

THE DISPUTE OVER THE BALTIC GAS PIPELINE. A THREAT OR A NECESSARY SUPPLY PROJECT?

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On September 8, 2008, a few days before the parliamentary elections in Germany and Poland, a contract on the construction of a Baltic pipeline was concluded in the presence of Federal Chancellor Schröder and President Putin between the Russian Gazprom Group and the German E.on and BASF/Wintershall groups. After his defeat at the polls, it was one of the last official acts of Mr Schröder to award a guarantee worth more than a billion to a pipeline project of Gazprom in Russia. Only a few weeks later, the ex-chancellor was appointed chairman of the supervisory board of the Swiss Nord Stream AG, the owner of the projected pipeline.

The project and its genesis threw the energy-policy debate between Germany and its eastern neighbour, Poland, into lasting disarray. The reasons for this include faulty communication as well as the mix of politics and private interests for which Mr Schröder personally is to blame, and it is the latter which caused a worldwide stir. In the USA, there was talk of 'political prostitution', while the Poles coined the term 'Schröder-Putin pact' which alludes to the pact between Hitler and Stalin.

The new federal government under Angela Merkel did not disavow the project but was critical about it. The new Polish government under Donald Tusk similarly showed its disapproval, warning Germany against growing more and more dependent on an unpredictable Russia. In point of fact, robust conflicts of interest between Germany and Poland are involved besides communication deficits. On the one hand, Poland wishes to reduce its dependence on Moscow's energy, but on the other, it aims to increase the volume of gas transiting the country by, for example, safeguarding existing pipeline routes through its territory. Conscious of its own growing need for gas, Germany seeks to secure low-cost supplies from Russia, avoiding transit states that are occasionally prone to disturbances. The solution is now supposed to be Nord Stream, a solution that runs counter to the interests of Poland.

The Kremlin, on its part, is using its energy policy to implement its own political and strategic interests, as the differences in the price of gas show. What is particularly irritating is the rabid way in which Moscow enforces its demands. Poland and Lithuania had a bad time recently with their gas-supplying neighbour, having already suffered from several years of delivery cuts.

In concrete terms, the project is about constructing two pipelines on the bottom of the Baltic between Wyborg in Russia and Greifswald in Germany. As early as 2000, the pipeline, which is supposed to cover about one quarter of the EU's future gas needs, was designated a 'priority energy project' and made part of the Trans-European Energy Network (TEN-E). The first line is supposed to become operative in 2011, the second in 2012.

The Poles have been heard to say that the projected pipeline would threaten their energy security as it would enable Russia to cut them off while continuing to supply western Europe without involving Poland. The truth of the matter is that the Baltic pipeline can carry no more than 55bn m³ of gas per year, a volume that is equivalent to less than 20 percent of the gas imported by the EU and no more than 50 percent of Germany's consumption. This is why Berlin keeps emphasizing that the project is not intended to supersede existing pipelines but only to complement them. On the other hand, Russia is planning to increase the capacity of its existing pipelines to the west, of which five run through Ukraine and two through Belarus, to 289bn m³ with the help of Nord Stream (55bn m³) and South Stream (30bn m³). South Stream, which is projected to pass through the Black Sea and supply Italy and central Europe from Warna, competes with Europe's key diversification project, the Nabucco pipeline. As Russia's gas exports to Europe are projected to rise to 340bn m³ by 2030, the new pipelines will probably create an east-west transport overcapacity, weakening the position of the transit states and strengthening that of Russia.

At present, Poland receives 9bn m³ of gas from Russia. The country has several options to overcome this dependence: linking its system to that of the west, building a liquid natural gas terminal that can be supplied from the sea, and connecting up with the Baltic pipeline or Nabucco. However, all these options carry a high price in terms of investment. Poland ultimately aims to secure one third of its natural gas supply from its domestic production, another third from Russia, and yet another from other sources. It also intends to set up its own nuclear power generation and participate in the construction of a nuclear power plant in Lithuania.

Another objection raised by Poland is that the pipeline will be economically unprofitable, and that Amber offers better value for money. Indeed, Nord Stream is unlikely to pay off for Poland but, as Berlin emphasizes, it is a business decision for which the project partners alone are responsible. While experts do assume that the submarine variant will be more expensive, they think that these added expenses can be redeemed because there will be no transit fees to pay or any cost for compression stations and other additional expenses which an overland solution would involve. At the same time, there are no cost calculations for the Amber pipeline which might support Poland's argumentation.

Another complaint raised by Poland is that with Nord Stream, Germany is going its own way in its relations with Russia. The truth of the matter is that the EU Commission integrated the project into its network plans as early as the beginning of 2000, emphasizing its European dimension. Moreover, it was Poland's own minister of economics, Mr Wozniak, a member of the Kaczyński government, who assented to the energy guidelines in the EU Council in 2004. The allegation that Nord Stream was planned without Poland knowing about it is false. On the other hand, it is true that, contrary to what Berlin maintains, the project does compete with Jamal II/Amber.

Moreover, Warsaw emphasizes that the pipeline will make Europe more dependent on natural gas from Russia and undercut its diversification efforts. In point of fact, Germany obtains c. 35 and Poland 55 percent of its gas from Russia. At present, the EU is in a position to meet about 40 percent of its gas consumption of 500bn m³ from domestic sources. 60 percent (300bn m³) must be imported, of which 42 percent (126bn m³) are supplied by Russia. After 2020, the import demand will probably rise to 600bn m³. In the future, however, Europe in general and Germany in particular will be supplied by pipelines that are profitable and form the basis of a sustainable business partnership. The EU's efforts to diversify notwithstanding, Russia will remain an important partner for a long time to come.

Moscow aims to increase its domestic gas production to 730bn m³ by 2010. It has suggested establishing a strategic energy cooperation with the EU as well as an international energy watchdog to define standards for trading. On the other hand, Moscow refuses to ratify the European energy charter. In Germany, natural gas is the second most important source of primary energy, even though 84 percent of the demands have to be imported. Moreover, Germany would be unable to reach the Union's ambitious climate-protection targets without natural gas: with every nuclear power station that is decommissioned, and with every coal-fired power plant that is not built, the country's need for natural gas and its dependence on external suppliers increases.

To avoid supply gaps, decisions had to be made regarding the procurement of natural gas and the infrastructure for its transport. Mutual dependence is part of the plan: on the one hand, the EU needs Russian gas; on the other, Russia cannot do without the revenue from the EU's energy purchases. At the same time, Nord Stream is part of the Kremlin's strategy because it adds even greater weight to its originally strong position. Russia ultimately aims to become an irreplaceable producer and dealer so that it can fix prices and exert political influence.

Finally, Nord Stream opponents in Poland aver that the project entails risks to the environment. Proponents reply that laying pipelines under water is a proven technology, and that all environmental-protection regulations in national and international law will be observed. The same holds true for the Espoo convention, which prescribes searching for ammunition on the sea bottom. And even if there were environmental reasons to support an overland route, the greenhouse gas emitted by compressor stations and the damage to nature preserves would have to be taken into consideration.

The following conclusions emerge:

- 1) Proponents of the Baltic gas pipeline say that it promotes transport diversification while its opponents believe it will strengthen Russia's power to exert pressure.
- 2) The dispute between Germany and Poland is caused by divergent interests.
- 3) The project does not necessarily threaten the energy security of Poland and the Baltic States.
- 4) Poland and the Baltic States favour the Amber pipeline because it would permit overcoming the isolation of Lithuania, Latvia, and Estonia, strengthening the position of the transit states vis-à-vis Moscow, and motivating the EU members to display solidarity in their energy policy and integrate Russia in their strategy.
- 5) The Nord Stream project is far advanced and cannot be abandoned now.
- 6) Amber would have stood a chance if the EU partners had been able to agree on a joint strategy vis-à-vis Russia.
- 7) At all events, it is questionable whether Poland and the Baltic States really want the Amber pipeline. They do not need any of the gas that would flow through their countries; rather, they strive to reduce their Russian gas volume.
- 8) Energy security and solidarity will retain their outstanding importance within the EU and can only be reached by way of a common energy policy.
- 9) Cooperation with Russia rides with the best interests of the Europeans.
- 10) Its energy and climate policy confronts the EU with new challenges and the need for large investments.
- 11) The problems that loom in the future present Germany and Poland especially with an opportunity to cooperate in many ways, which certainly should not be wasted.

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