The Future of the Russian Nord Stream 2 Pipeline

TRANSCRIPT

Discussion

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Rebeccah Heinrichs:
Welcome to this event with Hudson Institute. My name is Rebeccah Heinrichs, I'm a senior fellow here at Hudson, and I am joined today by Bartosz Bieliszczuk, and my colleague here at Hudson, Peter Rough. Thank you both for being here. Today we are going to be discussing an important and timely topic. President Biden announced on May 25th, that he will waive some sanctions involving the construction of the Russian Nord Stream 2 gas pipeline. Of course, this is the pipeline that will send natural gas under the Baltic Sea to Germany. And he said that he was waving the sanctions in the interest of "rebuilding relationships with our allies and partners in Europe." Despite uncovering that the Switzerland based company Nord Stream 2 AG, and its CEO, Matthias Warnig, a Putin ally and former officer in East Germany Stasi, is engaging in sanctionable activity.

The project is reportedly now about 95% completed, but that pipeline could not be completed, arguably, with the imposition of the sanctions the U.S. Congress passed. Although it would be tough if they would be able to do that. So, it made it a lot tougher to finish that last portion of the pipeline. But President Biden's decision to waive sanctions against the Putin ally's company effectively green lights Nord Stream 2's completion. The decision to green light the pipeline was greeted with some statements from German officials, some Russian officials, as possibly facilitating better relations between the United States and those two countries. But it also elicited harsh judgments, condemnation from Polish officials, Ukrainian officials. And also, there was a bipartisan chorus from Congress denouncing the decision to waive those congressionally mandated sanctions.

So today, it is my hope that we'll have a nice conversation. I'm offering some different perspectives from our European allies, and talk about potential geopolitical implications leading up to... Of course, this is weighing heavily on the minds of many people as President Biden prepares to meet with Vladimir Putin in the next couple of weeks in Geneva. So, with that, I'd like to turn it over to my colleague Peter, and then Bartosz, for a few opening remarks, and then we'll move on to conversation. And with that, Peter, floor is yours.

Peter Rough:
Great. Thanks, Rebeccah for having me. Hudson Institute is my home institute, but I never take for granted being invited to speak. So, thanks to Rebeccah for having the great idea, and the timely idea as she put it, of hosting this event on a very important topic. And perhaps I'll just start right where she left off, which is to note that there is bipartisan opposition to Nord Stream 2 in the U.S., and the reasons for that I think are relatively clear. In my point of view, and I think one would find broad agreement on the Hill, on Capitol Hill, and even in the Biden administration. It's fair to say that Nord Stream 2 really is an economic stratagem designed by Putin to weaken, subvert, and split the countries of Eastern Europe from their Western neighbors. It's in a lot of ways, I think a tool of Russian revanchism, thinly disguised as an energy project. And its implications are especially grave for Ukraine, with which Russia of course remains at war.

So, let me bring two points to mind here that I think are relevant in explaining why I think this is the case, and why there is such opposition in the United States. The first pertains to what I just mentioned, Ukraine, and here there really two factors in play. One is, the issue of transit fees, and the other, Ukraine's geopolitical positioning in the world. One of Ukraine's greatest assets is its status as an essential transshipment point for Russian gas destined for Europe. Kiev, it is estimated, will lose approximately 2 billion in annual transit revenues if Nord Stream 2 goes operational. Or about 2% of its GDP, which is a significant sum for a country that is of course, trying to build a functioning economy, and also pay for deterrence against Russia.
More importantly, in my mind however, it will also lose its status as a geopolitical choke point for energy. At present, Russia really cannot permanently cut gas flows through Ukraine and still sell its gas. In 2019, around three quarters, I think it was 73% of the Russian gas giant Gazprom exports went to the European Union. So if Gazprom cut gas to the Ukraine, it would jeopardize its European market, on which it is highly dependent. By building Nord Stream 2, as Rebeccah mentioned, which pipes gas from Russia across the Baltic Sea directly to Germany, thereby bypassing Eastern Europe, Ukraine becomes far less important as a geopolitical actor, to Brussels, to Paris, and to Berlin. So, this downgrades Ukraine, a frontier state behind the Iron Curtain, back in the Cold War era in a major way. And for that reason, I think Congress, which looks at plucking Eastern Europeans with a great deal of affection, finds this hugely problematic.

And secondly, this really undermines Europe’s energy security. Nord Stream 2 is undermining what is a decade's long process within the European Union. A lot of things take decades long within the EU, and this is one of them, toward achieving a liberalized single energy policy. The goals of which are diversification, so to ascertain multiple sources of energy, and unbundling. So no single actor should control the production, transportation, and distribution of energy. In service of that goal, there have been a series of West to East inter-connectors, built to bring energy from Western Europe, which has a far more diverse supply of energy, to Eastern Europe, which remains more dependent on Russian gas. Once Nord Stream 2 is completed, Russia will feel free to sharply curtail the use of Russia's pipelines in Ukraine, the Brotherhood system. A move which seems reasonable to assume given the ongoing war between Russia and Ukraine. But it will also be able to neutralize the West to East inter-connectors by flooding them with Russian gas, which will have moved through the Nord Stream 2 system into Germany. And from there, onwards into the connectors, discouraging alternate sources of investment and alternate energy sources.

