

The commercial deals connected with Gazprom's Nord Stream 2

A review of strings and benefits attached to the controversial Russian pipelines

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Abstract

This paper reviews the multiple strings and benefits attached to the single most controversial gas pipeline project in Europe - the second Russian twin subsea pipeline that is currently under construction in the Baltic Sea. While much attention has been paid to the question of why and how the Russian state-controlled energy giant seeks to circumvent Ukraine as a transit country for its delivery of gas to Western Europe, hardly any attention has been paid to the benefits gained by the companies and political entities directly involved in the preparation and construction of Nord Stream 2. The paper seeks to fill this gap in the debate by taking a closer look at the business deals and commercial actors involved in the implementation of this second Russian natural gas pipeline project in the Baltic Sea. It highlights how local and national economic interests and European energy companies' motivations for participating in the project go beyond the volumes of Russian natural gas that Gazprom expects to deliver to European customers through its Baltic Sea pipelines from 2020.

Keywords: Baltic Sea, Nord Stream, Gazprom, Russia, Germany, Sweden, Denmark, Finland, Latvia.

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Introduction

Since 2015, when the Nord Stream 2 project was formally launched by the Nord Stream 2 AG, Poland has been at loggerheads with Germany and Austria, the staunchest and most vocal supporters in the EU of the Russian pipeline project. Initially, Poland, together with its Visegrad partners, gathered a group of member states strongly opposed to the implementation of Nord Stream 2. This group, including the UK, Romania and the Baltic states, was later also joined by Denmark and Sweden. From 2016 onwards, the Danish and Swedish Energy and Foreign Ministers but also the Prime Ministers made clear in public their principled opposition to the pipeline plans and repeatedly called for a collective intervention at the EU level. Unable to "stop" Nord Stream 2 by themselves, they proposed that the European Commission, in consultation with the member states, should handle the controversial question of whether or not Nord Stream 2 should be built and, if the project was to be implemented, how it should be regulated.¹

After the British vote in favour of leaving the EU, the UK lost in mid-2016 its previously strong role in the Union's energy policy. Its opposition to Nord Stream 2, voiced by Europe Minister David Lidington in 2016 ahead of the Brexit vote, became much more muted in view of the important role of Germany in the Brexit negotiations.² Among the Visegrad countries, criticism has been levelled at Hungary and Czechia, but even Slovakia, for softening their stance on Nord Stream 2 and of being swayed by political pressure from Moscow as well as the prospective commercial benefits generated for them by Gazprom's pipeline projects in both the North and South. Whereas some of these accusations are well-founded, the public positions taken by the Visegrad countries stem from a more complex set of motivations and concerns linked to the shifts and changes in their energy relations with Ukraine and Russia and the different ways in which they suffer or benefit from the already completed Nord Stream pipelines and stand to gain or lose from Nord Stream 2.³

The opponents of Nord Stream 2 in the Visegrad countries have looked in particular to the Nordic EU member states. The three countries, Denmark, Finland and Sweden, have been, beside Germany, the only EU member states with a direct say and possibility to influence the project. This is due to the rights and obligations granted to these states regarding the construction permit for the pipeline project, in line with the United Nations Convention on the Law of the Sea (UNCLOS) and its provisions on the Exclusive Economic Zone and the rights of coastal states on the continental shelf.⁴ The Nord Stream 2 pipelines

¹ Riksdagen, Statsrådet Ibrahim Baylan (2017) Regeringens agerande angående Nord Stream 2. Svar på skriftlig fråga 2016/17:1590 besvarad av Statsrådet Ibrahim Baylan (S), at https://www.riksdagen.se/sv/dokument-lagar/dokument/svar-pa-skriftlig-fraga/regeringens-agerande-angaende-nord-stream-2_H4121590

² See e.g. Wintour, P. (2018) Boris Johnson joins US in criticising Russia to Germany gas pipeline, The Guardian, 22 May, at <https://www.theguardian.com/world/2018/may/22/boris-johnson-joins-us-criticising-russia-germany-gas-pipeline-nord-stream-2>

³ Daborowski, T. (2015) Difficult path towards gas partnership: Visegrad Group countries' gas cooperation with Ukraine, Visegrad Fund, at http://www.visegradexperts.eu/data/uploaded/Finals/Tomasz_Daborowski.pdf; Rokita, Z. (2018) Agata Loskot-Strachota: Everyone wants integration, Aspen Review, at <https://www.aspenreview.com/article/2018/agata-loskot-strachota-everyone-wants-integration/>; Dura, Z. (2017) Optimal model of V4 gas market integration, Visegrad Plus, 30 May, at <http://visegradplus.org/optimal-model-of-v4-gas-market-integration-2/>

⁴ United Nations Convention on the Law of the Sea (UNCLOS), at http://www.un.org/Depts/los/convention_agreements/texts/unclos/unclos_e.pdf

are to run through the Finnish and Swedish Exclusive Economic Zones (EEZ) and through the Danish territorial waters or, alternatively, according to the most recent submission by the pipeline planners, through Denmark's EEZ. In addition to UNCLOS, the Swedish and Danish governments, as well as the other opponents of Nord Stream 2 in the EU, have underlined the European Commission's and European Parliament's competences on energy policy, and pointed to the objectives of the European Union's Energy Union and the internal energy market liberalisation, specifically its provisions on natural gas markets. This paper aims to fill a gap in the present discussions about Nord Stream 2 regarding the positions of the Nordic states and Germany on Nord Stream 2 by examining the commercial interests connected with the Baltic Sea pipeline construction that have received only scant attention. The range of commercial strings and benefits attached to the project constitute important "pieces to the puzzle" to better grasp the incentives and dilemmas that local and national decision-makers and governments have been facing since the Nord Stream 2 project was formally launched by Gazprom in the summer of 2015.

