



17 November 2015

Briefing Note

GERMANY'S DEAL WITH RUSSIA

NEIL BARNETT



The Energy Secretary Amber Rudd has announced that the UK will increase its consumption of gas, as coal-fired power stations are phased out in the next decade. But in recent weeks it has become clear that Germany and Russia are effectively conspiring to dodge the EU's energy rules and build two huge new gas pipelines into Germany. Most of this Russian gas will transit Germany and be consumed in other EU states – including, it is likely, the UK. Since the British government has a clear policy of avoiding reliance on Russian gas supplies, these developments merit close examination both in London and Brussels.

In June at the International Economic Forum in Saint Petersburg an announcement was made which received little attention outside of energy circles. Gazprom revealed that it would build two new gas pipes into Europe along the existing North Stream (also known as Nord Stream) route through the Baltic Sea to Germany.

This struck some observers as odd, since the EU's surprisingly stringent energy regulations (notably the 'Third Energy Package') effectively forbid new Russian pipelines on EU territory. The measures are designed to lower Europe's dependency on Russian gas, and therefore



Russia's ability to blackmail European states. Only by acting in concert can Europe ensure that this succeeds, and in particular that its eastern members such as Poland, Hungary and the Czech Republic are not left exposed to Russian intimidation.

How could Gazprom, as well as its partners Shell, Wintershall, E.on, ENGIE (formerly known as GDF Suez) and OMV of Austria, be so confident that they could overcome this obstacle? This was all the more puzzling since the German government said nothing on the subject. The project is not small: it will provide 55 billion cubic metres/year (bcm), or around half of the UK's annual gas consumption. This is in addition to the existing 55bcm from the first two pipes.

In July a number of German sources in the foreign ministry, the energy industry and the Chancellery said that the pipeline would indeed go ahead, but that the Ukraine crisis meant that it was not the right time to say so in public.

So it should have come as no surprise at all that in late October the German energy minister Sigmar Gabriel told Vladimir Putin in Moscow that Germany was ready to front the pipeline in order to circumvent EU rules and avoid 'political interference'. What was rather surprising, however, was that a transcript of the meeting was posted on the Kremlin website.¹ There is simply no way that Mr Gabriel would have made these frank and conspiratorial remarks in public; for whatever reason, the Kremlin chose to release the transcript unilaterally. It makes fascinating reading, both in content and tone:

Mr Miller [deputy chairman of Gazprom] and Mr Matthias Warnig [CEO of North Stream] will continue to pursue Nord Stream 2 project. This is in our interests; but it is not just in Germany's interests – it is a very interesting project even beyond Germany's borders.

What's most important as far as legal issues are concerned is that we strive to ensure that all this remains under the competence of the German authorities, if possible. So if we can do this, then opportunities for external meddling will be limited. And we are in a good negotiating position on this matter.

And in order to limit political meddling in these issues – you are, of course, aware, this is not just a formality – we need to settle the issue of Ukraine's role as a transit nation after 2019. There are technical reasons for this: you know that Ukraine's gas transportation system is not in very good state. And, of course, the financial and political role it will play for Ukraine, as will the backflow of gas.

As regards everything else, I believe we can handle it. What's most important is for German agencies to maintain authority over settling these issues. And then, we will limit the possibility of political interference in this project.

¹ <http://en.kremlin.ru/events/president/news/50582>



There are many interesting points here. One is the implication that the gas will mostly be consumed 'beyond Germany's borders', making Germany a transit state. This will come at the expense of existing transit across Ukraine, whose 'gas transportation system is not in very good state'. Ukraine's loss of energy security and transit fees will be Germany's gain.

For Russia, North Stream II is of great strategic importance. Russia's energy pivot to China is stalling in the face of low energy prices, and it desperately needs to develop the vast and reliable European market in order to continue the exploitation and development of the Siberian gas fields. Germany's assistance in this matter will be greatly appreciated.

But it is the largely identical second and the final paragraphs that are most important. Mr Gabriel is telling Putin that German companies and agencies will take over ownership of the pipeline on EU territory, so that the EU's energy policy will be circumvented and 'external meddling' will be neutralised. It is nothing less than a German-Russian conspiracy.