So, in effect, Nord Stream 2 we can think of it as a bit of a pincer movement. The East to West pipelines will degrade, because they will not be highly used anymore. While the West to East inter-connectors will become Russian dominated. From this commanding position, Russia will be able to calibrate flows to meet Western European demand, while leaving Eastern Europe exposed. So, it’s leverage will grow immeasurably. And if this all sounds like abstract theory, I will just remind you that in 2014, Central Eastern European states started sending gas by so called reverse flow to Ukraine during that energy shut off. And in response, Gazprom actually cut gas flows to some of these states, in an attempt to stop the reverse flow from getting to Ukraine. This is but a minor preview, given that Russia's leverage, owing to Nord Stream 2 coming online, would grow a great deal.

But to return to my larger point, the bottom line is that instead of a liberalized energy market, the EU will face the prospect of a two-tiered system of Western and Eastern European energy states. Perhaps a last point I would just make, and we can return to this in the discussion is, on the Biden administration’s attitudes towards the Nord Stream system. The Biden team says that it understands everything that I just said. It would nod along vehemently in agreement with a lot of the points I've just made. The President himself has argued that Nord Stream 2 is a bad deal, as he put it. But, the Biden team does not want to apply extraterritorial sanctions against Germany because it is an allied state. Moreover, German analysts emphasize time and again, that extraterritorial sanctions constitute a red line of sorts. We’ve seen this during the Iran debate as well. And it's also true that both Republicans and Democrats in the United States would like to win Germany over as part of an anti China coalition.

Lastly, the President clearly thinks that Russia is a power in decline, while China is a rising superpower. And he's not convinced that we could have stopped Nord Stream 2. Tony Blinken, the Secretary of State, in his hearing testimony last week in front of the Appropriations Committee in the House of Representatives, said that it was a fait accompli. And for that reason, there is no reason to act. So, the Biden Administration essentially adopted a fallback position.
I know I'm running short on time, but if I could just dismantle these points very briefly, because I don't find these arguments all that persuasive. For one, I think the Biden team so bear hugged Europe and blamed so much in transatlantic turbulence on the Trump administration, that it lost all leverage over Europe from the get-go. In many ways it's Nord Stream policy was doomed on day one, because Europe knew it could relax with Biden back in the White House. It lost all leverage basically to demand a change of course. Secondly, there's no real climb down on Russia that will lead to a coordinated position on China that justifies a concession like Nord Stream 2. It is just a matter of fact that to date, Europeans have pursued their own national interest on China policy, in particular, Germany. And if the United States concedes on Nord Stream 2, it's unlikely that it is to gain a similar concession from Germany on China. To the extent that there have been positive announcements on, say, joint infrastructure funding between Berlin and Washington, they're wholly and entirely unrelated to Nord Stream 2 politics.

Third, Russia is clearly a country in decline, but that does not mean it is not a dangerous actor. In many ways it's like a wounded bulldog that can strike out in many different directions. Just a few examples from the past decade or so, Russia invaded Georgia in 2008, and annexed Crimea in 2014, and remains active militarily in Eastern Ukraine. It established a military basis in Syria, it is active in the conflict in Libya. It is essential to all sorts of diplomatic arrangements in its near abroad because Russia still remains a major actor in the world, and Vladimir Putin is dangerous, as we have seen time and again. This is not to speak of the propaganda offenses, the assassinations, in say, Berlin's Central Park. The poisoning of Alexei Navalny, I could go on and on.

Another point, which sometimes gets short shrift by international relations experts, is domestic American politics. We're in an era of growing polarization, and I don't think it's all that smart to undermine the Article 1 powers of Congress, at a time when Congress is already in many ways falling down on the job. And when there is such bipartisan consensus on one foreign policy issue. There are massive fights ongoing over Iran policy. Why also wreck another area of international policy consensus in Washington, that be the Nord Stream issue? And then the last point I would make as a rejoinder to some of the arguments I laid out, is that while Germany remains skeptical of the U.S. position on China, it is dependent on the United States for its defense. So, it's really Berlin more than Washington that should worry about a deterioration in ties. And it's Washington not Berlin, which is adopting a fallback position on this.

I'll just conclude by saying, I work a lot on Germany and German related issues in Europe, and so I share the anguish that comes along with sanctioning an allied partner and their companies. We should distinguish between allies and enemies; we should treat our friends and partners differently than our competitors and opponents. But this is not a German policy, this is an issue for NATO, for Europe, and Russia as well. And as our next speaker will demonstrate, Germany isn't our only ally in Europe. Thanks.

Rebeccah Heinrichs:
Thank you so much Peter. And I just realized I should have given you a more robust introduction. That was wonderful. He is my colleague here at Hudson, a senior fellow, and he is also a German speaker. And so you can... I commend to you his many works that are on the Hudson Institute website, many of which are in German language. And so, I'm just so thankful that he's here for that wonderful context that he provided for us. And our next speaker is-

Peter Rough:
Those context might dry up after this event though Rebeccah. But please go ahead.
Rebeccah Heinrichs:
I think you having the ability to speak in German to these issues and to convey a different view, I think is so incredibly important on these issues. And so, what a great value it is. Bartosz Bieliszczuk, pardon me for my Ohio Mid-Western attempt at your wonderful Polish last name. Bartosz is a senior analyst on energy policy at the Polish Institute of International Affairs, the acronym there is PISM. It is a great institution. I commend to you his many works that are available online. He is a prolific writer and has provided great contributions to this subject. So has his colleagues, and so I commend that to you as well. Bartosz, the floor is yours. I look forward to your remarks.

Bartosz Bieliszczuk:
Good evening from Warsaw, Poland. A pleasure. Thank you very much for this introduction. And Peter already explained these geopolitics of gas pipelines in Central Europe, and this is... But I just want to emphasize that Nord Stream 2 is not about bringing new gas to Europe, but it's rather to redirecting the flow of gas. So, the gas that is currently shipped through Ukraine now will be shipped directly to Germany. And this will create a lot of challenges because we have to invest billions in the infrastructure to diversify our supplies and so on so forth. Peter already explained it, so let me focus on the big picture and long-term political consequences of Nord Stream 2.

Because gas problems and Kremlin's energy policy in the region is something I call, carrot and stick approach. And while for the Western partners like Germany or France, the Kremlin offers mainly carrot, what will be the offer for Central and Eastern Europe is unfortunately stick. And what does this stick policy mean, is that for years we've been blackmailed by threat to cut the supplies of gas. We've been subject of monopolistic practices like unfair pricing, like some package deals, and so on so forth. Just let me tell you one of the recent examples when countries like Poland, Hungary, Slovakia started to deliver natural gas to Ukraine, then Gazprom threatens to reduce shipment of gas to Poland and actually reduce the flow.

So that's something we want to avoid in the future. And in order to do so, and to contain these effects also of Nord Stream 2, which is currently under construction, is to invest billions in the new infrastructure. But then, let me focus on this carrot policy, because for me, this infrastructure and diversification can be achieved within a few years. However, what is more worrying, is the influence of Russia on a German political elite. The problem is that, for instance, Peter already mentioned the so-called gas directive. So, long story short, this is European legislation, which imposes some rules on the owner of natural gas infrastructure, so it must be operated in the transparent way.

And Sigmar Gabriel, back in 2015, Vice Chancellor of Germany, visited Kremlin and promised to put in that Nord Stream 2 will not be subject of this gas directive regulation. And for years, what Germany did is, they did everything they could to block implementation of this gas directive, that's one of such examples. Another one, after the poisoning of Alexei Navalny, what German leaders started to be to ensure that Nord Stream 2 construction would not be affected. It's not only about German politicians, also about our Austrian former Minister of Foreign Affairs, who after her mission was completed as a minister, she was nominated to the post of Rosneft oil company, which is run by Putin's crony, Mr. Sechin. So, this raises serious questions about the influence or leverage Russia has on the Western life, and how this carrot could be used also in the future.

Because recently, Peter Altmaier, who is currently the Minister of Economic Affairs and energy of Germany, and one of the closest Americans associates. He mentioned that Nord Stream 2 will be used in the future to ship hydrogen, which is clean gas of the future and is meant to decarbonize the European energy sector. So, this also raises questions about the implication of Nord Stream 2 for long term energy...
policy. Because if we talk about energy transition, the development of green energy resources, it could also have adverse impact on this policy of EU.

Next point, China was already mentioned. So, some politicians, some lobbyist wants to create such picture that we need Russia to contain China because China is the biggest threat. Okay, but explain this to people in Ukraine. More than 10,000 Ukrainians were killed since 2014. Explain it to countries in Eastern Europe who feel threatened. And I cannot see the willingness of Russia to actually help West in its, let’s say confrontation or rivalry with China. I mean, Putin has two decades to seek good relations, friendly or at least pragmatic relations with the West. But what we can see is political assassination on European soil, military provocation, economic blackmail. Not to mention the invasion on Ukraine and the annexation of Crimea.

So, Putin had like 20 years to establish friendly relations, however I can see more similarities between China and Russia than differences. I mean, aggressive policy, repressive internal policy, disinformation against West. And, in general, the common goal of China and Russia is to undermine West. So, I really want to, my message for American audience is not to fall into this trap, this false narrative, this false alternative, we need Russia because of China threat. Now they are in the same team. Thanks.

Rebeccah Heinrichs:
Wonderful, thank you so much. And I think, I just want to kind of bring out a couple of the really interesting points that you made. One, that often times we’ll hear that some of this opposition to Nord Stream 2 is merely a Ukrainian opposition. But in fact, it is interrelated to Central and Eastern Europeans much more broadly. That’s one country, but it affects really the whole region. And then, just to make that point even clearer, in opposition to Nord Stream 2, there was a significant op ed that was published in Politico by the Polish Foreign Minister jointly with Ukrainian foreign minister laying out some of those issues. And so, we commend that also to our audience as well.