Sweden has taken largely a backseat in the debate, despite its openly voiced hard security concerns about the detrimental effects of Nord Stream 2 for Sweden's national security.⁵ It strongly supported the European Commission's efforts towards reaching an agreement with Germany and Russia that would be acceptable to all the EU's member states. In June 2017, the European Commission requested a negotiating mandate from the EU's member states.⁶ Such a mandate was strongly opposed by Germany and Austria and failed, as a result, to obtain the endorsement of all EU member states. In November 2017, the European Commission took another step, designed in part to try and resolve the EU-internal controversy about the project. It proposed an amendment of the EU's third natural gas market liberalisation directive (2009/73/EC), with an explicit ambition to "provide legal clarity" on the application of the EU's market rules to the Nord Stream 2 pipelines.⁷ This step was strongly supported by Sweden. Finland never took a stance on the pipeline project, and together with Germany, both Nordic states granted the required permits to Nord Stream 2 in the spring of 2018. The Russian approvals followed suit. The production of steel pipe segments for the twin pipelines had started in Germany already in 2016, and the construction work in the Baltic Sea has been progressing steadily since the spring of 2018.

The Danish authorities, meanwhile, have yet to complete their assessment of the pipeline project. In 2017, largely motivated by the opposition of Danish policy-makers and the Danish government to this second Russian gas pipeline project through the Baltic Sea, a legislative amendment was proposed, and swiftly passed, that allows the Danish government since 1 January 2018 to take national security and defence concerns into consideration in its assessment of this, and any future project applications that

⁵ Regeringen (2016) Informationsmöte den 13 december 2016 – minnesanteckningar, made public by Swedish Public Radio at <https://sverigesradio.se/diverse/appdata/isidor/files/94/93988121-7be4-46e7-95d2-d57c27af014b.pdf>

⁶ European Commission (2017) Commission seeks a mandate from Member States to negotiate with Russia an agreement on Nord Stream 2, IP/17/1571, 9 June, at http://europa.eu/rapid/press-release_IP-17-1571_en.htm

⁷ European Commission (2017) Fact Sheet Questions and Answers on the Commission proposal to amend the Gas Directive (2009/73/EC), Memo/17/4422, 8 November, at http://europa.eu/rapid/press-release_MEMO-17-4422_en.htm

concern the Danish territorial waters.⁸ Following a political agreement among the member states on the proposed amendments to the third gas market directive in February 2019,⁹ the conflict surrounding whether, and if so how, EU market rules will be applied to Nord Stream 2 are likely to be resolved during 2019. The German government will have a decisive say on how these rules will be applied if, or when, the twin pipelines have been built. For the time being, Denmark's project approval is the last hurdle formally standing in the way of Nord Stream 2's completion (for details about the national project approval processes, see Annex).

Nord Stream 2 - commercial or political?

A key battlefield in the dispute about whether or not Nord Stream 2 should be supported or "stopped" has been the question of the project's "commercial" or "political" nature. The economic arguments for or against the additional two natural gas pipelines have focused on comparing the total costs of their construction with the costs of modernizing Ukraine's transit system, and the differences in the price of LNG compared to the costs of Russian gas delivered via pipeline through the Baltic Sea to Germany. However, to better understand the commercial value and political dilemmas associated with Nord Stream 2 in the EU, and specifically in the Baltic Sea region, the beneficiaries and stakeholders in different European states beyond the Visegrad region have to be considered in more detail. Among the four EU member states on whose permits the Gazprom daughter Nord Stream 2 depends, Denmark has been the only one where domestic commercial interests have not come to play a bigger role. This is contrary to the predecessor Nord Stream (1) from which the Danish state-controlled energy company DONG (now Ørsted) contracted Russian gas deliveries long before the government had taken any decision on whether or not to grant its approval for the project construction. DONG Energy signed in 2006 a supply contract with Gazprom for a 20 year period which obliges it to purchase Russian gas from the first two Nord Stream pipelines - at the time still in the planning phase. The interlinkage of commercial interests, politics and ownership links with the decision-makers that had to approve the application of the pipeline consortium is representative also of the multiple strings and benefits attached to Nord Stream 2.

The main sites, business deals and commercial actors involved in the construction of Nord Stream 2 will be reviewed here to highlight the extent to which local and national economic interests go beyond the volumes of Russian natural gas that Gazprom expects to deliver from Narva Bay in Russia to the Bay of Greifswald on the German Baltic Sea coast from 2020 onwards. Important local and national commercial interests are linked to the contracts concerning the pipeline construction. Gazprom's whole-owned daughter company Nord Stream 2 has subcontracted European businesses for the manufacturing, weight coating and storage of the pipe segments that the new double pipeline will be composed of.

⁸ Folketing (2017) L43 Forslag til lov om ændring af lov om kontinentalsoklen, at <https://www.ft.dk/samling/20171/lovforslag/L43/BEH1-6/forhandling.htm>

⁹ European Commission (2019) Energy Union: Commission welcomes tonight's provisional political agreement to ensure that pipelines with third countries comply with EU gas rules, IP/19/1069, 12 February, at http://europa.eu/rapid/press-release_IP-19-1069_en.htm

Nord Stream 2 has also subcontracted businesses for the transport logistics and the servicing and maintenance of the construction and supply vessels in the Baltic Sea. (While also the pipe laying and servicing ships could be placed in this context, they will not be further discussed in this paper, since they are neither owned by nor normally based in the three Nordic states or Germany¹⁰). The European energy companies that have pledged their financial support to Nord Stream 2 have commercial reasons for supporting the project that is whole-owned by Gazprom. The commercial motivations are not necessarily exclusively rooted in the energy companies' belief in the profitability of the Baltic Sea pipeline, but also, at least in part, a result of other prior commercial agreements with Gazprom or as "side deals" that are following from these companies' support for the new pipeline project. For some, the participation in Nord Stream 2 as investor is, quite likely, at least in part motivated by its utility as a means of securing access to the tightly controlled Russian upstream sector.

