

Nord Stream 2 expansion to face political hurdles

Gazprom is fine tuning its plans for extending its Nord Stream pipeline, but political and economic challenges remain. Western Europe Editor **Annemarie Botzki** reports from London.

GAZPROM'S plans to expand its Nord Stream pipeline will face political hurdles, but could have economic advantages over the company's other proposed pipeline projects – such as Turkish Stream – experts have told *Interfax*.

Gazprom's plans feature two new Nord Stream lines that could bring an additional 55 billion cubic metres of Russian gas into Germany each year, doubling the amount that can be delivered by the existing pipelines.

Kong Chyong, director of the University of Cambridge's Energy Policy Forum, noted the Nord Stream expansion would have several advantages over Turkish Stream. Chyong said Nord Stream 2 would be cheaper because it is closer to the new Russian production base in Yamal, which would lower the cost of shipping gas to northwestern Europe.

New lines into Turkey could face financially and legally difficult negotiations with European buyers to change the delivery points for gas, while the existing Nord Stream infrastructure connections would allow Gazprom to ship gas directly to the Czech/Austrian delivery point without having to renegotiate contracts, Chyong noted.

The twin lines, known collectively as Nord Stream 2, would largely run along the same 1,224 km route as the existing Nord Stream pipes, under the Baltic Sea to Germany. If the project progresses as planned, the first of the Nord Stream 2 lines could be commissioned

in 2019 and the second could start up at the end of 2020.

The extension is mainly a political, rather than an economic, decision and will increase the dependence of not only Germany, but also Europe as a whole, on Russian gas, said Claudia Kemfert, head of the Department of Energy at the German Institute of Economic Research, DIW.

"Germany is too dependent on Russian gas, as it supported Nord Stream and not an LNG terminal," Kemfert told *Interfax*. Plans for a German LNG terminal in Wilhelmshaven have been abandoned by E.On and RWE.

While the Nord Stream expansion would increase reliance on Russian gas, the increased physical flows could turn Germany into a more competitive regional hub. "The expansion would allow NCG/Gaspool/CEGH to become the most liquid hub, competing with the TTF and NBP," Chyong said.

However, this benefit would arguably afford Russia even more influence over the European gas market.

"If 110 bcm of Russian gas is physically shipped to Germany, then surely Russia could also control the pace of development of the hub there – an advantage of Nord Stream that they might not have even realised yet," Chyong added.

Gazprom signed a memorandum of intent for the pipeline project with E.On, Shell and OMV in June, before German

chemicals group BASF joined the group at the end of July. France's Engie has also shown interest in the project.

Offtake problem

But underutilisation remains one of the main issues for the existing Nord Stream lines. The offtake lines – OPAL and NEL – are underused because of EU restrictions limiting Gazprom's access to 50% of capacity. This issue will need to be overcome for further Nord Stream lines to flow successfully into Europe.

"The existing Nord Stream pipeline is operating at roughly two-thirds capacity because of EU competition rules, and any further pipelines will increase the level of scrutiny from the Directorate General for Competition," David Reiner, assistant director of the Energy Policy Research Group at Cambridge, told *Interfax*.

The European Commission has repeatedly delayed a decision on OPAL's exemption from competition rules and no decision has been made so far, the commission told *Interfax*.

Russian Energy Minister Alexander Novak said that Gazprom filed a request with the German Federal Network Agency in April for the full use of OPAL. But the agency, responsible on the national level for any exemptions, told *Interfax* it has not received such a request.

Chyong said that, if the regulatory regime for onshore connections in Germany, the Netherlands and the Czech Republic were cleverly designed, OPAL would probably be allowed an exemption from third-party access (TPA) requirements.

"Just take the Trans-Adriatic Pipeline [TAP] exemption as a template, [as it] is similar to OPAL," he said. The planned TAP pipeline, part of the Southern Gas Corridor bringing gas from the Caspian region to Italy via Greece and Albania, received an exemption from TPA requirements.

But the pipeline plans reveal tensions between EU member states and the commission about energy relations with Russia. "Whereas the commission has tried to maintain a tough line on energy projects using competition policy as its main lever, individual member states will act in their own interest. German interest in an extension to Nord Stream is eminently sensible for Germany, even if Brussels may not be pleased," Reiner added. ■

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