Peter, what about this point? Bartosz brought up the fact that some of these other things that are going on right now. Navalny. Other issues that Russia is acting provocatively and irresponsibly at the same time this is going on. Is it wrong to link those two? I know the Germans would then say, this is unrelated. This is merely an economic issue, not related to these other things that Russia is doing right now, that Western countries oppose. How should we think about some of these other violations that Russia is currently behind, even if not formerly passively? When you think about the Belarusian government putting down that civilian aircraft in order to arrest a political dissident, that many people say couldn't even happen if they didn't have the backing of the Russian government. Things like that. How should we think about these in relation to this larger problem of Nord Stream 2 and the geopolitical implication?

Peter Rough:
Well for a long time one of the talking points of German officials was, or I should say at least the German political leadership at times, privately German officials would acknowledge differently, was exactly what you just said. Which is, that this is essentially an economic project, that it is not one driven by political considerations. I always thought this to be something of a self-defeating argument, and that is all the more true now, because one way that the German government could persuade some analysts in Washington, and potentially even the Biden Administration that a negotiated compromise is in order over Nord Stream 2, is to explicitly link completion of Nord Stream 2 to Putin’s actions elsewhere.

So, one idea that was floated by Wolfgang Ischinger, the head of the Munich Security Conference, also endorsed by a few other prominent German and American analysts. Constanze Stelzenmüller at the Brookings Institution wrote a piece in the Financial Times to this effect. Was to put in place, something we’ve become very familiar with over the years. If we follow the Iran negotiation, called a snapback
provision. So if for example gas flows through the Brotherhood pipeline, which is the pipeline that flows through Ukraine, would go below a certain level, then Nord Stream 2 would be shut off. This was an argument that some offered to say, we can complete Nord Stream 2, we can operationalize Nord Stream 2, but it doesn't necessarily or inherently lead to the end of the Brotherhood system, the degradation of the Ukrainian pipeline and all the political costs that Bartosz and I laid out. The problem is that this requires A, recognition that this really is a political issue, that it has broader geopolitical ramifications. It isn't just a commercial exercise unrelated to Ukraine. And, secondly, it's become pretty clear that because Germany has de-linked provocation from Nord Stream 2, that there isn't any scenario under which they'd be prepared to put Nord Stream 2 on ice, risking an energy crisis in their own country and in Western Europe, because through salami tactics, slowly but steadily, Putin has escalated the pressure on Ukraine.

And so, for that reason, from an assassination as I mentioned in Berlin, in Central Park, in broad daylight by Russian agents. To a cyber-attack on the Bundestag to many of the other provocations we've experienced, interventions in our own elections, and on, and on, and on. Disinformation campaigns, the ongoing conflict in Ukraine, one shouldn't forget the shoot down of Malaysia Air, which actually prompted Angela Merkel to switch to a sanctions track, which she has been rallying every six months for re-approval within the EU. All of those have not risen to the level, including the most recent incidents in Belarus of Germany putting Nord Stream 2 on the line. And I think for that reason, it's very hard to think of a negotiated solution or a compromise, or way of creating a softer landing for Nord Stream 2, in that say, we're prepared to put other things on the table to even the scales as it were. It's just the big project Germany's shown little interest in, in negotiating on it. And we are where we are, which is in a really tough place.

Rebeccah Heinrichs:
And Bartosz, just there's one quote sticking on this subject about it being the Russian argument, this is merely an economic matter. It's a private business, and you can hear that echo, that argument echoed from some German officials. One of the lines that caught my attention in this op ed penned by the Polish Foreign Minister with Ukrainian foreign minister, is "Nord Stream was designed to sabotage Europe's energy security."

And so, it's much more than a private business matter, it has direct implications. And not just sort of as an afterthought, but that's what it was designed to do. So, can you just give us some insight into how this happened. I was reading some of your recent writings on it, kind of leading up through the American election, and what you thought might happen with an incoming Biden Administration, and it seemed like, there was great hope and even thinking that these sanctions would remain in place, because of now President Biden's commitment to strengthen NATO. And his opposition, repeated statements' opposition to Nord Stream 2. So how has this decision landed in Polish media, with the Polish government? How has it been received? This decision by President Biden to waive these particular sanctions and the timing of it, just a couple of weeks before this meeting with Vladimir Putin?

Bartosz Bieliszcuk:
Can I first comment on this business product issue, because this is the same... Actually, I'm very impressed and shocked how long this narrative could last in mainstream media. Because Gazprom, which is the only owner of Nord Stream 2 AG company, which is building Nord Stream 2, is state Russian company run by Putin's cronies. On the other hand, we have these 10 billion projects, which started before all the, before Denmark, before Sweden issued permits for the construction of Nord Stream 2.
So, show me another private business and CEO of a company who starts not political, but purely economic business project which is worth 10 billion with all permits in place. And why did they do so, because they knew that there’s strong political lobbying involved that would push through this product. Okay, and as for the sanctions issue, I'm of course, we here in Poland, we are disappointed. However, it was after this transition period and the signals from the State Department, and Biden himself, President Biden himself, we were a bit expecting some softer approach, not because of Biden's Russia stance, but because of this, Germany's policy. So, this is of course waiver can be withdrawn by administration at any time. However, such decision is a signal for allies for Russia. And this is not a signal about the upcoming sanctions.