The survey of the commercial deals connected with Nord Stream 2 is structured as follows: first, the main businesses involved in the production of the pipes, the supply of the concrete weight coating material and the coating plants will be reviewed; second, the role played by different Baltic Sea ports in the preparation of the pipes will be discussed; third, the commercial deals with local communities around the Baltic Sea are examined and fourth, the "side-deals" concluded by Gazprom with the European energy companies supporting Nord Stream 2, and the benefits that they each accrue are reviewed. The final part draws conclusions from the key findings about the mosaic of commercial deals and tangible benefits that are connected with the Baltic Sea pipeline for the participating entities. It points to the implications of these kind of deals for responses to foreign state-controlled companies' projects. The paper ends with a reminder and emphasis on the fact that the strings attached to commercial actors and their partners warrant closer scrutiny to ensure that consequences of such deals are fully understood by the national and local governments and affected parties, and appropriately addressed, if necessary.

The preparation of the Nord Stream 2 pipeline segments

Ignoring the political opposition in the EU, the Nord Stream 2 AG placed already in March 2016 an order for 890,000 tonnes of steel pipe segments from the German *Europipe GmbH* in Mülheim an der Ruhr. The order is roughly equivalent to 1100 kilometres of pipes and the production of the pipes stretched over the period from August 2016 until mid-2018. Another 33% of the pipe segments for Nord Stream 2 are delivered by the Russian company OMK and the remaining 27% are delivered by the Russian *Chelpipe*. The two subcontractors of Europipe are the shareholders of Europipe, both the Salzgitter Group in Lower Saxony and Dillinger in Saarland. They delivered the raw material for the pipe production. The Salzgitter Group is 26.48% owned by the Federal State of Lower Saxony (Niedersachsen). The Deutsche Bahn AG, wholly owned by the Federal Republic of Germany, has been subcontracted for the transport of the pipes from their manufacturing base in Mülheim an der Ruhr to

¹⁰ For details, see Allseas (n.d) Nord Stream 2, at <https://allseas.com/project/nord-stream-2/>

the pipe coating plant in Mukran on the Baltic Sea coast, and to Bremen, for onward shipping to a second pipe coating plant in Finland.

Europipe was also the main contractor for Nord Stream, for which it delivered 1,574 million tonnes of steel, equivalent to 1,840 kilometres of pipes and in total 65% of the pipes, while the Russian company OMK (Vyksa) delivered 25% and the Japanese company Sumitomo delivered the remaining 10% for the predecessor of the current twin pipeline project. The order for the pipeline production was placed in November 2007, two years before Finland and Sweden granted the permits for the construction of Nord Stream. Nord Stream 2 followed in that sense in the footsteps of its elder sibling Nord Stream.

On 2 May 2017, just hours before the public hearing on the Nord Stream 2 project was held in Stockholm, the Gazprom daughter had reached an agreement with LKAB Minerals (previously "Minelco"), a whole-owned daughter company of the Swedish state-owned mining company LKAB (*Luossavaara-Kiirunavaara Aktiebolag*). The Swedish Ministry of Enterprise and Innovation represents the Swedish government in LKAB.¹¹ So the whole-owned daughter company that supplies the iron ore product for the Nord Stream 2 pipes is directly linked to the Swedish state's commercial interests.¹² The Ministry of Enterprise and Innovation has also been responsible for coordinating the assessment of the Nord Stream 2 AG's project proposal. The Swedish Minister for Enterprise and Innovation, Mikael Damberg, announced on 7 June 2018 the completion of the Swedish assessment and the government's decision to grant the construction permit for Nord Stream 2 through Sweden's Exclusive Economic Zone.¹³ According to the agreement LKAB was to supply from 2017 until early 2019, 1.3 million tonnes of *MagnaDense* for the weight coating of 200,000 steel pipe segments for Nord Stream 2. *MagnaDense* is a special iron ore product that is mixed into the concrete to create a high density layer that is applied to the pipe segments in the weight coating plants in Finland and Germany, run by Wasco Coatings Europe.

Already for Nord Stream (1), LKAB's Minelco had delivered 1.5 million tonnes of *Minelco MagnaDense* from 2008 to 2011 to the French contractor EUPEC France. The magnitude of the Nord Stream deal with LKAB was at the time hailed as "the largest ever contract" for the Magnetite product. Both times, the contract for *MagnaDense* made a significant positive contribution to LKAB's sales and production. In addition to the production of the pipe segments and the material for their weight coating and transport to the Baltic Sea ports, commercial benefits have been generated for the local municipalities at and around the ports. In early September 2016, at the height of the controversy about Nord Stream 2, both in Sweden and in the EU, a contract was signed between the Nord Stream 2 AG and *Wasco Coatings Europe BV* for the concrete weight coating of the pipes, their storage and general logistics. Wasco Europe is registered in the Netherlands and Wasco Energy's headquarters are in Malaysia. The local affiliates in Finland and Germany are carrying out the logistics and storage.

¹¹ LKAB is whole-owned by the Swedish state, the government is represented on the board of LKAB by the Ministry of Enterprise and Innovation.

¹² LKAB Minerals is 100% owned by LKAB.

¹³ Näringsdepartementet (2018) Ansökan om tillstånd enligt 15 a § lagen (1966:314) om kontinentalsöckeln att lägga ut två rörledningar för transport av naturgas på kontinentalsöckeln inom svensk ekonomisk zon i Östersjön, 7 June, at <https://www.regeringen.se/49c72a/contentassets/492ddb8abdf542859c7c5bebc6702e/regeringsbeslut-ansokan-om-tillstand-enligt.pdf>

The local weightcoating, storage and logistics sites

In the Baltic Sea region, there are more than two hundred ports. Especially for the several dozen medium sized and dozens of smaller ports, the competition for larger commercial deals is important for their prospects of growth or even the maintenance of their operations, in a highly competitive environment. In their efforts to attract new investors and businesses to their ports, the modernization and expansion of cargo handling facilities, but also storage capacity plays an important role. Different Baltic Sea ports have been approached by the Gazprom daughter in the planning phase and practical preparation of the Nord Stream 2 construction. Lobbyists of the pipeline project have emphasized that "project-related operations" provide "positive economic stimulus" and contribute to the long-term development of the ports and aspect that has necessarily played into the port owners' decision to become engaged in the Russian pipeline project construction.

Nord Stream 2 generates, for the duration of the contracts, additional income in the municipalities where the chosen ports are located. A number of temporary employments are created for the local communities and additional revenue is generated for the local service industry and through taxes connected with the operations of the enterprises. Investments in the modernization of the port and industrial infrastructure on site, and the expansion of storage and cargo handling facilities at the Baltic Sea ports for the Nord Stream 2 project activities can also generate follow-up contracts for not only the ports, but also the enterprises in the surroundings and the municipalities. This commercial attractiveness of Nord Stream 2 for local ports has been a key bargaining chip for the pipeline lobbyists, enabling the Nord Stream 2 AG and its subcontractor Wasco Europe to apply significant pressure on selected Baltic Sea ports to accept the deal that was offered to them and secure the business opportunity, in competition with their neighbours.

However, an aspect that put pressure on Nord Stream 2 in the search for ports willing to support the project construction logistically was that the locations for the storage sites had to be chosen to fulfill a set of logistics and financial efficiency requirements to make it possible to transport the pipes "just-in-time" to the pipe-laying vessels, once the construction had started. This limited the range of "ideal" ports already for Nord Stream, which had managed to win the German Logistics Award for the year 2010 in recognition of its efficient implementation model.¹⁴ The Nord Stream 2 project is specifically designed around the optimal logistics sites to ensure a time- and cost-efficient completion of the twin pipelines by the end of 2019. This is also the date when the current Russian gas transit agreement with Ukraine will expire.¹⁵ The pressure that the project planners worked under to convince the desired "ideal partners" to accept the business deal from the Gazprom daughter was evident in the heavy lobbying

¹⁴ Nord Stream (2010) Nord Stream AG Receives 2010 German Logistics Award, 21 October, at <https://www.nord-stream.com/press-info/press-releases/nord-stream-ag-receives-2010-german-logistics-award-244/>

¹⁵ Kardas, S, Loskot-Strachota, Matuszak, S. (2019) A 'last-minute' transit contract? Russia-Ukraine-EU gas talks, OSW Commentary, 25 January, at <https://www.osw.waw.pl/en/publikacje/osw-commentary/2019-01-25/a-last-minute-transit-contract-russia-ukraine-eu-gas-talks>

activity that concentrated on the selected ports and harbour facilities in Sweden. In Germany, in the federal state of Mecklenburg-Western Pomerania, where the Russian gas deliveries through Nord Stream 2 are to come on land, the port of Sassnitz-Mukran on the island of Rügen received the bulk of the business. According to the agreement with Nord Stream 2, the subcontractor Wasco Europe operates two concrete weight coating plants for the steel pipe segments that are used to build the third and fourth subsea pipeline across the Baltic Sea - Wasco Coatings Finland in Kotka and Wasco Coatings Germany GmbH at Mukran.

Mukran Port Terminals are owned to 55% by Fährhafen Sassnitz GmbH, which in turn is owned to 90% by the City of Sassnitz, and to 10% by the Federal State of Mecklenburg-Western Pomerania. At the industrial site of the port, 90,000 pipe segments are stored and cement weight coated, using the concrete weight coating plant that was also used for the coating of steel segments for its predecessor, Nord Stream. The services executed for Nord Stream 2 at the port include also the transport between the weight coating plant and the storage sites. Mutares AG Munich sold in February 2017 EUPEC France, the owner of the concrete weight coating plant in Mukran, to the Malaysian Wasco Group. In Mukran, Wasco Europe employs around 150 persons in the concrete weight coating facility for the duration of the project. The first pipes, produced by Europipe for Nord Stream 2 arrived by rail from Mülheim an der Ruhr to Mukran in late October 2016, about a year and a half before the construction permit was granted by Germany, and then by Finland and another two months later by Sweden. This early production and the delivery well ahead of the completion of the formal permitting procedure in the different EU member states followed a similar timetable to that in place for its predecessor. For Nord Stream (1), the first pipe segments were delivered to Mukran in May 2008, more than a year before Finland and Sweden had granted their approval to the construction of the project. The early delivery of the pipes to Mukran helped ensure that the 400km of pipe joints that had to be weight coated, could be delivered to the different storage sites in the Baltic Sea on time before the construction of the first of the twin pipelines would start in 2010. The project planners simply assumed that the political approval of the permits for the Nord Stream project was a matter of rubber-stamping, rather than it ever being in doubt.

The Finnish Port of HaminaKotka, located at only 35 kilometres from the Russian border, has received the pipe segments produced by the pipe mills in Russia from Chelpipe and OMK. The Port of HaminaKotka is co-owned by the municipalities of Hamina (40%) and Kotka (60%). It is the largest container terminal in Finland and one of the largest Baltic Sea ports. The deliveries of the pipe segments from Russia started in September 2016. In total, more than 90,000 pipe segments for the Nord Stream 2 construction were to be coated by Wasco Coatings Finland in Kotka. At the Mussalo harbour in Kotka, Wasco Coatings has estimated that around 400 persons are employed for the weight coating operations, maintenance, storage and port operations for Nord Stream 2. The same concrete coating plant was used already for Nord Stream (1) by *Eupec*, which Wasco took over. Besides the Port of HaminaKotka also the Port of Hanko (Koverhar) has been engaged in the preparatory work for this second major Russian Baltic Sea pipeline construction. The logistics plan for Nord Stream 2 was that Wasco would operate three storage yards for the pipes, located in EU member states around the Baltic Sea. One of these, Finnish Koverhar harbour, which since 2015 is a part of the Port of Hanko, was used already for Nord Stream 1. The City of Hanko whole-owns the Port of Hanko which is the fifth largest and also the Southernmost Finnish harbour. It is estimated that around 130 persons, including "experts

from all over the world", but above all 50 locals, have been temporarily employed in Koverhar for Nord Stream 2.

The deal with Nord Stream 2 is generating favourable follow-up business opportunities for Koverhar, as a new port operator will start in the autumn of 2019 at Koverhar harbour once the work with the Nord Stream 2 pipes has been completed. Unemployment in the Hanko region has been high, which is why the pipeline project has been treated as a welcome commercial project with positive effects for the Finnish municipality and local economy. In addition to the services contracted at the Port of HaminaKotka, the large Koverhar storage site (purchased by Hanko city after the steel factory on the site went bankrupt in 2012) and the logistics services of the Port of Hanko were contracted without provoking any real debate in Finland. The storage of the concrete weight coated pipes for Nord Stream 2 has been distributed between the Wasco storage area at the Port of HaminaKotka and Koverhar harbour.

The Nord Stream 2 AG announced in September 2016 that the other two storage locations for the weight coated pipe segments were "to be located in Sweden at sites still to be confirmed". A key battlefield for the pipeline planners and the Swedish domestic opponents was the principle of the local self-government - "det kommunala självstyre" - and the resulting unwillingness of the Swedish national government, to interfere in the municipalities' decisions regarding the business deals with Gazprom's daughter company. For the construction of the predecessor Nord Stream, both Slite harbour on the Northeastern coast of the island of Gotland and Verkö terminal at the Port of Karlskrona in Blekinge Bay on the Central-Eastern coast of mainland Sweden had served as storage sites for the pipes. In contrast to the more muted domestic debate in Finland, in Sweden a prolonged controversial domestic local and national dispute followed the proposals by the pipeline planners to the ports. The Nord Stream project was already a decade earlier subject to heated debates, with the political establishment in Stockholm on the whole highly negatively predisposed towards the Russian Baltic Sea gas pipelines. The negative attitude towards the pipeline project as such, but also the awareness of Russia's rapid military development during the 2000s, but also the role and connection of the energy sector to the Russian defence sector,¹⁶ resulted in deep scepticism towards the use of strategically located Swedish ports for the logistics during the Nord Stream pipeline construction.

The Swedish storage and logistics deals

The *Karlskrona Baltic Port*, at the time whole-owned by the Municipality of Karlskrona, eventually agreed to the deal with Nord Stream in 2009, after first rejecting it. The fact that the Port anticipated an income deficit in 2009 may have facilitated the favourable decision on the second attempt. The Verkö industrial terminal served as a storage and loading point for the Norwegian North Sea Group, a subcontractor of Eupec. A total of 30,000 concrete weight coated pipe segments were stored at the Port

¹⁶ See Chapters 7 and 8 (in Swedish) in Larsson, R.L. (2008) *Energikontroll: Kreml, Gazprom och rysk energipolitik*, FOI-R-2445-SE, Swedish Defence Research Agency (FOI).

for an estimated 30 million Swedish kronors, including the rental costs for the storage space and the port taxes. The pipes were delivered from Mukran to Verkö in mid-August 2009, although the Swedish government only granted its construction permit to Nord Stream in November 2009.

In the planning for Nord Stream 2, the Port of Karlshamn - instead of Karlskrona- was targeted by the pipeline and logistics planners. Located also in Blekinge Bay, Karlshamn had, together with the much smaller harbour of Öxelösund, already been on the list of possible storage locations for Nord Stream a decade earlier. The Port of Karlshamn is wholeowned by the Municipality of Karlshamn and one of Sweden's largest Baltic Sea ports. Discussions between the pipeline planners and Karlshamn had been ongoing already since around 2014, and in 2016, Karlshamn took a decisive step to purchase about 200,000 square metres storage space at Stilleryd harbour to increase the available space at the Port of Karlshamn to be able to accommodate the anticipated 30,000 pipe segments. Between September 2016 and the end of January 2017 a heated Swedish debate took place about whether Karlshamn should be "allowed" by the Swedish government to accept the offer from Nord Stream 2. For Karlshamn, the question was not just one of possibly missing out on a profitable business opportunity, but of recovering the costs of the investments that had already been made in anticipation of the pipeline storage deal.

The Swedish government was hard pressed. Its principled stance, repeatedly emphasized by the Swedish Foreign Minister, was that Nord Stream 2 was undesirable.¹⁷ The government's opposition to Karlshamn's plans of accepting the business proposal was reinforced in mid-December 2016, when the Swedish Defence Minister, Peter Hultqvist, together with the Swedish Foreign Minister, Margot Wallström, warned the representatives of the Municipality of Karlshamn about the hard security concerns that the Armed Forces and Swedish security and intelligence services had conveyed to the government. Blekinge Bay, where the Port of Karlshamn is located, is an important military exercise area for the Swedish Navy, and the Swedish Air Force's Blekinge Wing F17, with its nearby airbase at Kallinge, North of Ronneby, were mentioned by the Swedish Defence Minister in a public statement as relevant aspects to consider with regard to the Nord Stream 2 offer made to the Municipality. The responsibility of F17 is to protect the Swedish airspace and Sweden's national borders. In the end, the Swedish government backed down at another meeting in late January 2017 and gave the "green light" to the Municipality - a step warmly welcomed by Nord Stream 2¹⁸ - while emphasizing that a range of security measures would be implemented by the Swedish state to handle the risks associated with the logistics and storage work of Nord Stream 2 at Stilleryd harbour and in Blekinge Bay. In October 2017, the first concrete weight coated pipe segments arrived from Mukran for storage in Karlshamn. In total, 52,000 pipe segments are stored in Karlshamn, generating an unconfirmed sum of around 100 million Swedish

¹⁷ Swedish Public Television (2016) Wallström: Vi kan inte ensamma stoppa Nord Stream, 8 September, at <https://www.svt.se/nyheter/inrikes/wallstrom-vi-kan-verka-mot-gasledningen>

¹⁸ Nord Stream 2 (2017) Nord Stream 2 welcomes decision regarding pipe storage at Port of Karlshamn, 31 January, at <https://www.nord-stream2.com/media-info/news-events/nord-stream-2-welcomes-decision-regarding-pipe-storage-at-port-of-karlshamn-36/>

kronors for the Port (and Municipality) from Nord Stream 2 and creating around 30 temporary employments.¹⁹

The second major Swedish domestic controversy regarding Nord Stream 2's ambitions to service the pipeline construction work from a storage site in Sweden concerned Slite harbour on the island of Gotland. The tiny harbour²⁰ on the Northeastern coast of the large Swedish island in the Baltic Sea, wholeowned by the regional authorities, had been used already during the construction of Nord Stream. Slite is an ideally located site in the Baltic Sea for the pipeline construction due to its central location and close proximity to the pipeline route. For the Region of Gotland the Nord Stream 2 offer was a welcome prospective source of extra income. The predecessor project had enabled a certain upgrade with a deepening of the harbour area, the construction of a 30 meter wide pier, Apotekarkajen (also nicknamed "Putinkajen" - the Putin Pier). For Nord Stream, a storage area had also been prepared for the pipes in the proximity of the harbour. Gotland invested 7 million Swedish kronors in the work to upgrade the harbour and surrounding facilities, of which Nord Stream AG was to cover 2,5-3 million Swedish kronors directly, while the remainder was to be paid in the form of harbour taxes. The Region of Gotland stood as a result for around 4,3 million Swedish kronors which included also the adaptation of the crossings from Slite harbour to the storage site at Vikhagen to improve the access and security of the pipe segment transportation between Vikhagen and the Pier. The total income from Nord Stream would amount to 70 million Swedish kronors. In the end, 58,000 concrete weight coated pipes were handled in Slite and stored in Vikhagen. Gotland's Stuveri company temporarily employed 50 persons in Slite to handle the transport and logistics. At the otherwise fairly quiet harbour of Slite, the activity and temporary boost to the local economy were welcomed by the local community.

When in 2016 the Swedish decision-makers questioned the government about its perceived inactivity in the EU regarding Nord Stream 2 and ways of stopping the project, Slite harbour was at the centre of attention. This had much to do also with the Swedish Defence Commission's analysis of the security situation in the Baltic Sea after Russia's annexation of Crimea. The Defence Bill, published in 2015, placed its focus, among other things, on the need to reinstall a permanent military presence on Gotland. Meanwhile, the Regional Authority of Gotland insisted that the possible logistics and storage deal for Slite with Nord Stream 2 deal was a welcome business deal for the island. This perspective was strongly supported by the lobbyists of Gazprom's daughter company, and fully endorsed by the Russian Ambassador to Sweden in various of his public statements in which he expressed his strong expectation that the Swedish government would approve Nord Stream 2 and refrain from unduly "politicizing" the project. Gotland expected to receive around five million Euros, and around 20 temporary employments in Slite. But already at the meeting with the Defence Minister and Foreign Minister in Stockholm, in mid-December 2016, the Chairman of the Regional Assembly of Gotland had to concede that the hard security concerns of the Swedish government were weighing so strongly that he would have to recommend to the Regional Councillors to reject the deal with Nord Stream 2. This position was confirmed at the end of January 2017. Despite missing out on the Slite deal, according to Nord Stream 2,

¹⁹ Swedish Public Television (2017) Nord Stream 2 - arbetet i Karlshamn intensifieras, 26 October, at <https://www.svt.se/nyheter/lokalt/blekinge/har-anlander-nord-stream-roren-till-karlshamn>

²⁰ Region Gotland (n.d.) Slite, at <https://www.gotland.se/76094>

the combined value of the business contracts allocated to companies in Sweden amount to 100 million Euros.

Beyond the storage and logistics, in Sweden, the Port of Norrköping, a wholly owned subsidiary of Norrköping City Hall Company, which is part of the Norrköping Municipality Group, had acted as the central supply base for Nord Stream. Between the spring of 2010 and mid-2012, the port offered stevedoring, repair and maintenance work on the Nord Stream supply vessels. Norrköpings Hamn & Stuveri company as well as other regional and local businesses generated an estimated income of 100 million Swedish kronors. The Port of Norrköping contributed meanwhile about 4-5 million kronors to the municipal budget. But in February 2017, following the decision by Gotland to pull Slite harbour out of the deal with Nord Stream 2, Norrköping announced that it did not intend to participate again in the Nord Stream construction.

If you don't take this deal, your neighbours will

While the Swedish debates about the participation of Karlshamn and Slite were in their final phase, on the Danish island of Bornholm, the interest was growing in possibly replacing the Swedish sites. Rønne havn - the Port of Rønne on Bornholm, was cautiously optimistic that it might clinch a deal of its own with Nord Stream 2 that would create some temporary jobs and generate welcome extra income for the Danish port and Municipality of Bornholm. However, when Slite pulled out and Karlshamn decided to resist the Swedish government's recommendation and go ahead with the deal, the Mayor of Bornholm made clear that Rønne, unlike its Swedish counterpart Karlshamn, would not consider going against the express wishes of the Danish government.²¹ With its convenient location in the Baltic Sea, along the planned new pipeline route, the possible participation of Bornholm in the Nord Stream 2 project, and the subcontractor's interest in using Rønne was hardly a surprise. That Rønne would make any participation in the pipeline logistics dependent upon Danish government approval reflected a general concern in Denmark, that the swift adoption of legislative amendments to the Law on the Continental Shelf underlined half a year later.

More unexpected was the sudden announcement in late April 2017 from the Latvian city of Ventspils that the Freeport of Ventspils had been offered a deal with Nord Stream 2. The Latvian media reported that the Noord Natie Venspils Terminal had received an offer worth 3 million Euros, from the pipeline planners for acting as a logistics site during the pipeline construction. Nord Stream 2 would have built a new cargo handling area which supporters in Ventspils claimed would have been handed over to the Freeport at no charge.²² Supporters of the deal underlined that it would generate 25 million Euros of income for Latvia and that the Nord Stream 2 subcontractor had promised an investment of 14 million Euros in the expansion of the cargo storage space which would be handed to the Freeport after the

²¹TV2/Bornholm (2017) Fakta om Nord Stream 2, 27 January, at <http://tv2bornholm.dk/nyheder/kv17.aspx?newsID=123368>

²² Baltic News Network (2017) Programme: Nord Stream 2 developers pause with Ventspils' involvement, 2 May, at <https://bnn-news.com/programme-nord-stream-2-realizers-pause-with-ventspils-involvement-164699>

completion of the two pipelines.²³ Since four of the eight Board members of the Port of Ventspils are representing the Latvian government, the national government has, unlike in Sweden, a direct formal veto power in major decisions concerning the port.²⁴ After the announcement of the possible deal of the Gazprom daughter with the Ventspils Freeport, the Latvian Cabinet of Ministers quickly decided to veto the Latvian port's participation in the the pipeline construction. Similar to the Swedish government's concerns, Foreign Minister Edgars Rinkevics explained that the Latvian government's objection was motivated by the potential risks the pipeline project poses for Latvia's national security.

In response to the Ministers' decision of vetoing the deal, the notorious Mayor of Ventspils and Chairman of Ventspils Port, Aivars Lembergs, argued that the Latvian government would have to pay a compensation to the Freeport for missing out on the income that Nord Stream 2 would have generated. Later in June, the Ventspils Port authorities submitted a formal request to the Latvian government for compensation. They demanded 2,500,000 Euros for lost cargo transport services, 700,000 Euros for lost cargo storage services, 2,500,000 Euros for the unused supply of technological elements (territory, machinery investments) and 2,600,000 Euros for Baltic Express as a compensation for lost profits from railway transportation services for Nord Stream 2.²⁵ The Baltic Association for Transport and Logistics (BATL) had argued already in early May 2017 that since the pipelines would most likely be built and since four other ports in the EU had confirmed their participation, the Latvian government should reconsider its veto, since Nord Stream 2 "would create new jobs and benefit the national economy, the state and Ventspils municipal budget".²⁶

For Koverhar harbour, Gotland's rejection of renting out Slite, the Danish reluctance on Bornholm and the Latvian government's veto against the use of Ventspils harbour were very welcome as the Finnish storage site became consequently more important for the implementation of Nord Stream 2. Instead of the original volume of 30,000 pipe segments, a total of 60,000 pipes would be stored at the Port of Hanko. What is interesting to consider is that similar to the debates about Karlshamn and its proximity to Ronneby and the Navy's exercise area in Blekinge Bay, and the Swedish military presence on the island of Gotland, there could very well have been a similar debate in Finland about the close proximity of the Nord Stream 2 transshipment at Koverhar, since there is a Finnish military exercise ground located in close proximity, at Syndalen. In addition, the home harbour for a large part of the Finnish Navy's warship is located nearby. The geographic area around the Hanko peninsula is of importance for the Finnish Armed Forces's military exercises on land and off the coast. That such debate never arose in the public domain in Finland is less surprising when the position of the Finnish Armed Forces is concerned in relation to the Swedish Armed Forces. With its compulsory military service and focus on

²³ Baltic News Network (2017) Government decides not to support Ventspils involvement in Nord Stream 2, 21 April, at <https://bnn-news.com/government-decides-not-to-support-ventspils-involvement-in-nord-stream-2-164193>

²⁴ Freeport of Ventspils (n.d.) Board, at <http://www.portofventspils.lv/en/port-administration/board/>

²⁵ Baltic News Network (2017) Latvian government asked to compensate profits lost from rejecting Nord Stream 2, 21 June, at <https://bnn-news.com/latvian-government-asked-to-compensate-profits-lost-from-rejecting-nord-stream-2-167379>

²⁶ Baltic News Network (2017) BATL: Economic aspects are just as important as security in Nord Stream 2, 2 May, at <https://bnn-news.com/batl-economic-aspects-are-just-as-important-as-security-in-nord-stream-2-164709>

territorial defence across the long Russian land border, meeting a "Russian threat" at the border and around the harbours is not an issue of sudden concern for Finland.

Although the Nord Stream 2 project has been welcomed at the local level around the Baltic Sea in the different EU member states as a means of promoting economic growth, there are significant differences between the different sites regarding the effects of the deals with the Gazprom daughter on the local community and economy. While for the large Baltic Sea Ports of Karlshamn and Hanko/Koverhar further commercial opportunities will follow, and for the large subcontractors, LKAB in Sweden and Europipe, Salzgitter/Dillinger in Germany, the volume of the contract is such that it has a recognizable impact on the financial possibilities of the companies, for the local communities in the EU, the benefits are more limited. Additional employments connected to the project are temporary, and the income for the municipalities, come as a one-off addition to the budget. An exception is Lubmin at the destination of the pipeline, a municipality of around 2,000 inhabitants, where the natural gas from Russia arrives. Lubmin receives a regular income of approximately 1,5 million Euros annually from the municipal taxes paid by Nord Stream which, according to estimates, should enable the local authorities to pay off their debt by 2020.²⁷ The 30 million Euros invested by Eupec and the additional 10 million Euros invested by the Federal State of Mecklenburg-West Pomerania in the development of the Port and the industrial site at Lubmin for Nord Stream and the temporary employment created by Eupec at the Port of Mukran-Sassnitz gave a welcome economic boost to a region suffering since the mid-1990s from high rates of unemployment - especially after the decommissioning of the nuclear power station in Lubmin that had employed around 10,000 workers.

The construction of a new combined heat and power (CHP) station in Lubmin by Wingas and E.On in connection with Nord Stream has made an additional contribution to the energy supply and industrial modernization of the region.²⁸ The natural gas transfer station at Lubmin serves as the connecting point of Nord Stream with the OPAL (Ostsee-Pipeline-Anbindungs-Leitung/Baltic Sea Pipeline Link) and NEL (Nordeuropäische Erdgas-Leitung/North European Gas Pipeline) transmission pipelines for the onward transport of the gas to the final customers. The CHP plant, with a Siemens gas turbine (SGT-750),²⁹ produces energy for 50,000 households, while preheating the Russian gas arriving in Lubmin through Nord Stream for its onward transport.³⁰ After Gazprom gained whole-ownership of Wingas in 2015 through a swap deal with Wintershall/BASF,³¹ the CHP plant in Lubmin represents for Gazprom an

²⁷NDR (2018) Nord Stream 2 stößt in Lubmin auf Wohlwollen, 10 October, at <https://www.ndr.de/nachrichten/mecklenburg-vorpommern/Nord-Stream-2-stoesst-in-Lubmin-auf-Wohlwollen,nordstream294.html>

²⁸ Wingas (2013) Wingas and E.On bring highly efficient natural gas CHP plant on stream, 18 October, at <https://www.wintershall.com/press-media/press-releases/detail/wingas-and-eon-bring-highly-efficient-natural-gas-chp-plant-on-stream.html>

²⁹ Siemens (2013) Cogeneration plant in Lubmin equipped with Siemens SGT-750 industrial gas turbine officially inaugurated, 21 October, at <https://www.siemens.com/press/en/feature/2013/energy/2013-10-lubmin.php>

³⁰ Wingas (n.d.) Factsheet. Using Energy to the Full: the CPH Plant at Lubmin, at https://www.wingas.com/uploads/tx_news/131104_Factsheet_Lubmin_en_final.pdf

³¹ Wingas (2015) Wingas becomes wholly owned Gazprom subsidiary, 4 September, at <https://www.wingas.com/en/press/detail/wingas-becomes-wholly-owned-gazprom-subsiadiary-1.html>

important step into the electricity market in Germany and serves as an illustration of the different ways in which Gazprom has expanded its commercial activities in the EU.

Nord Stream and Nord Stream 2 play undeniably an important role in the regional development of Mecklenburg-West Pomerania and specifically the region around Greifswald. The positive economic effects generated by Gazprom for the electorate in the Greifswald-Rügen district, have probably been a factor among many others, influencing the German Chancellor Angela Merkel in her support for both Nord Stream and Nord Stream 2.³² The medium- to long-term effects of the Russian pipelines on the local economy in Greifswald region are more limited. Despite the large size of the projects and associated range of work conducted during its construction, the employment opportunities created by Nord Stream in the area are rather small. Nord Stream is said to have produced only three jobs in Lubmin and an additional ten with the transmission pipeline operator. With Nord Stream 2 the number of employments could be expected to roughly double, according to a Nord Stream spokesperson. The four major Russian pipelines would together create little more than two dozen long-term employments in Mecklenburg-West Pomerania. However, the construction of both the second gas receiving station at Lubmin that is expected to be completed in late 2019 on time for the desired completion date (by Gazprom) of Nord Stream 2, and of the EUGAL transmission pipeline that is to transfer the Russian gas from Nord Stream 2 onwards, further employments are created across East Germany.³³ Nord Stream 2 also generates more income for Gazprom as the co-owner of Gascade, the company that has a controlling share in EUGAL, and as the co-owner of NEL and OPAL, in cooperation with Wintershall/BASF. Wintershall/BASF is, in turn one of the five European companies that co-finance Nord Stream 2 and also holds shares in Nord Stream.

Asset swaps and other energy deals with Gazprom connected to NordStream2

In addition to the permits and construction work for Nord Stream 2, much attention has been paid to the question of whether the pipeline project is commercial, or political, from the Russian perspective. Less attention has been paid to why the five European energy companies (E.ON/Uniper, BASF/Wintershall, ENGIE, Royal Dutch Shell, OMV) that have pledged their financial support to Nord Stream 2 support the project that is whole-owned by Gazprom. The Polish Office of Competition and Consumer Protection (UOKiK) had already in 2016 raised official objections against Gazprom's envisaged joint venture with the five European energy companies on the grounds that this would create an excessive market concentration of these companies in Poland.³⁴ In response to the UOKiK's objections,

³² For details on the electoral district and preferences of her electorate, see Ostsee-Zeitung (2017) Vorpommern wählt Merkel, 24 September, at <http://www.ostsee-zeitung.de/Vorpommern/Stralsund/Politik/Vorpommern-waehlt-Merkel>; NWZ Online (2017) So hat Merkel in ihrem eigenen Wahlkreis abgeschnitten, 25 September, at <https://www.nwzonline.de/politik/stralsund-vorpommern-ruegen-vorpommern-greifswald-i-so-hat-merkel-in-ihrem-eigenen-wahlkreis-abgeschnitten-a-32,0,3942977439.html>

³³ Gascade (2018) EUGAL Natural gas receiving station in Lubmin receives approval, 24 May, at <https://www.gascade.de/en/press/press-releases/press-release/news/eugal-natural-gas-receiving-station-in-lubmin-receives-approval/>; EUGAL (2018) Eugal in Saxony: Elbe is being crossed, 18 December, at <https://www.eugal.de/en/media-library/press-releases/press-release/news/eugal-in-saxony-elbe-is-being-crossed-1/>

³⁴ UOKiK (2016) UOKiK issues objections to a concentration - Nord Stream 2, 22 July, at https://uokik.gov.pl/news.php?news_id=12477

the joint venture plans were dissolved in August 2016 and Gazprom became the wholeowner (100%) of Nord Stream 2.³⁵ The subsequent announcement in April 2017 of a financing agreement for Nord Stream 2 between Gazprom and the five companies,³⁶ was subject to further scrutiny and the Polish UOKiK argues that this arrangement is - just like the joint venture - in breach of anti-monopolist rules.³⁷ After the setback with Poland's Competition and Consumer Protection Authority, