

ALERT

GAS FRONTLINE: NORD STREAM PIPELINE IN A NEW PHASE OF THE RUSSIAN AGGRESSION

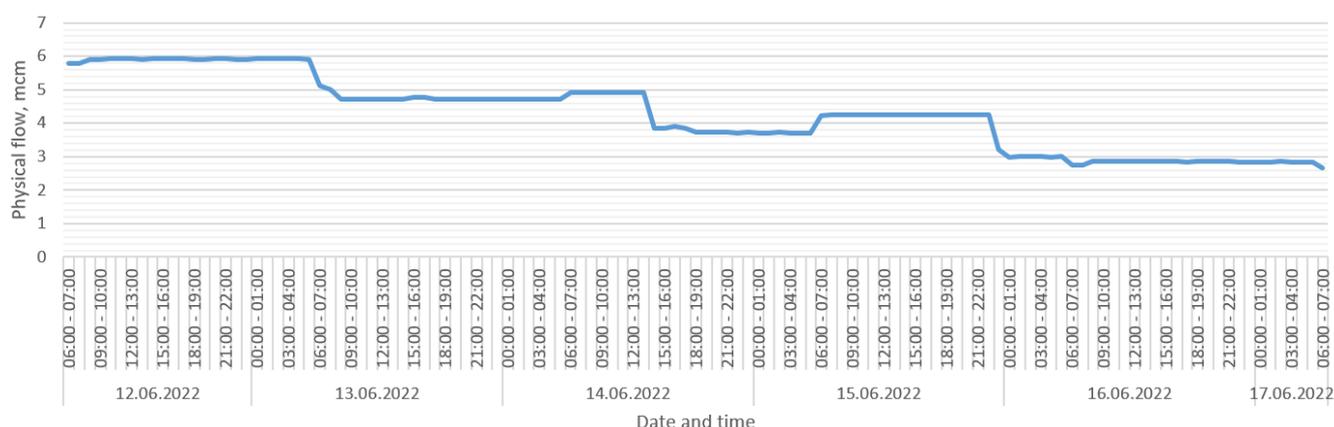
When Russia wages war, then missiles, bombs, and rockets are accompanied by energy weapons. It is the case for the current warfare Russia pursues against Ukraine and the whole democratic world. The Kremlin threatens Europe with energy means, and Nord Stream gas pipeline is one of Russia’s last resorts to gain a tactical advantage on the European energy frontline. We explain how and why this is happening and offer what Europe could counterpose.

What is happening with the Russian gas supplies via Nord Stream?

On June 14, the day after the German regulator [communicated](#) on annual summer maintenance for the pipeline, Gazprom [announced](#) that, out of 167 mcm/day of planned supply, Nord Stream has the technical feasibility to supply only 100 mcm/day. The change in the operation regime was explained “due to the failure by Germany’s Siemens to return gas compressor units (GCU) in due time after the repair, the expiration of time between maintenance for GCUs, and the malfunctions detected in engines” (with the respective notification by Rostekhnadzor, a government agency responsible for industrial safety), thus only three GCUs (out of [eight](#)) at the Portovaya compressor station (CS) could operate. According to media [reports](#), the GCUs were sent to Canada for maintenance, and now Siemens has no way to return the equipment due to sanctions.

The day later, the company [notified](#) that one more Siemens GCU at the Portovaya CS would be shut down due to the technical conditions, which caused the new daily maximum for the Nord Stream pipeline to be 67 mcm starting from June 16. Unilaterally and without negotiation, Gazprom cut off the volume equal to 26.3% of Russia’s daily gas supply to Europe in 2021¹.

Nord Stream hourly load, June 12-17



Source: [Nord Stream Network Data](#), converted at 10.55 kWh/m³

¹ In 2021, the European Union [imported](#) an average of over 380 mcm per day of gas by pipeline from Russia.

Why does Russia reduce its gas supplies to Europe?

