



THE INKERMAN GROUP

## **IS NORD STREAM 2 ABOUT TO FOLLOW SOUTH STREAM?**

As the deadlines for completion approach, will Nord Stream 2 and Turk Stream secure Russian gas prevalence in Europe?

Last month, Nord Stream 2 AG announced that 1,000 kilometres of pipelines, or 70% of the total length, had been laid in Swedish, Finnish and German waters. Nord Stream 2 is set to be in operation before the end of 2019. Once working, it will be transporting Russian gas directly from Russia to Germany, bypassing Ukraine and Poland, whose pipeline system used to play a vital part in the transit of gas between Russia and its Western European customers. The pipeline will also expand the capacity for Russian gas flowing into Europe. For this reason, the existence of the pipeline faced some opposition, both from Europe and the US. Washington threatened to impose sanctions on companies involved in the construction, while many Eastern European countries, such as the Baltic states and Poland, have gone to great lengths to secure alternatives to Russian supplies in their energy mix. Nord Stream 2, therefore, appears to undermine efforts to limit Russian influence in Europe and goes against the idea that Russia is no longer a reliable partner, as some MEPs, who call for further sanctions on Russia, have suggested.

Denmark's continuous delay of granting permits for the pipeline could be seen as a signal that Nord Stream 2 may play out like South Stream – the Black Sea pipeline, which was cancelled well after the project was under construction, due to issues with EU regulation on unbundling. In both cases there were concerns that Gazprom's ownership of both the gas and the pipeline hinders competition and results in unfair pricing. Unlike South Stream, however, Nord Stream 2 has been given a chance to adapt. The EU agreed on stricter regulation of the pipeline in February 2019, but none of the conditions are likely to prevent its completion. Denmark also confirmed that its silence on permits did not equate to a lack of desire to participate in the project but was instead related to environmental concerns. Denmark is extremely unlikely to block the pipeline and, if it does, it would only force a shift in the route. Yet, Copenhagen would be missing out on transit fees and possibly damaging its relationship with Germany. Berlin is the country which gains the most out of the project and remains Russia's most reliable energy partner in Europe. Despite disagreements on other fronts and the desire to express political solidarity with Ukraine, Germany is highly unlikely to give up on Russian gas, especially when it seeks to phase out nuclear and coal energy. Due to age, Ukrainian and Belarussian pipelines currently in use are likely nearing the end of their lifespan and require maintenance. The need for new routes, provided by Nord Stream 2 and Turk Stream are not only a matter of politics and energy security, but of technical necessity.

As Europe's domestic energy production declines, the prospect of Russian gas prevalence is not as dangerous in economic terms as it might appear. The EU has been allowed to impose stricter regulation on the pipeline and have taken a more active part in the project due to the pipeline's location in European waters and execution by European companies. Other countries, such as the Czech Republic stand to benefit as potential transit countries, with gas likely to flow to the rest of Europe from the northwest. Russian gas is also expected to flow into Europe from Turk Stream, thus forcing Europe to not only deal with Moscow, but with Ankara. Nord Stream 2 works in

Europe's favour mostly because it provides it with route diversification. Until domestic production of renewable energy is at such a level whereby the demand for exports decreases, Europe will need Russian gas. US discontent is predictable – if the cheaper pipeline gas for Russia became unavailable or undesirable, American LNG would be spreading more quickly in Europe, with the European customer paying the ultimate bill. Despite the prevalence of Russian gas arriving from various pipelines, there will be space for other sources on the European energy market. The continent's domestic production is slowing, while demand for diversification of the energy mix and a popular preference for cleaner energy is growing.

*For more info on The Inkerman Group's Global intelligence monitoring service, 24/7 Operations Centre, and risk mitigation advice including operational deployments, please contact: [operationscentre@inkerman.com](mailto:operationscentre@inkerman.com)*

OPERATIONS CENTRE  
3-4 ELWICK ROAD  
ASHFORD KENT TN23 1PF  
UNITED KINGDOM

T+ 44 (0) 1233 646940  
F+ 44 (0) 1233 646840  
[enquiries@inkerman.com](mailto:enquiries@inkerman.com)

THE INKERMEN GROUP  
1 CORNHILL  
LONDON EC3V 3ND  
UNITED KINGDOM

T+ 44 (0) 20 7589 5338  
F+ 44 (0) 20 7589 5339

THE INKERMEN GROUP  
AM MEERKAMP 17-19  
40667 MEERBUSCH  
DUSSELDORF  
GERMANY

T+ 49 (0) 2132 968 5151  
F+ 49 (0) 2132 967 9582

REG IN ENGLAND NO: 3085655  
VAT REG NO: 787297952  
DATA PROTECTION: Z6511514