However, another other point that I want to make, is that Russia is most likely able to continue the construction of the pipeline. And even with sanctions in place, most likely they've been able to complete this. But the tricky part is commissioning the pipeline and launching this, because protecting European energy security through Sanctions Act, which was passed by Congress as well as the amendments to this legislation, include certification companies on the list of mandatory sanctions. And what it means in practice, that once you have the infrastructure in place, it must undergo technical certification, so it is ready for operation, can be operated safely, and so on so forth. So, another stage of the project when we witness a strong pressure from Germany or Russia to waive some sanctions or relax them, is when the pipelines are completed, and they will be about to be commissioned. So, this is not good message. Not good message that was sent from Washington, this first step. However, we still hope that some solution or at least a harder stance versus Russia is possible.

Rebeccah Heinrichs:
Great. And then Peter, I thought in Bartosz's last statement that he made, he made I think a really important point countering this notion that, because China is a bigger, more serious geopolitical threat, that this is just something that the United States needs to do to try to cooperate with Germany and other Western European countries on this point. And then of course he made the great point, but what about all the countries around the Black Sea. Black Sea being militarized and all of the ways that are equally important, and important NATO allies are being threatened by Russia. And not just them, but the United States continues to be the subject of different provocations of the Russian government as well. And so, it's still in the U.S. interest to weaken Russia where we have an opportunity to do that. But I’m really interested in hearing your thoughts. Didn't Ronald Reagan do this? Didn't Ronald Reagan make a similar decision not to sanction West Germany for their role in building the pipeline, the Siberian pipeline, not to oppose it? But isn’t that similar, or is today different than that, and that’s not a great historical analogy to what’s going on today?

Peter Rough:
Well, I don’t think the struggle analogy fits because in the Cold War the states of Eastern Europe were satellites of the Soviet Union. And so, West Germany from the Eisenhower era and the immediate post World War Two period, made a conscious decision to tie itself to the West, and to the United States it was integrated into NATO. And so, one wasn't subverting the states of Eastern Europe by building a pipeline whose end customer was West Germany. Now, these Eastern European states are free and independent, they've made a choice to join the West, and they're being undermined and weakened. In fact, the parallel that's a little bit of eerie, and one reason why he landed upon it is, there's a pipeline being built directly to West Germany. In this case, Germany, what would have been the former East Germany where the pipeline actually comes ashore now from Russia, and from the former Soviet Union.
And the goal is to return to that era, right. To undermine the Eastern European countries so that they again become sort of satellite states of Russia.

Clearly for Vladimir Putin, the big goal, the big mission, the enterprise of his life is to return Russia to the glory that it had when it was truly one of the great superpowers. Not just in certain dimensions like weapons systems, or oil and gas exports, but truly to be a great power and to play on the great power stage. And for that, Ukraine is to him indispensable, and I think that's part of the reason why he's making these moves. And he's telegraphed as much in the last few days with comments that have suggested Ukraine better watch out. Secondly, just to return really quick if I can to this theme that Bartosz raised on Russia, China. And the inclination, which I think is alive and well in some parts of Europe, perhaps in some of President Macron's broader worldview or in some advisors. Also, I think in parts of the Trump Administration this was real, that one can peel Russia away from China. I don't really think that this is doable. I also don't think that's what's informing the Biden Administration thinking on this.

If I could just really quickly say, in my view, there are two types of democratic foreign policy, and by democratic, I mean democratic foreign policy thinkers on Russia. One is those that think that Russia is a major threat. They were surprised by the Crimea and Ukraine intervention, they were surprised by the Syria intervention, they were surprised perhaps less so, but they see Putin and Russia now active in Libya, and just general Russian aggression across Europe. Then there's a second category which thinks that Russia is in decline. And I think that the President, based on people who know him best, and we have a lot of Biden commentary and books written about the President, because no one thought he would be president anymore, and so a lot of honest things are written about him. Clearly, I think he's in the latter camp. And so, this is, I think, in the calculations deterring Russia mattered less than rehabilitating ties with Germany, in the context of China, which he does view to be a serious threat.

And I also think this view that Bartosz laid out in Warsaw, that it was, the signs were there that Biden would soften his approach on Nord Stream 2, the Germans have read this since day one. They've seen this coming a mile away. And you've heard repeatedly from Germans that well, the administration isn't as worked up about this as the Trump Administration. The only surprise that has been in play since day one of the Biden Administration on this issue, is when Tony Blinken issued a statement to get a hold lifted on Wendy Sherman and Bill Burns, who was up for CIA director by Ted Cruz, that they would take a tough line and oppose Nord Stream 2, and Germany was listed in the first sentence.

