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Russia-Germany Energy Ties in Contesting Geopolitical Environment

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The recent measures to increase Russia-Germany energy trade and cooperation have evolved into a contentious issue in Russia-Europe as well as in trans-Atlantic relations. Russia is a major global energy producer and one of the main energy exporters to Europe, especially Germany, its largest economy. However, the construction of a new pipeline between Russia and Germany is straining ties in Europe and has reverberations even across the Atlantic. Differences among European Union (EU) member states over energy shipment, diversification and emergence of new energy suppliers, a contested geopolitical environment in Central and Eastern Europe and the US-China 'trade war' are among factors adding to the complexity. Disruption in energy supply can severely affect continental energy security and the impact felt in different regions.

Russia-Europe Energy Ties

Apart from being a major global producer Russia has huge proven energy reserves. It remains one of the world's foremost hydrocarbons producers and exporters even at the times of fluctuating energy prices and economic sanctions from the West. The country is projected to remain one of the largest energy exporters in coming years.[1] As per BP Statistical Review 2019, Russia was the second largest gas and third largest oil producer in 2018. Its natural gas and oil productions account for 17 per cent and 12 per cent of total global output respectively. Russian oil exports grew by 2 per cent accounting for 13 per cent of global export. Gas exports also grew by 5.4 per cent in 2018, making 26 per cent of the global total.[2] Russia's oil and gas exports provide a major chunk of government revenue constituting about 40 per cent of the federal budget.[3]

Statistically, around 40 per cent of the EU's natural gas imports are from Russia and about 30 per cent of the EU's crude oil is from Russia in 2017.[4] The dependency rate reflects reliance on imports for meeting the energy needs in Europe. Overall EU dependency rate has increased to 55 per cent in 2017 from 47 per cent in 2000. Nevertheless, there has never been one way connection. Europe, on the other hand, is the main energy market as well as biggest investor in Russia. Nearly three quarters of foreign investments in Russia is from EU.[5] Germany is Russia's main energy partner in Europe and it was the second biggest investor with US$2 billion investments in Russian economy in 2016.[6]

The Russia-Germany energy partnership has been maintained and rather is growing in recent times despite frequent expression of concerns in Europe of dependence and possible use of it by Russia as a bargaining chip, particularly at times of heightened geopolitical tension. Germany's dependency rate is even higher than the EU average.[7] Germany imports 90 per cent of its natural gas mainly from Russia, Norway and the Netherlands.[8] Similarly, Russia is also a prominent supplier of oil to Germany, accounting approximately 40 per cent of crude oil imports in 2016, and this trend continues in subsequent year as well.[9] The two countries have announced the construction of a new pipeline, which will further increase gas supply to Germany.

Nord Stream II

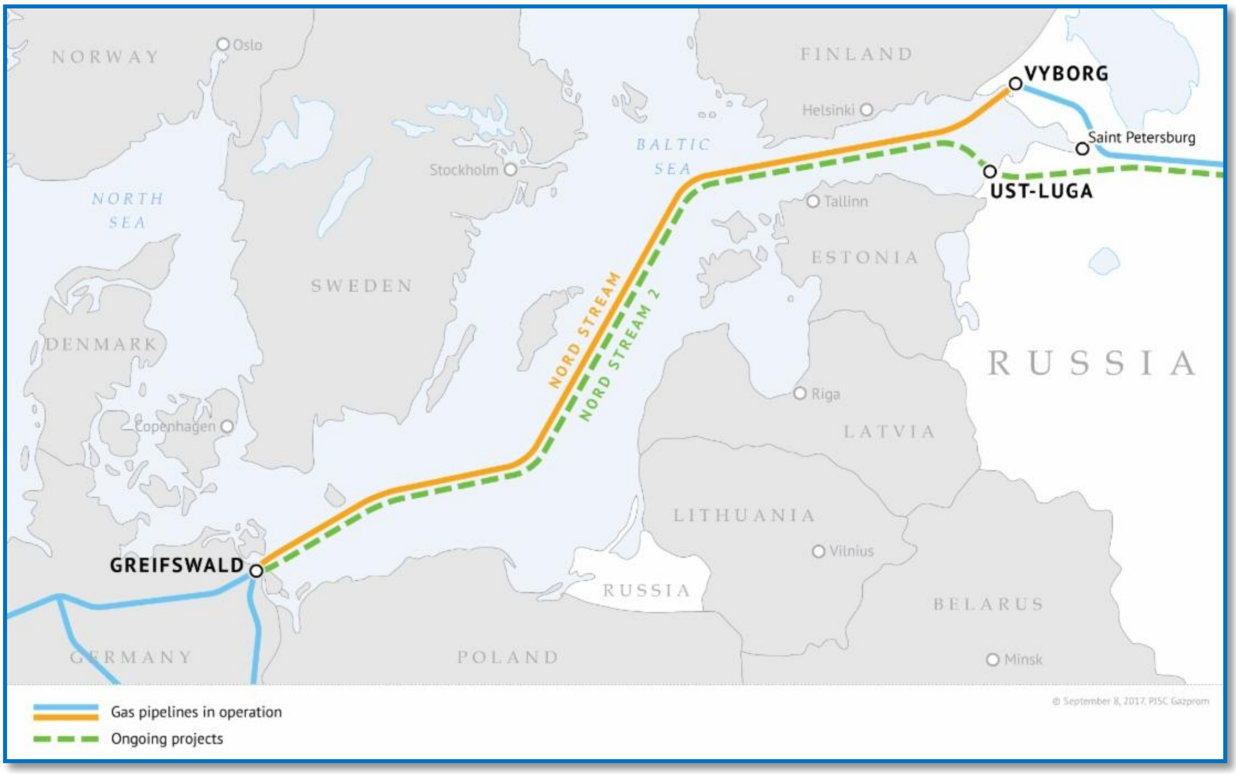
Energy cooperation is a crucial aspect of the broader ecosystem of Germany-Russia partnership. The partnership has witnessed both continuity and change through recent geopolitical upheavals. The Crimea annexation and crisis in eastern Ukraine escalated tensions between the two countries. The EU has imposed sanctions on Russia. However, Moscow and Berlin still have 'a very constructive dialogue' primarily on energy issues, which is seen as a 'strong' aspect of their relations.[10] Both countries have moved to build another pipeline - Nord Stream II. The 1200-kilometres pipeline would run from Ust-Luga area of the Leningrad Region in Russia through the Baltic Sea to the Greifswald in Germany's north. The total capacity of two strings of Nord Stream II is 55 billion cubic metres of gas per year. The aggregated design capacity of Nord Stream and Nord Stream II is, therefore, 110 billion cubic metres of gas per year.[11]

