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Russia's Nord Stream 2 Natural Gas Pipeline to Germany Halted

In connection with Russia's invasion of Ukraine, the German government has suspended certification of the Nord Stream 2 natural gas pipeline. The pipeline—which has been constructed but has not become operational—would increase Russia's natural gas export capacity directly to Germany, bypassing Ukraine, Poland, and other transit states. Successive Congresses and U.S. Administrations have opposed Nord Stream 2, reflecting concerns about European dependence on Russian energy and Russian aggression in Ukraine. Previously, German officials portrayed the pipeline as an important natural gas corridor as Germany is ending nuclear energy production and reducing coal use.

On February 22, 2022, German Chancellor Olaf Scholz directed his economics ministry to withdraw a binding opinion issued in October 2021 stating that Nord Stream 2 did not pose a threat to supply security. The opinion was a precondition for the pipeline certification process to begin. Without the opinion, the certification process cannot continue, and without certification, the pipeline cannot become operational.

On February 23, the Biden Administration announced economic sanctions on Nord Stream 2 AG, the pipeline's Russian-owned, Swiss-based parent company, and its chief executive officer (CEO), a German national. The Administration also imposed visa bans on the company's corporate officers. News reports in early March 2022 indicated that Nord Stream 2 AG was considering filing for insolvency.

Background

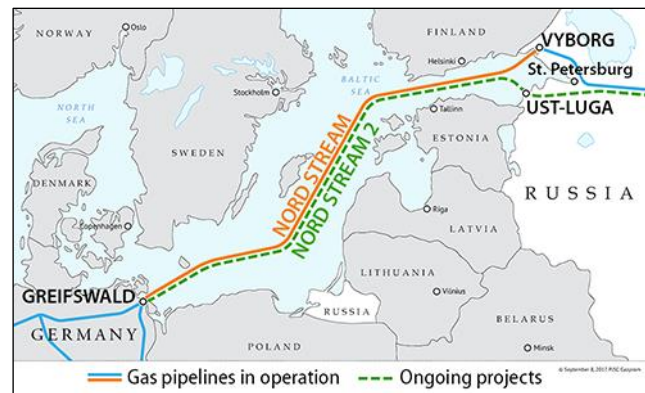
Nord Stream 2 lies alongside the Nord Stream 1 pipeline, in operation since 2011. Nord Stream 2 (consisting of two lines) would double the total capacity of the Nord Stream system from 55 billion cubic meters (BCM) to 110 BCM per year. The pipeline is owned by the Russian state-owned energy company Gazprom. About half the cost was reportedly financed by five European companies: Engie, OMV, Shell, Uniper, and Wintershall.

Pipeline construction was initially suspended in December 2019, after the passage of U.S. legislation establishing new sanctions related to the pipeline, but resumed one year later. Despite subsequent U.S. sanctions on 25 Russian-related entities and vessels, Gazprom announced in September 2021 that it had completed pipeline construction. Additional steps, including certification by German authorities, are required before the pipeline can transport gas. In November 2021, Germany's energy regulator announced it was suspending the certification process pending establishment of a subsidiary to run the pipeline on German territory. At

the time, analysts expected certification could be completed in the second half of 2022.

Although the European Union (EU) has articulated an ambitious energy diversification strategy, some European governments have not reduced dependence on Russian gas, which accounted for about 40% of EU natural gas imports in 2021. Factors behind reliance on Russian supply include diminishing European gas supplies, commitments to reduce coal use, Russian investments in European infrastructure, and prior perceptions of Russia as a reliable supplier. Russia's invasion of Ukraine has prompted the EU and its member states to redouble energy diversification efforts. In early March 2022, the European Commission (the EU's executive agency) proposed plans to cut EU dependence on Russian gas by two-thirds in 2022 and end EU reliance on Russian energy resources “well before 2030.”

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

Previous supporters of Nord Stream 2, including the German and Austrian governments, maintained that the pipeline would enhance EU energy security by increasing the capacity of a direct and secure supply route. German officials said they supported the development of infrastructure to ensure that gas can be transported across Europe once it reaches Germany. They stressed that Germany supports broader European energy supply diversification efforts, including construction of new liquefied natural gas terminals in northern Germany.

Opponents of the pipeline argued that it would give Russia greater political and economic leverage over Germany and other countries that are dependent on Russian gas, leave some countries more vulnerable to supply cutoffs or price manipulation by Russia, and increase Ukraine's vulnerability to Russian aggression. They pointed, for example, to Russia's reluctance in late 2021 to increase gas flows to Europe amid renewed demand and rising prices.

Impact on Ukraine

In recent years, Russia has sought to reduce the amount of natural gas it transits through Ukraine. Before Nord Stream 1 opened in 2011, about 80% of Russia's natural gas exports to Europe transited Ukraine. In 2019, about 45% of these exports transited Ukraine.

