



Enact US sanctions against Russia's Nord Stream 2 pipeline

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Contrary to some claims, a bipartisan bill proposing targeted sanctions for those involved in the construction of a Russian gas pipeline will not hit major EU energy companies. Additionally, liquefied natural gas (LNG) is not an easily deployable alternative to sanctions.

All arguments deployed against Sens. Ted Cruz (R-Texas) and Jeanne Shaheen's (D-N.H.) sanctions bill overlook the scale of European support for action against Nord Stream 2. It is true that the German government, and certainly the Social Democratic Party, is opposed to sanctions. But they do not speak for all 28 member states of the European Union. The European Parliament already voted in December 433 to 105 in favor of canceling Nord Stream 2. And 24 of the 28 member states were ready in February to force through an amendment to the 2009 Gas Directive, which could ultimately block Nord Stream 2.

Faced with such opposition, Germany had to substantively accept the amendment, which includes applying a key provision that imposes a security of supply certification process on a non-EU owner of an import pipeline. Given Gazprom's track record of cutting off gas supplies across Central and Eastern Europe and the Baltic States, that certification process is likely to prove challenging for Nord Stream 2. Under these circumstances, targeted sanctions which assist the EU in rapidly achieving its objective of stopping the pipeline would be welcome.

Despite this, The Independent Institute argued three points against the sanctions bill in [a recent op-ed](#). First, the piece suggests that the bill would hit major EU energy companies, which would lose access to U.S. credit and their U.S. based properties. Second, that the pipeline was almost 60 percent complete and by implication, therefore, sanctions were pointless. Third, it suggested that the real solution was to send Europe more liquid natural gas (LNG), which would be a more effective way of providing Europe with energy security. None of these arguments on closer analysis are made out.

The proposed sanctions bill is in fact extremely narrowly targeted and will not affect major EU energy companies. The bill would target vessels laying pipes at depths of 100 feet or more for the construction of Russian energy

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export pipelines. Sanctions could be imposed on foreign persons who have sold, leased, provided or facilitated the provision of such vessels for the construction of Russian export pipelines. This is a laser-focused sanction regime that would make it much more difficult to continue with the pipe-laying process both for Nord Stream 2 and Turk Stream 2.

Clearly, the bill could potentially affect the Western corporate allies of Nord Stream 2 such as OMV, Wintershall, Engie and Shell, if they were running Nord Stream 2 as a joint venture alongside Gazprom. This is indeed what The Independent Institute argues.

However, this is not the case. Originally that was the plan. However, the Polish antitrust agency opened proceedings against the joint venture version of Nord Stream 2. As a result, Gazprom ended up becoming the 100 percent owner of the Nord Stream 2 pipeline project to forestall the Polish investigation. The Western corporate allies are assisting only with the pipeline by raising finance for it. It is doubtful therefore that the proposed Section 2, of the bill which applies to "foreign persons that have sold, leased, provided or facilitated the provision of those vessels for the construction of such pipelines" extends to the Western corporate allies.

The technical construction of Section 2 focuses on the direct provision of support for the vessels, and the pipeline laying, therefore, involvement of the Western corporate allies who are just raising part of the finance is too remote. In any event, a definitional provision could be added to the bill to make clear for the avoidance of any doubt that Section 2 will not apply to the Western corporate allies that are raising funds for the project.

It is correct that the pipeline is 60 percent complete. This, however, does not mean it is unstoppable. Nord Stream 2 still has no permission to construct the pipeline through Danish waters. Furthermore, Nord Stream 2 is now engaged in a legal battle with the Danish Energy Agency as to which route should be adopted. That legal battle has now made its way to the Danish courts. As a result, there will be the time for the bill to be enacted and the sanctions to have effect.

Thirdly, it is suggested that sanctions are not necessary as the U.S. can instead dispatch LNG to Europe. U.S. LNG then can provide competition to Russian pipeline gas with no need of sanctions. This argument overlooks the geographical distribution of LNG gasification terminals in Europe. It also overlooks Nord Stream 2's targeting of Central and Eastern Europe with the aim of making the region more dependent on Russian gas.

Extra LNG supplies, in this context, do not help that much here as almost all of the EU's LNG import capacity is in *Western* Europe (The UK and Spain alone have 110 bcm of LNG regasification capacity), with insufficient West to East interconnection to make much impact on the CEE market.

There are only two LNG terminals in Central and Eastern Europe a 4.5bcm capacity terminal at Swinoujscie on the Polish Baltic coast and a second floating LNG terminal with 4bcm at Klaipeda in Lithuania (furthermore Lithuania and the entire Baltic state region remain a gas island and so currently Klaipeda can only supply the three Baltic states, Lithuania, Latvia and Estonia). Given that the CEE states consume well over 30bcm annually only the Polish LNG facility at Swinoujscie can provide any replacement for Russian gas across a significant part of the CEE region and it clearly would not be able to replace most of the demand.

Clearly, in time more floating regasification terminals and other infrastructure can be installed to provide more access to U.S. LNG. However, that is not a solution for today. This physical infrastructure reality also works for Gazprom in its attempts to get Nord Stream 2 up and running. The aim in parallel with the opening of Nord Stream 2 would be to close down the alternative and much larger capacity Ukrainian transit route, known as the Brotherhood pipeline network. The overall effect would be to reduce supply routes and make the region more dependent on Russia in a region with limited access to LNG. This context explains why the European Parliament so decisively supported the cancelation of the project and so many member states were willing to take legislative measures against it. This context also underpins why the U.S. sanctions bill should be enacted.

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