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European Languages

زبانهای اروپایی

12 April 2018

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13.04.2018

German-US tensions grow over expansion of Nord Stream pipeline

With a potential trade war looming between the EU and the United States, the conflicts within the EU, and between Germany and the US over the planned expansion of the Russian-German gas pipeline Nord Stream is escalating. Potential US sanctions against the project could dramatically intensify the economic and political tensions between the United States and Germany, in particular.

Since 2011, the Nord Stream pipeline, which has a capacity of 55 billion cubic meters per year, has been delivering gas from Russia directly to Germany via the North Sea, circumventing traditional transit countries like Ukraine and Belarus. In the summer of 2015, the Russian gas company Gazprom announced the construction of additional pipelines, known as Nord Stream 2.



The two Nord Stream pipelines currently in operation

Apart from Gazprom, the project involves Wintershall, a subsidiary of the leading German chemical company BASF, the German energy company Uniper, as well as the French firm

Engie (formerly GDF Suez), Austria's OMV, and the British-Dutch Shell. Construction of the \$11.5 billion project is scheduled to begin in late 2018 and be completed by 2019. Gas deliveries are set to start in 2020.

The project has, from the very beginning, sparked political tensions within the European Union as well as between Germany and the United States. Several Eastern European states, especially Poland and the Ukraine, as well as the United States, have opposed the project with growing hostility as a cornerstone for a German-Russian axis and a means to economically leverage Eastern European EU member states, which remain highly dependent on Russian gas deliveries and, as is the case with Ukraine, on revenues from Russian gas transit to the EU.

Now, the conflict has resumed renewed force amid conditions of an escalating war drive against Russia and a looming trade war between the EU and the United States.

In recent weeks, both the Finnish government and German authorities have given the green light to the construction of the pipeline. Permissions still need to be given by Finland (for underwater construction), Russia, Sweden and Denmark. According to Gazprom, the project is proceeding as planned.

Following the announcement by Finland that it would allow for the construction of Nord Stream 2 in its Exclusive Economic Zone, a member of the Ukrainian Rada declared the pipeline to represent "a military threat," warning that Russia would use it as an opportunity to step up its military involvement in the ongoing civil war in East Ukraine. In March, Ukraine, along with Slovakia, Romania, Poland, and several other EU members, signed yet another statement urging the EU to halt the project.

The Ukraine is set to lose significant amounts of money. According to an expert questioned by *Russia Today*, only 15 billion cubic meters of gas would pass through Ukraine annually if Nord Stream 2 were built, down from currently 90 billion cubic meters per year.

The new German coalition government has essentially backed the project, while the European Commission announced that it could not support it, arguing that it violated the goals of diversifying the EU's energy supplies.

Russia has a high stake in the project. It is not only important politically under conditions of growing imperialist encirclement, which have propelled the Kremlin oligarchy to frantically search for allies in Europe, and especially Germany, but also on an economic level. Revenues from gas and oil exports are still a major component of the Russian

budget. Attempts in recent years to expand exports to South East Asia, and especially China, have yielded limited results.

The European gas market thus remains critical for Russian companies like Gazprom. Well aware of the economic dependence of Russia on European gas revenues, the US launched gas exports to Europe in 2016, which, combined with other competitive pressures on Gazprom, have forced the Russian company to dramatically lower its prices—with significant implications for both the company and the Russian budget. Nevertheless, the company was able to increase exports to Europe, which reached a record 190 billion cubic meters in 2017.

However, the country expected to benefit the most economically from Nord Stream 2 is Germany. Through the Nord Stream pipelines, the country would become a central hub for gas deliveries in much of Europe, and particularly in the East. Such control over critical energy supplies always also means significant political leverage.

On April 3, US president Donald Trump openly attacked Germany's role in the project, stating at the White House:

“Even now, Germany is paying 1 percent [of its GDP for military expenses] and they're not even paying the full 1 percent. Germany hooks up a pipeline into Russia, where Germany is going to be paying billions of dollars for energy into Russia. And I'm saying, 'What's going on with that?'"

In a telephone interview with *Bloomberg*, Roderich Kiesewetter, a CDU member of the German parliament's foreign affairs committee, retorted that US interests would not dictate Europe's energy policy. Timon Gremmels, a Social Democratic member of the German parliament, interpreted Trump's comments as part of his efforts to launch a trade war with Europe, saying: “After his unsuccessful attempt to impose punitive tariffs on steel and aluminum in Europe, he ignites the next stage of escalation in order to safeguard national export interests.”

With his position on Nord Stream 2, Trump is not alone in the US political establishment. A commentary in March by the Atlantic Council, an influential Washington think tank, encouraged the White House to prevent the project. The article cited Sanda Oudkirk, the deputy assistant secretary for energy diplomacy at the US Department of State's Bureau of Energy Resources, who described the expansion of Nord Stream as “a decision that has massive geopolitical import. Because it has such a potentially large impact on the national security of some of our largest partners in the world, it has an impact on our national security.”

Earlier in March, 40 US senators wrote a letter to Treasury Secretary Steven Mnuchin, stating their opposition to the creation of Nord Stream 2 and urging Mnuchin to help prevent its construction by resorting to sanctions.

Such sanctions would be based on the Countering America's Adversaries Through Sanctions Act (CAATSA) which designates Russian energy export pipelines as a potential threat. The US president could, based on this act, sanction non-US persons involved in the project, such as Gazprom and the European companies involved in the project, which count among the continent's leading energy companies and the policies of which are often determined in close consultation with their respective national governments.

Such a step would be tantamount to a declaration of economic warfare on some of Europe's largest energy companies.

The major geopolitical and economic issues raised by the pipeline are dividing the EU and the national bourgeoisies, especially in Germany where conflicts over the project run across all party lines.

In March, German members of the European parliament from the liberal FDP, the German Green party and the ruling Christian Democratic Union (CDU) published a statement in the leading daily *Frankfurter Allgemeine Zeitung* calling, especially upon the Social Democratic Party (SPD), to prevent the project as a threat to European unity. Among those who signed the statement were Manfred Weber and Norbert Röttgen (both CDU).

Several CDU and SPD members of the German parliament (Bundestag) responded to this statement in another contribution to the *Frankfurter Allgemeine Zeitung*, defending the project and rejecting US interference. Arguing that Russia's position on the gas market had already been weakened, the parliamentarians stated that Nord Stream 2 did not contradict the goals of a European Energy Union and would further competition.

Further, the article indicated that the project could be used to pressure Ukraine into making the "reforms" of its gas transport system that German business has long advocated. The article concluded with a fairly sharp statement about US interference in the project. Writing that the US was pursuing its own economic interests, the article said: "It is, however, not the job of the EU to help shield American companies that try to sell their natural gas (which derives from fracking production) in Europe from potential competitors."

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