

Russia, Germany launch Nord Stream pipeline

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On November 8, Russian president Dmitry Medvedev and German chancellor Angela Merkel launched the first line of the new Nord Stream pipeline. It will deliver gas directly from Russia to Germany—bypassing traditional transit countries Ukraine, Poland and Belarus—and from Germany on to other western European countries.

The pipeline goes from the Russian city Vyborg in the Leningrad region, then under the Baltic Sea, to Greifswald in Germany. A second line will be launched at the end of 2012. The total capacity of Nord Stream is expected to eventually reach 55 billion cubic meters of gas per year. The pipeline's majority shareholder is the Russian energy giant Gazprom. The German companies Wintershall and E.ON are the largest minority shareholders in the pipeline, with a share of 15.5 percent each. The other shareholders are GDF, a French electricity company, and the Dutch gas corporation Gasunie, which each holds a share of 9 percent.

The Nord Stream project is of high political importance. It is one step closer towards a strategic alliance between Russia and Germany that, if it developed, would create a potential alternative to US-dominated security alliances in Europe. For this reason, the pipeline project and broader corporate and diplomatic arrangements have been, and will be, closely followed in Washington and capitals and throughout Europe.

By securing significant energy supplies from Russia, Germany becomes more independent from energy sources in the US-dominated Middle East and the Persian Gulf region. For Russia, Germany still remains one of its key partners both economically and politically. The pipeline, a long-term project spanning over three decades and involving a significant mutual dependence, is a means of strengthening and expanding

relations between the most politically and economically important powers in Europe.

After the gas dispute between Russia and the Ukraine in the winter of 2009, during which gas supplies from Russia to Europe via Ukraine were disrupted, the project of Nord Stream was promoted more vigorously. Gerhard Schröder was reported saying in the summer of 2011 that the unacceptably high dependence on transit via Ukraine was “the real reason” for the project.

In March 2011, Germany sided with Russia, China and Brazil when abstaining from voting on the UN resolution. The NATO invasion of the oil-rich country was led by France, Britain and the US and aimed directly at undermining the influence of Peking, Moscow and Berlin in North Africa.

The proposed phase-out of nuclear energy use Germany by 2020, too, might lead to closer economic ties with Russia, as it will increase German dependence on energy imports. Around 40 percent of German gas imports come from Russia; this figure is expected to increase over the coming years.

On November 14, the *Süddeutsche Zeitung* reported that Russia's minister for energy, Sergey Shmatko, offered investments in the amount of €10 to €15 billion into the building of about a dozen power plants in Germany.

Russia's increasing engagement in the German market is not seen without suspicion on Berlin's part. While endorsing the idea of a closer economic partnership, Berlin flatly refused Shmatko's proposal for a bilateral accord. The ministry of economy also announced that any further steps by the Russian energy giant Gazprom on the market would be closely scrutinised.

This remark is aimed at Gazprom's negotiations with RWE, which might result in the first-ever buy-in by

Russian investors in a large German corporation. In November, Gazprom also purchased the German electricity provider Envacom, its first penetration of European electricity markets.

The announcement of Putin's candidacy in the presidential elections in 2012, moreover, was met with marked restraint by Chancellor Merkel. The German economic commission appeared to be more enthusiastic.

Russia's increasing orientation towards Europe and Germany, in particular, is partly due to its recent failures to secure contracts and establish closer relations with China and gain a foothold on Asian energy markets. Gazprom has also come under pressure from numerous countries, including Poland and Turkey, that demand price cuts and changes of the terms of their current contracts with Gazprom.

The European market accounts for 80 percent of Russian energy exports, and it remains an important possible strategic ally against both the US and China. Russo-European tensions have been rising over the past months, however.

True, the circumvention of Ukraine and Poland, guarantees to a certain extent more secure gas deliveries from Russia—western European countries wouldn't be harmed by any conflicts between the Kremlin and Kiev, as they were in 2005. However, the EU also fears the additional leverage Gazprom thereby gains in any negotiations with Kiev. Gazprom is currently negotiating with Kiev over gaining large shares in the country's pipeline network.

After the conviction of Yulia Timoshenko in October, Euro-Ukrainian relations have markedly cooled. Some members of the EU, particularly Poland, fear that the crisis-ridden Ukraine might eventually succumb to the economic pressure exerted by Russia and "go over" to the Kremlin.

Furthermore, the opening of Nord Stream makes the realisation of another pipeline project of the Kremlin, South Stream, more probable. This pipeline would transfer gas from Asia to Europe, again bypassing Ukraine, Belarus or Poland. Neither Brussels nor Berlin has particularly encouraged the project so far. The rival project Nabucco, however, which is supposed to deliver gas from Asia via Turkey, avoiding Russia, is about to fold, as no contracts with gas suppliers have yet been signed.

In October, the European Commission raided several offices of Gazprom subsidiaries in western Europe, accusing Gazprom of violating the rules of competition and building cartels. Prime Minister Vladimir Putin publicly criticised the investigations.

Russo-European conflicts threaten to sink the project. Most European countries are reluctant to receive their gas from Nord Stream, as they fear the dependence on Russian gas supplies. Currently, only Germany and Czechoslovakia signed contracts to receive gas from the pipeline.

Many analysts doubt, therefore, that the pipeline will eventually be used to the full: the pipeline, though designed as a long-term project running for about 50 years, might not pay off after all. The construction of Nord Stream cost \$10 billion, almost double initial price estimates.

Furthermore, when the project was first undertaken, shareholders expected a significant increase in gas demand in Europe. Now, however, some analysts are changing their projections. A recent study by the business consultancy A. T. Kearney predicts that after an increase in gas prices of about 30 to 40 percent in the next four years, demand for gas will fall drastically in 2015, leading to lower prices and a supply glut.

More broadly, European energy demand will ultimately depend upon economic developments in Europe—where all events now point to deepening crisis and recession.

Whatever the divisions between Europe and Russia, and Berlin and Moscow, the possibility of an alliance of the major European powers with the Kremlin remains a serious threat to the White House and an important factor in world politics.



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