In the prevailing geopolitical environment, the project has become a matter of debate in Europe and beyond. Central and Eastern European countries have expressed their concerns over the pipeline. Many EU members have objected to the pipeline project and the US too is averse to it.[12] Search for alternative energy sources to reduce their reliance on 'single supplier' of energy is a policy priority for the EU.[13] Critics of the project argue that it would undermine EU's energy diversification efforts as well as provide greater manoeuvring power to Russia in the region. Eight EU member states governments have signed a letter objecting to the Nord Stream II project. They have mentioned that the project would generate "potentially destabilising geopolitical consequences"[14] and "pose certain risks for energy security in the region of Central and Eastern Europe."[15] The pipeline passes through Denmark territorial waters but the country is yet to grant its approval to the route through its area.

Germany insists that the pipeline is a 'purely economic project'[16] to ensure 'cheaper, more reliable gas supplies'.[17] Berlin believes that this would not lead to an excessive dependence on

Russia if Europe continues diversification of supply sources at the same time. Though Germany too resists Russian assertiveness in the region, yet on economic and energy linkages, it would like to move forward. It is also argued that there are major changes in Russian gas supply. Russia's major source of gas is now found in north as the country taps the Yamal Peninsula.[18] Additional capacity in the form of pipeline would be needed to transport the increased output. The German perspective is that piping these new supply sources through Nord Stream II is 'quicker', 'more efficient' and gives Europe another transportation option. Abundant supply is also required for 'creating a liberalised market which is defined by non-discriminatory access for everybody.'[19] Berlin considers that energy security hinges on having transportation options and that does not necessarily depend on where the supply comes from.[20]

Map of Nord Stream II



Source: Gazprom, Nord Stream II - http://www.gazprom.com/projects/nord-stream2/, 2019

The potential impact of Nord Stream II pipeline on gas transit patterns in the region, particularly the transit route via Ukraine, would be considerable.[21] The biggest transport route of Russian gas to Europe runs through Ukraine; a shift in transit route would also have geopolitical consequences for the region. Certainly, the pipeline has the potential to affect the existing energy supply links in the long run because it would bypass this traditional route through Ukraine. This could marginalise Kiev from transit fees as well as undermine its geopolitical relevance. Former Ukrainian President Petro Poroshenko termed the pipeline as 'Kremlin's Trojan horse against European energy' and 'geopolitical security'.[22]

Nevertheless, the pipeline should not be considered as Russia-Germany exclusive project. Gazprom is building the pipeline along with five European partners namely Uniper and

Wintershall (Germany), Engie (France), Anglo-Dutch Shell, and OMV (Austria). Besides, the pipeline project also involves around 670 companies from 25 countries.[23]Amid the ongoing debate, it can be said that Russian gas exports to Europe would principally be dependent on how the regional geopolitical dynamics unfold[24] and impact energy ties.

