



# Where are Biden and Merkel's sanctions against Putin's gas weapon?

BY PAUL RODERICK GREGORY, OPINION CONTRIBUTOR — 11/01/21 06:00 PM EDT  
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In July, President Joe Biden and German Chancellor Angela Merkel agreed to reimpose sanctions if Vladimir Putin used gas as a “geopolitical weapon.” This agreement constituted a concession in return for Biden’s waiver of sanctions on Nord Stream 2, which allowed its completion. Merkel had already vouched for continued gas deliveries through Ukraine — a questionable pledge from a politician leaving office.

Despite these Biden-Merkel assurances, Putin’s Kremlin has engaged in undisguised blackmail to render Europe hostage to Russia’s gas monopoly, Gazprom. Putin’s blackmail aims to force the speedy certification of Gazprom’s Nord Stream 2 pipeline by delivering less gas to Europe. Putin’s ultimate goal: Destroy the European Union’s competitive and transparent energy market.

Although Putin is using gas as a geopolitical weapon, the sanctions promised by Biden and Merkel are nowhere to be seen — another example of the toothlessness of Biden’s foreign policy and of Merkel’s unwavering support for “business as usual” with Russia. Another line in the sand has been washed away with little or no notice.

According to the European Commission’s Gas Directive (which has been extended to Russian gas), suppliers of gas are required to decouple production from delivery, allow third party access to pipelines, and post

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transparent prices. If Gazprom is deemed bound by these rules, it must either auction off its transportation capacity or turn it over to someone else. Gazprom must also set aside up to half of Nord Stream 2 capacity for rival producers, and it must post its rates in a transparent fashion.

These Gas Directive rules are unacceptable to Gazprom. Gazprom is not a commercial enterprise. Instead, it is a ministry of gas responsible for the domestic and foreign energy policy of the Kremlin. Its charge is to achieve dominance of European energy through its control of gas traffic from Europe's east and south.

With the completion of the undersea Nord Stream 2 pipeline, Russia took a giant step towards achieving its goal of domination of Europe's gas market. Nord Stream 2 replaces entirely the traditional distribution networks through Ukraine, Belarus, and Poland. Combined with existing Nord Stream 1 and South Stream, Russia is poised to capture nearly half of Europe's gas demand.

The game is not over. Nord Stream 2 lacks certification by German regulators as curated by German courts. In preliminary rounds, German regulators and courts denied Nord Stream 2's requested exemption from the Gas Directive.

Moreover, German regulators and courts must demonstrate that their rulings are consistent with European Union laws. The Kremlin knows that the European Union has been an opponent of Nord Stream 2, so that must be a worry for Putin.

The point: If the Gas Directive is deemed to apply to Nord Stream 2, Gazprom would be required to behave in part as a competitive enterprise, despite its considerable market share.

If it came to an unfavorable ruling, the Kremlin would redouble its efforts to engage in regulatory capture, set up dummy companies to meet decoupling requirements, and enter into secret deals to peel off smaller countries from any European consensus. These counter measures would take time, and Russia is anxious to cement its dominance.

In a word, Gazprom desperately needs an exemption from the Gas Directive, and, as such, it is willing to engage in undisguised energy blackmail to extract a favorable ruling from European regulators.

Now that the physical construction of Nord Stream 2 is complete, Gazprom has reduced production and deliveries to drive up spot gas prices by a factor of five. It has limited the flow of gas through Ukraine to a trickle and no longer delivers to Hungary through Ukraine through a side agreement. Tiny Moldova is being bullied to set aside Gas Directive rules.

Putin and Gazprom have both declared that Russia will supply more gas if Nord Stream 2 is certified. (Under normal circumstances, certification would not be completed until Spring or Summer). Putin denies that a gas war is taking place. He insists that Russia has faithfully delivered gas under its long term contracts. It was Europe's mistake to rely on purchases in spot markets. Due to Russia's restricted supply, spot prices are soaring, just as Europe is entering its cold months. Quite a coup for Putin as an anxious Europe enters its winter months.

Yes, Russia has declared war on EU energy market institutions. Russia's message: If you want heated apartments and reasonably priced electricity this winter, exempt Nord Stream 2 from your competitive rules.

That Russia is running a war against the EU and its institutions is no surprise. The rest of Europe, especially Eastern Europe, warned against Nord Stream 2 as a way to eliminate gas transport through Ukraine. Nord Stream 2 was built to remove Ukraine from the energy transport business and thus to give Gazprom the power to dictate Europe's energy policy.

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A new government has yet to be formed in Germany, but it seems clear that the social-democratic SPD will be the senior partner in any coalition. Over the years, the SPD, with its Ostpolitik, has been steadfast in support of "business as usual" with Russia. We would imagine that the new government will figure a way to cave to Putin for the sake of secure energy supply. In effect, the prime promoter of European unity is telling its partners that it is everyone for themselves when it comes to energy.

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