Why the 7 Arguments Used to Justify Nord Stream II are Wrong

Advocates of Russia's Nord Stream II pipeline rely on seven justifications to explain their support for the project. Intentionally or inadvertently, the backers of Nord Stream II use justifications that are based on incorrect assumptions or outright disinformation. In order to objectively evaluate the need for Nord Stream II, these flawed justifications must be identified and corrected.

#1: Ukraine's gas transit system is in good technical condition and does not require massive external investment. Russia has run numerous stress tests to prove the reliability of Ukraine's route. Naftogaz meets all nominations made by Gazprom for transit across Ukraine fully in line with the contract, and this is the best evidence of the system's good technical shape. For many years, Naftogaz updates this data online on a daily basis. In its turn, Gazprom has never provided proofs of any alleged technical failures of gas transit across Ukraine.

In January 2009, Russia made a political decision to halt gas supplies to Europe aiming to force favorable conditions for Gazprom's business in Ukraine and to promote Nord Stream in the EU. Ukraine provided some of its own gas to cover critical gas shortages in certain CEE countries when Russia stopped gas flows completely.

In early March 2018, Gazprom attempted to create another gas crisis in Europe, by failing to supply prepaid gas volumes to Naftogaz and reducing pressure on the Russian side of the gas transmission system to 20% below the contractual norm – all in the middle of a severe cold spell in Europe. Under these extreme conditions created by Russia to promote Nord Stream II, the Ukrainian gas transit system has performed impeccably, and Naftogaz fulfilled all Gazprom's nominations.

The Ukrainian system is extremely reliable, as its performance shows. It can benefit from some modernization to boost efficiency but its maintenance and modernization needs are only $100-300 million per year to ensure the transit capacity of 110 bcm/y, booked by Gazprom. The best way to secure this funding is through ensuring the system is used and generates revenues.

#2: Nord Stream II's only onshore extension is directed southward and will not provide Western Europe with a replacement for falling gas deliveries from the Netherlands and Norway. The Nord Stream II pipeline will only be continued to the south via the European Gas Pipeline Link (EUGAL) and it will not generate additional capacity for Western Europe. Nord Stream II is merely redirecting flows from existing routes in Central and Eastern Europe. It also does not provide access to any new gas sources.

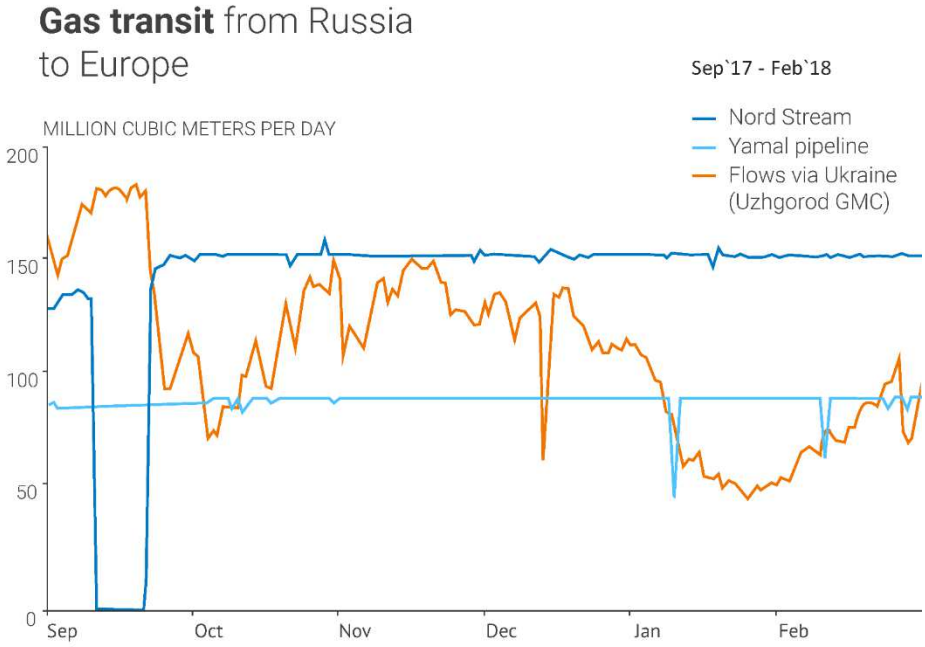
#3: Europe has available unused transit capacity of 55 billion cubic meters (bcm) and doesn't need Nord Stream II's additional capacity. The Ukrainian gas transit system has a capacity of 146 bcm. In 2017, it transited 93.5 bcm, and there is nearly 55 bcm spare capacity in the system. Nord Stream II costs billions to build but will merely replicate Ukraine's existing capacity in order to carry the same gas to the same clients in CEE and Southern Europe, but through a longer route. There is no commercial logic to the project.