Emergence of Shale Energy

The fracking (Shale energy) revolution in the US has altered the current dynamics of energy markets, and as projected, in having a long-term geopolitical impact on global energy links. The US has been a top producer of natural gas and became a net gas exporter for the first time in 60 years in 2017.[25] Total LNG exports registered growth of 53 per cent in 2018 and it is likely to increase further. The country is supplying LNG to 35 countries and it is projected to emerge as the third largest exporter following Australia and Qatar.[26]

The US therefore looks towards Europe as a new market with high purchasing potential. The US administration has been pursuing exploration of new markets for the export of gas surplus generated from fracking. The US President Donald Trump has taken up the pipeline issue at the trans-Atlantic fora and has been critical of Europe. He even accused Germany of being a "captive" of Russia due to its energy reliance on that country.[27] He said, "We're protecting Germany from Russia, and Russia is getting billions and billions of dollars in money from Germany" for its gas.[28] Probably, the US sees vast energy export potential in Europe.

In the face of an on-going 'trade war' with China and increase in tariff restrictions on other countries, the US also seems using gas export as an offset to the trade imbalance. As it is looking for new markets to sell LNG in Europe, the US is trying to balance its trade with Europe by exporting gas to the continent. Recent trends reflect that EU's imports of the US LNG registered a growth of 272 per cent after 2016.[29] It seems that the EU is keen to advance this economic 'gesture'[30] to the US for reducing political differences in trans-Atlantic partnership. Economic viability would be a factor in EU's decision to buy more US energy; however, in larger framework of trans-Atlantic partnership, EU may positively consider the US demands.

In broader politico-strategic sense, the US might be considering that a more economically strong Russia is also potentially more assertive. Russian assertiveness in Central and Eastern Europe, West Asia, the ample indications to re-enter Afghanistan, etc. have sent signals that Moscow might move to counter Western policy in the future. Therefore, the US as well as Central and Eastern European countries are probably not in favour of expanding energy links with Russia, particularly when the option of US natural gas is available and tension is persisting over Ukraine. The US effort to link its energy supplies into Eastern Europe was one way of containing Russian influence in the region.[31] The US has threatened to impose sanctions to halt the Nord Stream II pipeline. Circles in Washington foreign policy establishment believe that economic constraints would impede Russian political ambitions and its military modernisation plans.

Russian Energy Prospects amid Sanctions

Amidst such geopolitical contestations, Russian energy sector has come under the Western economic sanctions. Contrary to initial expectations in Western capitals, most important

Russian industries have largely carried on unscathed, its oil and gas production is growing and the economy is steady.[32] An economic slowdown was registered initially but positive growth trends hence returned thereafter. Sanctions constraining certain individuals from travelling or conducting business in the US, have however affected commercial linkages. It is believed that they are intended to hamper the growth of Russia's oil, gas and defence industries by restricting access to technology and finance. Nevertheless, growth in Russia's oil production suggests the Western sanctions did not have their expected impact. The country's oil production has risen to a 30-year high in 2017 of 10.98 million barrels a day, while annual gas production hit its highest level ever in 2017.[33]

Russian energy sector needs finance and technology, particularly from the West. Though after signing natural gas supply deal worth US$400 billion with China, Russia might be able to mobilize investment for its energy sector but for advanced technology the West would remain a crucial partner. Geopolitical tensions and continued economic sanctions might hamper such transfer of finances and technology between Russia and Europe. It may be said however that despite geo-political strain, economic sanctions and diplomatic friction, energy linkages between Russia and Europe, especially Germany, have been strong and initiatives are being taken for widening such networks.

Conclusion

Russia-Germany relations are crucial in shaping regional geopolitical dynamics as well as bilateral and continental economic ties. Although Germany supports EU's initiatives to diversify its energy supplies, it is also keen in maintaining and further expanding energy linkages with Russia. Throughout their energy cooperation, a mutual dependency has been sustained. Both countries have made efforts to find diplomatic solutions to their geopolitical differences as well as for cooperation on global and regional issues of mutual importance. After the German Chancellor Angela Merkel's visit to Russia and meeting with Russian President Vladimir Putin, who visited Germany in 2018, conciliatory trends in their partnership have been visible. It is unlikely that Germany would yield to the US pressures on Russian energy and Moscow will continue to remain one of its main energy partners. If the US natural gas production continues to be in surplus, the EU would likely to further increase its imports from there. Nevertheless, Russia-EU and Russia-Germany energy cooperation and investment have so far remained intact despite tension in relations and a tense geopolitical environment. In spite of the opposition from the US and concerns from certain EU member states, Nord Stream II pipeline's construction has begun. Russian supply to Europe has largely remained stable, therefore, despite concerns and objections by some countries, the pipeline has long term prospects in Russia-Europe energy relations.

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End Notes

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