

UkraineAlert October 10, 2021

Europe's energy crisis highlights dangers of reliance on Russia

By Aura Sabadus



Europe is currently in the grip of an unfolding energy crisis that is sparking questions over the role of Vladimir Putin's Russia in exploiting rising demand, low supply, and geopolitical unpredictability.

It is difficult to exaggerate the gravity of the present situation. Natural gas prices have soared by 600% so far this year. This extreme market volatility is hitting key economic areas across Europe, from **fertilizer plants** to the **food industry and health sector**.

The crisis has been building for some time. It is being driven by a mixture of rising post-Covid demand, weather-related events, glitches at gas production plants across the world, and speculative trading on the EU's emissions market.

However, Russia's decision not to transit more gas through Ukraine or to replenish its European storage sites has undoubtedly exacerbated the crisis. Moscow's position has sent shock waves across the continent. The impact has been evident even in relatively distant countries such as Spain and the UK, which have minimal direct reliance on Russian gas.

Critics say Russia is weaponizing gas supplies. They accuse the Kremlin of attempting to blackmail EU and German officials in a bid to pressure them into granting the necessary technical and regulatory approvals for Russia's Nord Stream 2 pipeline.

How long will the current crisis last? In this high stakes confrontation, Moscow appears to hold all the cards. Kremlin officials have openly stated that certifying Nord Stream 2 will ease the crisis, and appear ready to wait until their push for fast-track certification is granted.

Even if EU policymakers manage to forestall a winter of discontent thanks to a set of measures they **are now analysing**, the consequences of the energy crisis will be spread across many sectors and will be felt for a long period of time.

Of even greater concern is the ability of the EU to withstand Russian pressure. There is a significant risk that Brussels may surrender to the Kremlin's demands regarding Nord Stream 2, even as energy supplies and the security of Central Europe,

including Ukraine, are jeopardized.

The current drama is unfolding following the completion of construction work on Nord Stream 2 during summer 2021. The pipeline now requires technical and regulatory approvals before entering commercial operation. It is not yet clear whether Russia will abide by existing EU regulations that call for the unbundling of production and transmission operations.

While legal matters are yet to be decided, the imminent risk is that Russia will divert existing gas transit volumes of 40bcm/year via Ukraine to Nord Stream 2 as soon as the pipeline enters commercial operation. Moscow is contractually bound to pay for capacity booked via Ukraine until 2024. However, the terms of the agreement concluded at the end of 2019 do not also require Gazprom to actually use this capacity.

The first sign that Russia may abandon Ukrainian transit came on October 1, when Gazprom announced that gas which had been historically transited via Ukraine would be redirected to a southern corridor linking its new TurkStream 2 pipeline across the Black Sea to infrastructure in Bulgaria and Serbia. Gazprom **had booked 24.6mcm per day** of exit capacity from Ukraine into Hungary, but is currently not using it.

If Nord Stream 2 enters commercial operation in the upcoming months, Gazprom may redirect Ukrainian gas transit to this new corridor, in a move similar to that seen in relation to Hungary on October 1. The consequences of such a decision would have security implications for Ukraine and the whole of Central and Eastern Europe.

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An analysis by international energy news and data providers ICIS **has found** that if Ukrainian transit is rerouted to Nord Stream 2 and gas flows redirected from Germany into Central and Eastern Europe, the region could experience a supply shortfall of anything between 15-45 billion cubic meters or more during peak demand. This is because the reversal of flows from west to east could be hindered by capacity constraints at border points in Central Europe. As the last country in line, Ukraine could be the most affected.

Furthermore, if Ukrainian transit is discontinued, the country will no longer have access to alternative supplies from European neighbors. Ukraine has been buying between 10-15bcm of gas annually in recent years from Hungary, Poland, and Slovakia, but some of these volumes were simply netted out from Russian transit to the three central European states.

The Atlantic Council **has already warned** about the risks in an earlier post published in April 2021. On October 1, it became clear that as a result of Russia's decision to end transit to Hungary, Ukraine would not be receiving gas in reverse from this country. A similar situation may occur on the Polish border if transit is discontinued, leaving Ukraine reliant on Slovakia as a single source of gas.

The rerouting of Ukrainian transit to Nord Stream 2 would also have negative implications for Ukrainian regions close to the Black Sea. If flows are reversed and Ukraine is dependent on Slovak gas shipped from west to east, there are concerns that some of the volumes may not reach Odesa, Kherson, Mariupol, Mykolaiv and Zaporizhia. All of these regions

are already in a vulnerable position close to Russian-occupied Crimea and are key targets of the Kremlin's ongoing efforts to destabilize Ukraine.

Russian pressure to bring Nord Stream 2 into operation without submitting it to European rules for third party access and transparency could set the entire European market back by at least 12 years. In 2009, Brussels sought to clamp down on market monopolies by enforcing the Third Energy Package, a set of rules designed to increase competition and transparency.

These rules were later extended to offshore pipelines linking EU and non-member states, such as Nord Stream 2. Currently, the only transit route that is compliant with the principles laid out by the Third Energy Package is the Ukrainian corridor.

If the Ukrainian transit route is discontinued and Russian gas transit is directed through Russia's Nord Stream and TurkStream corridors without any clear legal safeguards that these routes will not be used as tools of geopolitical coercion, Europe's current energy crisis could be just a foretaste of what may come in the years ahead.

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By Sergiy Makogon

Moscow's Nord Stream 2 pipeline has yet to enter service but Russian President Vladimir Putin is already being accused of weaponizing energy supplies and attempting to blackmail Europe with high gas prices.

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UkraineAlert | Apr 26, 2021

Battle over Putin's pipeline continues in Washington DC

By Diane Francis

The Nord Stream 2 pipeline issue must be addressed by US officials as a priority. Time is running out. The Russians hope to finish the pipeline by June, thereby putting pressure on Germany to make it operational.

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