



Updated December 9, 2021

Russia's Nord Stream 2 Natural Gas Pipeline to Germany

Russia's Nord Stream 2 natural gas pipeline would increase Russia's natural gas export capacity directly to Germany, bypassing Ukraine, Poland, and other transit states. Pipeline construction reportedly is complete, but the pipeline must receive certification from German regulators before it becomes operational. Successive Congresses and U.S. Administrations have opposed Nord Stream 2, reflecting concerns about European dependence on Russian energy and Russian aggression in Ukraine. Germany has been a key proponent of the pipeline, which German officials view as an important natural gas corridor as Germany is ending nuclear energy production and reducing coal use.

Despite the Biden Administration's stated opposition to Nord Stream 2, the Administration appears to have shifted its focus towards mitigating the potential negative impacts of an operational pipeline. Some critics of this approach, including some Members of Congress and the Ukrainian and Polish governments, sharply criticized a U.S.-German joint statement on energy security, issued on July 21, 2021, which they perceived as indirectly affirming the pipeline's completion. Although the statement included a German pledge to counter Russian attempts to "use energy as a weapon," it made no mention of halting progress on Nord Stream 2. Critics argue it could be difficult to hold Germany to its commitments and that the Administration should pursue additional sanctions to prevent the pipeline from becoming operational.

Background and Current Status

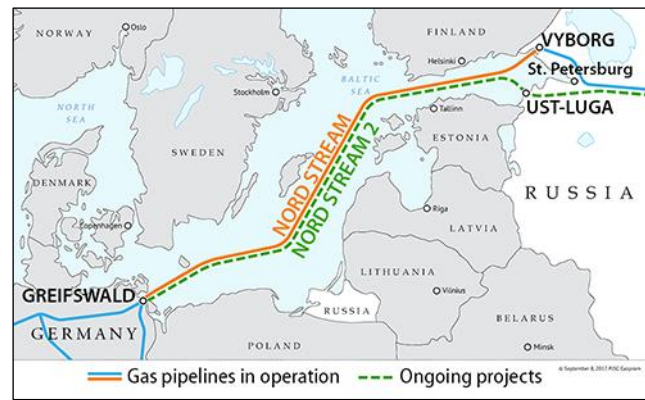
Nord Stream 2 lies alongside the Nord Stream 1 pipeline, in operation since 2011. Nord Stream 2 (consisting of 2 lines) is expected to double the total capacity of the Nord Stream system, from 55 billion cubic meters (BCM) to 110 BCM per year. The pipeline is owned by the Russian state-owned energy company Gazprom. About half the cost is 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. Barring additional delays, analysts expect certification could be completed between March and June 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 48% of EU natural gas imports in 2020. Russian gas exports to the EU were up 18% year-on-year in the first quarter of 2021. Factors behind reliance on Russian supply include diminishing European gas supplies, commitments to reduce coal use, Russian investments in European infrastructure, and the perception of many Europeans that Russia remains a reliable supplier.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

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

Opponents of the pipeline argue 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 point, for example, to Russia's reluctance in late 2021 to increase gas flows to Europe amidst 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 becomes operational, observers expect 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, and could increase Ukraine's strategic vulnerability, if reduced dependence on transit leads Moscow to act more aggressively in Ukraine.

The Ukrainian and Polish governments jointly criticized the July 2021 U.S.-German agreement, arguing that the apparent decision to forgo efforts to halt Nord Stream 2 had "created a political, military, and energy threat for Ukraine and Central Europe, while increasing Russia's potential to destabilize the security situation in Europe."

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 (CRIIEA, 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 is using 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.

PEESA provides for exceptions and waivers and authorizes the President to terminate sanctions if the Administration certifies to Congress "that appropriate safeguards have been put in place" to minimize Russia's ability to use the sanctioned pipeline project "as a tool of coercion and political leverage," and to ensure "that the project would not result in a decrease of more than 25 percent in the

volume of Russian energy exports transiting through existing pipelines in other countries, particularly Ukraine."

On February 22, 2021, the Biden Administration identified *Fortuna* and KVT-RUS as also subject to sanctions under PEESA. Since then, the Administration has designated another 16 vessels and 7 entities under PEESA or a related Executive Order 14039. At the same time, the Administration has waived the application of new sanctions on Nord Stream 2 AG, its chief executive officer, and other corporate officers (Nord Stream 2 AG is a Swiss-based company established by Gazprom).

Many Members of Congress have urged the Administration to impose additional sanctions to attempt to prevent the pipeline from becoming operational. A House-passed version of the National Defense Authorization Act for FY2022 (H.R. 4350, Section 1325) would have removed the President's ability to waive sanctions on national interest grounds and required sanctions on entities (and their corporate officers) responsible for planning, constructing, or operating Nord Stream 2.

Evolving U.S. Policy

The Biden Administration has called Nord Stream 2 a "bad deal" and said U.S. opposition to the pipeline is "unwavering." Nevertheless, U.S. officials have suggested the Administration's ability to prevent the pipeline from becoming operational is limited, even with additional sanctions. They also have expressed concern that additional U.S. sanctions could jeopardize U.S.-German and U.S.-European cooperation in other areas, including countering Russian aggression. Accordingly, the Administration's diplomatic efforts increasingly appear to be aimed at helping Ukraine maintain its leverage as a gas transit country even if the pipeline becomes operational.

In the July 2021 U.S.-German statement, Germany committed to take action against Russia, including possible sanctions, if Russia uses its energy resources as a weapon or commits 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. Critics of the agreement question whether Germany will have the ability or political will to fulfill these commitments, particularly additional EU sanctions on Russia which would require the support of all 27 EU member states.

In December 2021, Under Secretary of State Victoria Nuland told Congress that if Russia were to further attack Ukraine, "our expectation is that the pipeline will be suspended." Media reports suggest that the new German government has signaled a willingness to hold up certification of the pipeline in the event of an attack.

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*.

Paul Belkin, Analyst in European Affairs
Michael Ratner, Specialist in Energy Policy
Cory Welt, Specialist in Russian and European Affairs

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.