Well they've clearly blown past that statement, they haven't held true to what, at least the implication of that statement, which is that they would employ sanctions, including against Nord Stream AG, not just the Russian outfits, but the Swiss based company and its German officers. And the moment that statement was issued, I had a few queries from Germany, surprised like wow, is there a shift in position on this. And very quickly I think they realized, no, that's not the case. Biden's going to basically, in the standoff with Angela Merkel, blink, stand down, in the hopes that he's going to get more cooperation on China. And I guarantee, there isn't a single thing that the Germans are going to do on China policy that they wouldn't have done had we employed sanctions on Nord Stream 2.

So, I think it's just in general an American climbdown and a concession and that's that. [crosstalk 00:37:45] Oh, and in case that wasn't clear enough, because I gave a long answer in the previous round. You have to be an absolute fool to think that this is just an economic project. I mean, everyone, in any private discussion, aside from the few public comments you can pull out and say that this is an economic project, will concede the huge political implications of this. How can you not sit in Berlin, sit in Warsaw, sit in Kiev, and the world's biggest superpower, the U.S., its entire Congress, the Trump Administration, and now aspects of the Biden Administration are heavily tracking this issue, have an opinion on it, and
then claim, well this is just an economic issue. Of course, it's political, issues of the significance are all political, it's inherent in the nature of them.

**Rebeccah Heinrichs:**

Which then brings me to my next point, which is that Russia has fingered NATO as its greatest geopolitical foe, the NATO alliance. And it amazes me continually that when this is reported, many times in American news articles. Again, Ukraine, not a NATO ally, will be cited. But not some of our NATO allies, the Polish objection to this in particular.

So, Peter, I'm going to ask you first and then Bartosz, if you can answer the same question. How does this directly impact NATO, the NATO alliance? And, I mean, obviously I would think that it's not good for it. But if especially, if you look at just the last four years, the previous administration, how much criticism it received for quote unquote weakening the Alliance, by pushing countries, Germany in particular, to contribute more to the defense of NATO. Now you look at this decision to waive sanctions on Nord Stream 2. So, give me your assessment on what the implications are for the NATO alliance, Peter. And then I'll ask the same question to you Bartosz.

**Peter Rough:**

Well I think there's several. Everything that I laid out for Ukraine applies also, given the Amal pipeline to pull in, just perhaps in a less intense and visceral and in sizable way. I mean, this issue is acute for Ukraine, it's on steroids for Ukraine. It's still significant for the other Eastern European countries, many of which are of course in NATO. Secondly, Nord Stream 2 was always an issue that the U.S. at least could like a Damoclean sword hang over Russia. If it moved too aggressively to say, establish a military base in Belarus near Kaliningrad thereby threatening the Baltic States and Poland security. The U.S. and Germany I suppose, if they're prepared to go there, could always say that they'd put an end to Nord Stream 2.

We're reminded of the recent Russian military buildup along the border of Ukraine, not in NATO. You're correct, Rebeccah. But nonetheless, the Vice Chair of the Munich Security Conference, Boris Ruger, issued a video statement in which he said that this would jeopardize Nord Stream 2, if there was an actual major escalation and Russia moved in, in force. For example, along the southern corridor all the way to Crimea. So, Nord Stream 2, now that it is nearing completion. If it is, as Bartosz mentioned, there's still a road ahead on commissioning and operationalizing of it. But if it does go online, it does remove a lever that at least we had.

And then I sit at Hudson Institute, so I have to focus also on the hard power element. I mean, this is about dollars and cents, or in this case, euros and rubles. And it's a big resource loss for some of the Eastern European states, and it undermines alliance cohesion, which matters a great deal. I mean, Vladimir Putin is very cleverly put big allies in Europe and the U.S. at odds with one another. He has fostered a climate of distrust. We can of course cite blame also within the West for this, but it's a big point of dispute and it's cost a lot of political capital, and it's destroyed a lot of, I think, good feeling and trust. So, I think, for those reasons the internal cohesion of the alliance, the hard power resistors that are gone, the potential opportunities for Putin to now unleashed, make his next move. All those are significant for NATO, and I'm sure there are others that I'm just not thinking of.

**Rebeccah Heinrichs:**

Right. And Bartosz, your view on how this affects the NATO alliance?
Bartosz Bieliszcuk:
Okay, we have Kaliningrad weak, one weak Russian base next to NATO countries. We have Russian military forces in Belarus. We have war, Russia’s war against Ukraine. So, I would say, despite the fact that no NATO country was military attacked. This is a big issue for NATO, the fact that we are supporting financially the country, or the lights in trembling that view Western countries, NATO as an enemy. And if we take a look at the strategic energy infrastructure in the region, in the Baltic. Countries like Poland or Lithuania invests billions to diversify its supplies. Poland invested in AG terminal, invested in Baltic pipe. Lithuania invested in AG terminal. In case of, for instance limited conflict in the Baltic Sea region when, for instance, some Russian military provocation escalates, and we have limited confrontation. Then Russian forces will be able to strike precisely in the strategic infrastructure of countries like Poland or Lithuania.