Moreover, advocates of Nord Stream II force the EU to sacrifice Ukraine's 146 bcm flexible onshore capacity in exchange for a risky, technically fragile offshore pipeline of 55 bcm. As a result, if Europe's gas demand increases by 2030, as Gazprom suggests, there will be no Ukrainian gas transit system to help it meet this new demand.

#4: Fully controlled by Russia, Nord Stream II will eliminate Ukraine's independent gas transit system. Both systems cannot coexist. Europe will get even more dependent on Russia. If built, Nord Stream II will strip Ukraine of another 55 bcm of transit flows, and Russia's Turkstream pipeline under the Black Sea will divert another 30-40 bcm. Gazprom will abandon Ukraine's gas transit system as soon as these diversionary pipelines are built. If the Ukrainian system is not used, it will have to be severely downsized or scrapped entirely.

Currently, Gazprom enjoys the exceptional flexibility and spare capacity of the Ukrainian system to enable its record high gas supplies to the EU. In the chart below, the blue and the light blue lines are actual gas loads of the Nord Stream and Yamal pipelines, respectively. Both of these routes are controlled by Gazprom. These pipelines are loaded near their maximum capacities, with stable and predictable flows. The only significant swings are observed when Nord Stream is closed for planned maintenance.

The orange line is the actual load of the Ukrainian system in the direction which Nord Stream II is going to take over. The chart shows that, despite the wild swings never announced by Gazprom in advance, the Ukrainian gas transit system flexibly covers all the residual demand from Europe.



#5: Ukraine's gas transmission system is a sophisticated network of interconnected pipelines with excess capacity and dozens of compressor stations to ensure reliability and flexibility of transit. Two parallel offshore pipelines of Nord Stream II with just two compressor stations are not a reasonable replacement for Ukraine's system. Ukraine's system is a highly flexible and robust mesh of pipelines and compressors, backed by the largest European gas storages, which serves to balance swings in European gas demand.

#6: Gas delivered via Nord Stream II will be priced at the level of competition or slightly cheaper. Nord Stream II will not reduce gas prices in Germany. There is no reason for

Gazprom to sell at a rate much lower than what its competition offers. At present, Gazprom delivers the same gas to Germany through Nord Stream, yet this gas the Russian company does not sell this gas below the prevailing market price. If Nord Stream II is built, Gazprom's dominance would be further reinforced, and there would be no incentive to lower prices in Germany. Nord Stream II is likely, however, to result in price increases in other EU countries. That would make German companies more competitive compared to their EU counterparts but this is hardly a fair way to compete.

#7: The Nord Stream II is a threat to European energy and national security. It is not just a commercial deal between several companies and should be assessed in a wider context commensurate with the project's potential consequences. Nord Stream II threatens European peace and stability, which is a vital interest for stakeholders on both sides of the Atlantics. With Nord Stream II in place, lacking any need for the Ukrainian gas transit system, Russia will lose an important incentive to avoid further escalation of the Kremlin's military aggression against Ukraine and its hybrid war against the rest of Europe and the USA. A joint and decisive policy of all parties currently affected by the Kremlin's hostile activities against the West is necessary to thwart further destabilization of peace and order in Europe.