting the Nord Stream corridor, it seems unlikely that Berlin will volunteer to impose sanctions on Russia for subversive actions in Ukraine. Germany recently lost its appeal on the OPAL onshore pipeline linking Nord Stream One to its gas network—the court confirmed that the pipeline is subject to the European Gas Directive and Gazprom cannot use it at full capacity (see EDM (<https://jamestown.org/program/since-eu-court-ruling-moscow-in-a-weaker-position-in-gas-transit-talks-with-kyiv/>), September 30, 2019; Interfax (<https://www.interfax.ru/business/778087>), July 15, 2021).

Any financial incentives and promises for investment in Ukraine's green energy sector by both Germany and the United States will be extremely important, if they come to fruition. Nuland spoke about "concrete" financial figures on helping Ukraine diversify energy supplies, which have yet to be disclosed. These promises, however, do not seem to bother the authorities in Moscow, as celebrations there are already in progress. The deputy chairperson of the State Duma's (lower chamber of parliament) international affairs committee, Alexei Chepa, triumphantly declared that neither the efforts of the United States nor the position of Ukraine and President Volodymyr Zelenskyy will interfere with the full launch of the pipeline (Interfax (<https://www.interfax.ru/world/779997>), July 21).

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