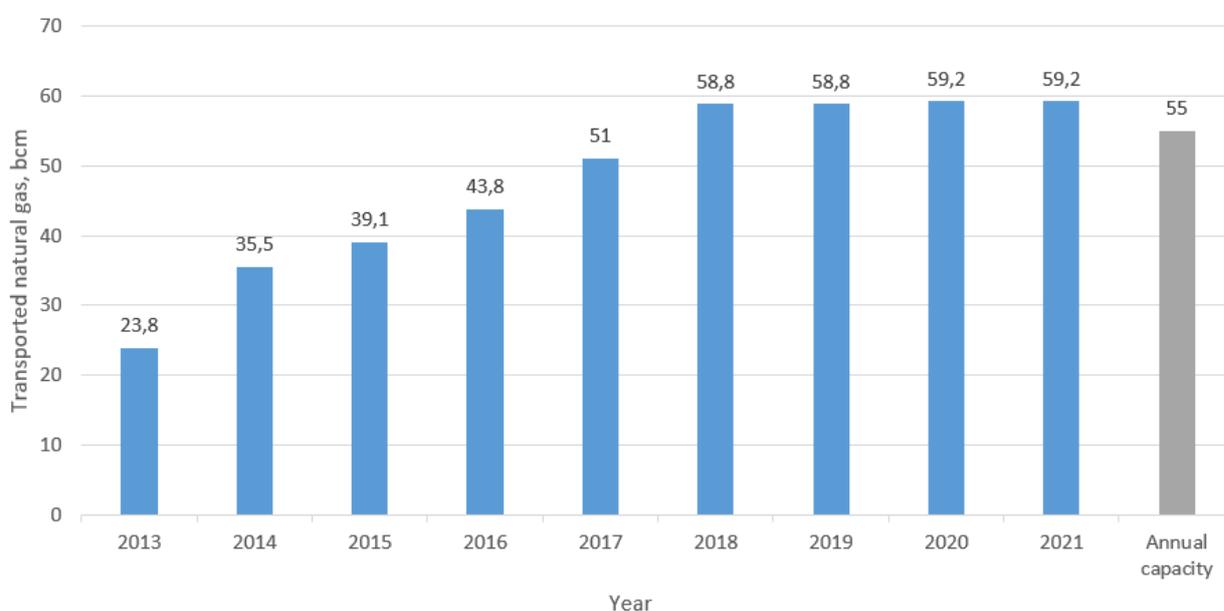
Despite decreasing its supply volumes might look like shooting itself in the foot, the increasing pressure on the European gas market experiencing shortage is a leverage to achieve several strategic objectives.

I. Gazprom uses blackmail to lift sanctions imposed on Russia

Russian officials openly say this is Western sanctions that prevented Nord Stream pipeline from working at full capacity, [threatening](#) a complete shutdown of the pipeline as supply route and a forthcoming “catastrophe for Germany”. In this way, Russia turns the blame for the dramatic drop in volumes on Western allies, developing the new geopolitical equation “fewer sanctions for Russia = more gas for Europe”.

Moreover, the current technical problems, if such, could have been caused by Gazprom as it has exploited Nord Stream beyond its capabilities. In particular, in four previous years, the volume of actual gas transportation exceeded the annual technical capacity of the pipeline.

Volume of natural gas transported through Nord Stream pipeline from 2013 to 2021



Source: [Statista](#)

II. Russia is speculating on supply volumes to further destabilize the European and global gas markets

Despite the Russian gas export volumes decreased following such developments as suspension of supplies via the Yamal pipeline and refusal to sell to companies who did not agree to payment in rubles, the export prices are on average 60% higher than last year. Combined with a surge on oil market, in May Russia [earned](#) an estimated EUR 0.88 bn/day from energy exports compared to EUR 1.1 bn/day in January-February 2022. Therefore, there is an improved tactic on how to use the European energy dependency; the Russians no longer want to increase supply volumes, only the prices on the European market. Gazprom’s management audacious [statement](#) that “Gazprom is not offended by anyone in the light of reduced supplies and higher prices” only confirms the assumption it is potentially not the last time they manipulate volumes.

III. Russia attempts to bring Nord Stream 2 back to the table

This sharp 40% drop in volumes is very noticeable, especially for Germany as the primary market for supplies via Nord Stream. Given the statements of Gazprom's CEO Alexei Miller that “Nord Stream 2 is under projected pressure, and gas supplies could have been started even now” right after these developments, Russians are going to raise the Nord Stream 2 issue on the line again, urging to restart the

certification by German authorities. Other reliable corridors to compensate for the supply, like the Ukrainian gas transmission system, are not considered by the Russian party.

IV. Russia threatens Europe ahead of the EU leaders summit on June 23-24 and the decision on Ukraine's EU candidate status

Undoubtedly, the upcoming European Council meeting is a milestone for the strategic development of events in Ukraine. Ukraine's European choice is something Russia considers an interference in its 'influence zone' and tries to take away from Ukrainians with the bloody and unjustified war. In this case, gas blackmail is supposed to intimidate Europe on the eve of a groundbreaking decision, raising the arguments of "not humiliating Russia" for achieving peace in a tangible perspective.