In December 2019, after the United States established new sanctions related to Nord Stream 2, Gazprom and the Ukrainian state-owned energy company Naftogaz renewed a contract for the transit of Russian natural gas to Europe from 2020 to 2024. The contract provided for transit of at least 65 BCM in 2020 and 40 BCM a year from 2021 to 2024. In 2020, Russia shipped about 56 BCM to Europe via Ukraine, although Ukraine reportedly received the full contracted amount of \$2.1 billion in transit revenues.

If Nord Stream 2 became operational, observers expected Russia to further reduce gas transit through Ukraine. This would not necessarily increase Ukraine's vulnerability to energy supply cutoffs; Ukraine stopped importing natural gas directly from Russia in 2016. It would lead to declines in transit revenues, however. Before Russia's new invasion of Ukraine, some observers also expressed concern that Nord Stream 2 would increase Ukraine's strategic vulnerability vis-à-vis Russia.

U.S. Sanctions

Successive Congresses and U.S. Administrations have opposed Nord Stream 2 since the pipeline's inception. Congressional efforts to block the pipeline have focused on sanctions, including through progressively more stringent sanctions legislation enacted in 2017, 2019, and 2020.

Section 232 of the Countering Russian Influence in Europe and Eurasia Act of 2017 (P.L. 115-44, Title II) authorizes sanctions on those who invest at least \$1 million (or \$5 million over 12 months) or provide goods, services, or support valued at the same amount for the construction of Russian energy export pipelines (22 U.S.C. §9526). On January 19, 2021, the Trump Administration imposed sanctions on the Russian vessel *Fortuna*, which Gazprom used to complete construction of Nord Stream 2, and its corporate owner KVT-RUS, pursuant to Section 232.

Additionally, the Protecting Europe's Energy Security Act of 2019, as amended in 2020 (PEESA; 22 U.S.C. §9526 note; P.L. 116-283, §1242), establishes sanctions on foreign persons whom the President determines have sold, leased, provided, or facilitated the provision of vessels for the purpose of subsea pipe-laying activities related to the construction of Nord Stream 2 and TurkStream (another Russian pipeline that supplies natural gas to Europe) or any successor pipeline. As amended, PEESA also targets those who provide underwriting services or insurance or who provide certain upgrades or installation services. Sanctions do not apply to nonbusiness entities of the EU, member states, or a few other non-EU governments.

On February 22, 2021, the Biden Administration identified *Fortuna* and KVT-RUS as also subject to sanctions under PEESA. Subsequently, the Administration designated another 16 vessels and seven entities under PEESA or related Executive Order 14039. At the same time, the

Administration waived the application of new sanctions on Nord Stream 2 AG, its CEO, and other corporate officers. Many Members of Congress urged the Administration to terminate the waiver and impose additional sanctions to attempt to prevent the pipeline from becoming operational.

The Administration terminated the waiver and imposed sanctions on February 23, 2022, the day before Russia launched its military attack.

Evolving U.S. and German Policy

The Biden Administration has called Nord Stream 2 a "bad deal" and said U.S. opposition to the pipeline is "unwavering." Nevertheless, prior to Germany's suspension of the certification process, U.S. officials suggested the Administration's ability to prevent the pipeline from becoming operational was limited, even with additional sanctions. They also expressed concern that additional U.S. sanctions could have jeopardized U.S.-German and U.S.-European cooperation in other areas, including countering Russian aggression. Accordingly, the Administration's diplomatic efforts focused on helping Ukraine maintain its leverage as a gas transit country.

Germany's decision to prevent Nord Stream 2 from becoming operational followed a July 2021 joint U.S.-German statement on energy security in which Germany committed to take action against Russia (including possible sanctions) if Russia used its energy resources as a weapon or committed further aggression toward Ukraine, to push for an extension of Ukraine's gas transit agreement with Russia, and to invest in energy projects in Ukraine. At the time, critics of the agreement questioned whether Germany had the ability or political will to fulfill these commitments.

Prior to suspending Nord Stream 2's certification process, German officials did not say explicitly they would cancel the pipeline project. They did say, however, that they would uphold the pledge made in the July 2021 joint statement "to limit Russian export capabilities to Europe in the energy sector, including gas, and/or in other economically relevant sectors" should Russia "commit further aggressive acts against Ukraine."

On February 7, 2022, at a joint press conference with Chancellor Scholz, President Biden said in the event of another Russian invasion, "there will [no longer be] a Nord Stream 2. We will bring an end to it." Chancellor Scholz said, "You can be sure that there won't be any measures in which we have a differing approach. We will act together jointly."

For related products, see CRS Report R42405, *European Energy Security: Options for EU Natural Gas Diversification*; and CRS In Focus IF11177, *TurkStream: Russia's Southern Pipeline to Europe*.

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