At the practical level, this is already happening. On 12th November Gazprom announced that its stake in the project vehicle, Nord Stream 2 AG, fell from 51% to 50%,² with ENGIE gaining the one percentage point. The news came just two weeks after the Gabriel-Putin meeting. It may well be that in the coming months Gazprom's share will fall yet further, perhaps by 20 percentage points or more, meaning that the Russian company can then be presented as one of a series of investors, rather than the controlling party, thus neutralising EU regulation. But thanks to the understanding discussed in Moscow, Gazprom will remain a power behind the company and, crucially, the company's leverage over the European gas market will be significantly increased.

There is a strong sense of *déjà vu* in all of this. When the first North Stream pipeline was agreed in the early 2000s, Chancellor Gerhard Schröder was in office, and was among the project's strongest advocates. Just three months after leaving office, Mr Schröder accepted the post of chairman of the shareholders' committee of Nord Stream AG, a post he still holds. Mr Gabriel, like Mr Schröder and the current foreign minister Frank-Walter Steimeier, is a member of the staunchly pro-Russian SPD. While Mrs Merkel must have approved the overall policy on North Stream, she is unlikely to look kindly on the tone of Gabriel's comments. In the light of the Kremlin's disclosures it would be scandalous if Mr Gabriel in the future accepts a paid post with Nord Stream 2 AG, but Mr Schröder has set a precedent.

One can only imagine Mr Gabriel's face on seeing that this exchange had been released on the internet. The only explanation can be that the Russians were frustrated that Germany would not declare its co-operation, and so they decided to bring it into the light of day. Aside from helping to make the North Stream extension seem irreversible, it has the useful effect of driving a wedge between Germany and its EU and NATO partners. Poland, in particular, will feel that this is yet further evidence of disturbing collusion between Russia and Germany; in 2006 the

² <http://www.nord-stream2.com/press-info/news/gazprom-and-engie-modify-nord-stream-2-shareholdings-equalizing-eu-russian-ownership-6/>



then-Polish defence minister Radek Sikorski said of the first phase of North Stream, 'Poland has a particular sensitivity to corridors and deals above our head. That was the Locarno tradition, that was the Molotov-Ribbentrop tradition. That was the 20th century. We don't want any repetition of that.'

Moving on from energy, Mr Gabriel had this to say about the Ukraine conflict and the implementation of February's Minsk II accords:

And I feel that this is an enormous opportunity to overcome the conflict, especially since there are parties involved in Europe and the US who benefit from the continuation of this conflict, rather than its resolution. So we must do everything and use all our opportunities to overcome this conflict.

There are also parties in Russia – namely Mr Putin and his circle – who 'benefit from the continuation of this conflict', but Mr Gabriel prefers to denounce Germany's allies than to raise this point. While Russia annexes and invades Ukraine and mounts air strikes on US allies in Syria, Germany is making private deals with Russia to circumvent the EU energy strategy – a strategy that is intended to ensure the security and independence of European states. It might be viewed as another step in the 'Schröderization' of Europe.

This rather peculiar disclosure has some worrying implications for European security and indeed for the EU itself. The best argument for the existence of the EU is to provide joint action on serious important matters like energy policy, border control, security and trade.

Yet Germany, the strongest economic and political actor in the Union and its greatest exponent, is choosing to follow its own, contrary (and increasingly erratic) course on energy policy, just as it has with immigration.



THE AUTHOR

Neil Barnett has 15 years' experience as a journalist in Central and Eastern Europe (CEE) and the Middle East, writing for the Telegraph, the Spectator and Jane's Defence Weekly. He covered the 2004 Orange revolution in Ukraine and the conflict in Iraq and has written a biography of Tito. He now runs Istok Associates, a risk consultancy specialising in CEE and the Middle East.

DISCLAIMER: The views set out in the 'Briefing Note' are those of the individual author only and should not be taken to represent a corporate view of the Centre for Policy Studies

Follow CPS:



Forward to a friend