How should Europe react?

The sudden significant reduction of gas supply, motivated *de facto* by political reasons, is a reference case of the use of energy as a weapon and, in essence, shall be considered as an act of aggression. As an intentional export restriction, the Nord Stream supply decrease is not a lonely example of using "energy weapon" of such a type. There are numerous precedents when Gazprom refused to book available capacity and transport gas (Yamal pipeline and the Ukrainian gas system [cases](#)) and threatened to cut off gas supplies if its politically-sensitive demands were not met (as it was with [Moldova](#)).

A respective decisive reaction must be followed, as the very feeling of permissiveness and impunity encourages Russia to raise the stakes every subsequent time, as it happened after the partial consent of European companies to the [rubles payment scheme](#) proposed by Russia.

More specifically, such countermeasures can be taken:

I. Revocation of the derogation from EU regulation applied for Nord Stream pipeline

The [derogation](#) granted by the German government in 2020 lifted the obligation for Nord Stream to meet the EU requirements for unbundling and third-party access. Back in the day, the decision was made on the assumption that the pipeline would contribute to the security of supply, which clearly does not reflect the current reality. Reducing supplies and refusing to offset these volumes on another available route ([Ukrainian system](#)) is a direct threat to Europe's energy security, which is a valid reason to withdraw the derogation. This would also bring Gazprom closer to compliance with the European rules on the gas market.

II. Increase of the Ukrainian transit as a compensation for lost volumes

As of June 15, Gas TSO of Ukraine LLC (GTSOU) [reported](#) that, out of 77.2 mcm/day of booked and paid by Gazprom capacity at the Sudzha IP, the level of actual transit is max. 42 mcm/day. Therefore, Russia has at least 35 mcm of daily capacity to compensate for its technical issues with Nord Stream 1. With additional capacities provided by GTSOU – 32.4 mcm/day of booked capacity transferred from the temporarily occupied Sokhranivka IP to the Sudzha IP, and 15 mcm/day offered on the RBP auction platform – Gazprom has 82.4 mcm/day at disposal to redirect the missing gas volumes.

The fact that Gazprom has yet taken no such action demonstrates the political nature of the decision to limit gas flows through Nord Stream. It highlights the need for pressure on the company to advance the Ukrainian transit route use.

III. A staged gas embargo in the seventh sanctions package on Russia

Russia can still use natural gas supplies effectively as an energy weapon; therefore, gas embargo should be at the core of a seventh package of EU sanctions on Russia. It could be implemented in stages, e.g. with suspension of Russian LNG supplies as an immediate step and subsequent reduction of pipeline supplies,

with Nord Stream as first route to focus (as it seems to become one of the weakest spots in the European energy security architecture).

The inescapable reality is that, unless Russia plays by the rules of the civilized world, Nord Stream pipeline will share the same destiny of its stillborn twin Nord Stream 2, laying on the bottom of the Baltic Sea without use. The question is who will define the situation in European gas market – Brussels or Kremlin. The answer is determined by how decisive a united Europe would act.

IV. Accelerated implementation of the REPowerEU plan

According to the [IEA](#), out of 155 bcm of Russian gas imported annually to Europe, in 2022, 6 bcm could be compensated with an additional 35 TWh of generation from new renewable projects and 2 bcm - using the energy efficiency measures. The [REPowerEU plan](#) which builds on the full implementation of the Fit for 55 proposals provides for the EU gas demand reduction by 30% (116 bcm) by 2030, phasing out the Russian fossil fuel dependence. All the possible means - from LNG and pipeline gas diversification to behavioral change of consumers, production of biomethane and hydrogen, enhanced energy efficiency in residential and industrial sectors - should be accelerated to mitigate the shocks from the decreased Russian gas imports in mid-term, yet we believe additional short-term measures should be introduced at the European level.

V. Initiation of a new European Commission antitrust investigation into Gazprom's actions

The situation with Nord Stream itself, the dynamics of supplies in 2021 and 2022, and the problem with storage levels in 2021 leave it wide open for the European Commission to launch a new investigation on possible violation of the EU competition rules. The Commission made the first steps to recognize that Gazprom has abused a dominant position with its recent [unannounced inspections](#), and shall firmly proceed to the actual investigation, also given the complaints [pursued by PGNIG](#) and [submitted by Naftogaz](#).