

NS2, A WIN-WIN PROPOSITION?

Relevant for: International Relations | Topic: Europe, European Union (EU) and India

A road sign directs traffic towards the Nord Stream 2 gas line landfall facility entrance in Lubmin, Germany on September 10, 2020. | Photo Credit: [REUTERS](#)

While the Iran-Pakistan-India gas pipeline, the Iran-India undersea pipeline, and the Turkmenistan-Afghanistan-Pakistan-India pipeline remain pipe dreams, the [Nord Stream 2 \(NS2\)](#) running from Russia to Germany across the Baltic Sea is now complete despite controversy. NS2's manufacture began in 2016 and construction in 2018. The 1,224 km, \$11-billion underwater link is the shortest, most economical and environment-friendly route to double Russia's gas export to Germany. The pipeline offers stability to the strategically important energy trade because Russia's dependence on the European Union and vice-versa are increased and this should promote realism.

Energy is never removed from politics. Russian authorities say NS2 can transport 55 billion cubic meters of gas each year, cover the needs of about 26 million households, and restock storage inventories, but both Germany and Russia are subject to conditions arising from a compromise between the U.S. and Germany, and EU regulations.

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European gas prices have broken records this year, edging close to an unprecedented \$1,000 per thousand cubic meters which places many industries and food supply chains under stress. This is due to lack of viable alternatives to gas, low storage levels because of a severe winter and the post-COVID-19 economic surge. Ukraine offered extra transit capacity for Russian gas to Europe at 15 million cubic meters per day for October but Russia booked only 4.3% of this, citing domestic demand. Some European politicians accuse Russia of pressure to expedite the start of NS2, but the project needs European certification, which could take up to four more months. Germany has yet to issue an operating licence, blandly stating that it would rule on this next January.

German Chancellor Angela Merkel is accused, mainly by Poland and Ukraine, of weakening the EU's political unity and strategic coherence by giving Russia greater leverage through NS2. Ukraine's leadership is unhappy as it believes the pipeline is a Russian geopolitical weapon aimed at depriving Ukraine of political traction and crucial revenue. These concerns have been largely disregarded by the EU, which has refused to yield to the demands of a third party. What Ukraine's President Volodymyr Zelensky has secured are assurances from the U.S. that it will impose more sanctions if Russia abuses the advantages of its new pipeline and Germany's undertakings to help Ukraine develop its energy sector and exert pressure on Moscow to keep its gas transiting through Ukraine even after the current contract ends in 2024. Russian President Vladimir Putin has made it clear that this is acceptable but would depend on purchase contracts from European customers.

Behind the argument of protecting Western interests against Russia, the Ukraine case is that if Russia cuts its transportation of gas through Ukraine, Kiev would lose billions of dollars in transit fees, and fears that Russia could reduce energy supplies by cutting those needed for Ukraine's own consumption. Ukraine has not diversified its economic fundamentals, whose viability is dependent on Russia moving fossil fuels through its territory. But the loss of cheap money gained through transit fees could in the long run benefit its economy.

The completion of NS2 suggests that no third party can affect the project's outcome. Any flagrant violation of the commercial rationale of NS2 by Russia would enable Ukraine to invoke the assurances it has been given; it is accordingly in Moscow's interest to proceed in a manner that avoids friction.

To enable a consensus on NS2, Germany has promised assistance to Ukraine for development of hydrogen energy, but such commitments are less robust in their detail; Berlin seems to offer a modest €206 million as seed money to attract a potential corporate investment envisaged to be €1 billion. President Zelensky considers this proposal inadequate, and his Foreign Minister Dmytro Kuleba has been forthright saying, "This country has learnt a number of bitter lessons that Western promises are possibly unfulfilled. We do not believe in promises."

Despite the lack of certitudes in Germany's financial promise, there is reason to take it seriously. The German elections could result in a coalition including the Greens, in which case the Greens might drop their opposition to NS2 in return for more substantial compensation for Ukraine. Since the hydrogen option is environmentally friendly, this presents scope for accommodating the requirements of German coalition politics and support for the Ukrainian budget and turning NS2 into a win-win proposition. It's an ill wind that blows nobody any good.

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