On the other hand, the strategic energy infrastructure of Russia, which is Nord Stream 1 and 2, will be protected because this is joint German Russian project. And that’s how Kremlin gets the Western politicians’ companies on board to support their policy and also advantage their political goals. We must also think about the, for instance, growing military presence of Russian fleet on the Baltic under the... We are using the [pre-text] of protecting Nord Stream 2 against some provocation or terrorist attacks. That’s the strategic big picture. But I also want to, because Peter brought it up again on this business perspective of Nord Stream 2. Because I’ve already mentioned how the energy corporation affects the decision of Western politicians. But we cannot forget also about the Western companies, and they are all because they claim they only doing business, they are not involved in politics. However, the companies involved in Nord Stream 2 are investing in convincing Western decision makers to lift up sanctions. They claim this is political action against Russia and the relation should be depoliticized. And we have several cases of actions of such companies that could be seen as pulling into Russian trap.

One example is Siemens actions, it was revealed by Andriy Kobolyev former CEO of Russia, of Ukrainian Naftogaz. He said that Siemens refused to supply equipments to modernize Ukrainian gas infrastructure because, he quote, they said they would lose Russian market. So that’s how the politics affects business. I’m not sure if I can mention the name, but we have another example of a German company who refused to supply engines for Ukrainian army because they were afraid of losing Russian market. So that’s how this is a bigger question about this interdependence of democracies, free market economies with authoritarian states, and this is same case for China. We allow authoritarian regimes to pull the strings and to make such market deals, and we cannot even respond to such actions. We cannot retaliate because our Western institutions protect Russian investments on our soil, while Russia Kremlin beat China can do whatever they want. So this is also a bigger question about involvement of private companies in business.

Peter Rough:
I thought Bartosz was about to make some news by outing a company, we would have driven some good views to our show. But if I could just add one point. No one is demanding that Europe end its importation of Russian gas. It’s really just whether or not we will build out an infrastructure that can A, undermine and split Europe. And B, whether or not it creates an infrastructure that over the mid and long term de-incentivizes diversification of European energy and causes Europe to grow institutionally more dependent on Russian gas. So, sure, Russian gas would still flow under American policy or preferences through the Ukrainian and Polish pipeline systems, and even through Nord Stream 1, which is of course already operational and complete. But the fear is that the building and completion and operationalization of Nord Stream 2 will lead to a dependence and give Putin levers that will have political consequences throughout NATO.
Rebeccah Heinrichs:

Yeah, I would just say like the timing matters right. The timing and the context right now. So, the United States doesn't just face one peer competitor in China. Russia is still the other competitor that the United States, in this era of great power competition is competing again. And so, this is, it's not just a matter of ensuring that our Central Eastern European countries have the revenue that they would get from energy. But it is also about weakening Russia, and depriving having an opportunity here, Peter as you put it, having that lever base that we can pull, and having an opportunity here to see if it was because of the geopolitical significance to not support it.

And, President Trump made the point multiple times over his administration, kind of pushing on this uncomfortable paradox, that while we're trying to get NATO countries to contribute more to collective defense, collective security, that they are doing things like enriching the very country that poses the greatest threat to the alliance, which is Russia. So not only is it depriving Eastern Central European countries of this energy revenue, but it is enriching the Russians. Which they are then using it in part to invest in the very weapons system that they're using to threaten and coerce our NATO allies.

And so that paradox exists. Which then leads me to my last kind of theme that I want to push on. Peter then, can you tell us though, are you concerned? Or is it an exaggerated concern or an unfunded concern about the overall direction that Germany is headed? When you think about the alliance, the NATO alliance, perhaps not recognizing Russia as the threat to NATO, that the United States recognizes it as, certainly as Poland recognizes it as? And then also that Germany has an election coming up. So you can talk about maybe the different views, even on Nord Stream 2 that exists in Germany, and whether or not there is still hope because of German domestic politics that they might go a different direction on Nord Stream 2, especially as it relates to their view of Russia and the threat that Russia poses to NATO and to Europe broadly?

Peter Rough:

Well as a starting point, I would just say that no country in the world, well, perhaps with the possible exception of Poland, has had a better three decades than Germany. They have emerged from the Cold War united, and have grown spectacularly. They're back at the top of the European order. They are a major international economic superpower. At the same time they remain something of a military dwarf, perhaps that's unfair, I mean they do spend a fair amount of money on defense. But they don't have the defense capabilities that they should commensurate to their size, because they've also enjoyed an American security umbrella. So the era of globalization, and within Europe of the Euro zone has been fantastic for the Germans, they've, thanks to currency parody been able to export around Europe. And then, having satiated the European market they've exported abroad, growing addicted on China of late.

So, I would characterize the last several years, and in particular, the last term of Angela Merkel's chancellorship, which comes to an end this fall, as an attempt to rescue globalization from the clutches of geopolitics. So much of our conversation today has been about competitors, about levers, about the competitive framework and America's great power opponents, China and Russia. That is not really the vernacular in which German diplomacy operates or works. And I think they badly want to maintain this wonderful position they have in the world of the global commons in which you ship goods around and whichever one works together. It's also a legacy of connecting this to Russia, of Willy Brandt, the Chancellor of Germany's Ostpolitik Eastern politics, which is an outreach based politics.

Just look at the Iran nuclear deal. I know I'm a bit off track, but there's a point here, which is that in the U.S... Rebeccah, you've been on panels where it's hotly debated between republicans and democrats within the parties, among different constituencies, there's no such debate in Germany. Because for Germany, a deal which is blessed by the United Nations, which deals with outreach to another country
through a trade trying to build their performance. This is basically the legacy of parts of their Soviet policy. And so, I think there is an element of, in German thought of trying to keep this era of globalization and cooperation alive, to return to the 1990s, if possible. While there is another group of Germans I would say that are increasingly aware of geopolitics and of competition.

And that brings me to your point about the German elections. In my view, the Biden Administration, led by the chief diplomat Tony Blinken, might underestimate a little bit, American power. I think this is kind of a general deficiency of some Democratic Party foreign policy thinking. It's hard for me to believe that a really concerted American effort, with consistent messaging, could not have pushed the Nord Stream decision past the next German elections in Germany. In fact, there's tons of academic literature to support the point that diplomatic coercion is much more successful with your allies than your opponents, because your allies recognize it's a discrete policy disagreement. Your opponents might think it's about regime change or changing the system altogether.

But you can push your allies, especially for the superpower organizer, towards a position where they might be able to come your way a little bit. And so, I would have preferred to have seen a policy that would have at least kicked us past the next German elections, thereby also preserving American credibility, which is in parts being shredded by the American stand down. And, as you mentioned, that German election this fall features really two main parties, the CDU/CSU which is Angela Merkel's party and coalition. These are the center right candidate and party in Germany, they will continue the Nord Stream 2 course of Angela Merkel. Clearly the Chief Chancellor candidate, he's already taken a public position on this, sees himself as a successor to her.

The greens however, which might be a little bit paradoxical, have a strong human rights focus, and are therefore really skeptical of both Chinese human rights violations and of Russia. And they have taken... And of course there's an energy climate component to this, which is really their origin story. And so they are they're very hawkish on Nord Stream 2. And there is some thinking that perhaps a green led government, which looks somewhat unlikely but possible, might put an end to the world moratorium or a stop to this project. So, I would have preferred to see a policy where we plus up, for example the Three Seas Initiative, an infrastructure project for Eastern Europe, and really use American diplomatic capital to try to push this decision on the German side down the road. But then again, I'm on the think tank panel with you and not sitting on the southern Florida State Department.

Rebeccah Heinrichs:

One day, Peter one day, we can only hope. And we are out of time. But I want to give Bartosz an opportunity, if you had any closing remarks or any points that he thought of as Peter spoke there at the end, that you wanted to emphasize or focus on before we say goodbye to our viewers.

Bartosz Bieliszczuk:

Okay, so first of all we should start about on this discussion, and as mentioned, we in Poland are disappointed that it starts when Nord Stream 2 is like 95% ready. However, what we can do, is first to give up this illusion that this change through trade work with Russia, and then think about some realistic solutions. Because stopping Nord Stream 2 of course would be fun maximum, but I realize that that probably will not happen. However, we can discuss, for instance, about supporting Ukraine financially, or shipping some military equipment to Ukraine.

If for instance, Germany society is not willing to increase domestic spending on, or invest in army, they can use their resource to supply Ukraine that is defending their territory against Russian aggression. We might make the climate change issue and development of renewables with energy security issues, because we have great opportunity thanks to our technologies know how to be less dependent on
Russia, not more. And do not fall again into this trap that we need the Russia to develop a European hydrogen sector. We can pursue our own project and address both concerns of society about climate change and concerns of countries like Poland, like Baltic States, or other countries in Central Eastern Europe about the security of supply.

We might work on implementing a gas directive, which was already mentioned. So Nord Stream 2 at least is operated in a transparent, more transparent manner and maybe pressure Russia to be more transparent about the transit fees and the way it is operated. So there are, even not considering scrapping Nord Streams 2, there are a lot, there are huge room for negotiations. And unfortunately, for recent years we haven’t seen such honest discussion from our German or our Austrian partners. So that's what we are looking for.

Rebeccah Heinrichs:
Thank you very much. And I just to close out our panel discussion, I would just say too. I am concerned that, because of the timing of this decision to weigh these sanctions going into this conversation with Putin, that President Biden might be also thinking about other things on his agenda, such as possibly an arms control agreement follow on with the Russian Federation. Which of course, I think would be a mistake at this point, given Russia’s increased provocations and the direction of their nuclear program, etc.

Which brings us back to the point about how critical the NATO alliance is to U.S. securities, and the security of the free world. Poland of course, is a critical ally as we build out missile defenses to protect Europe as well. And so, it is my hope that the United States can continue to consult with our Polish allies and other NATO, and other European allies moving forward to make sure that we are doing what we can together. To not just deter and weaken the Chinese Communist Party, but the other revanchist power, and that is the Russian Federation.

And with that, thank you both so much for your contributions to this discussion. And I hope those of you listening will go onto their websites and look at the rest of their work on this subject. Thank you so much for joining us here at Hudson Institute.

Bartosz Bieliszczuk:
Thank you very much.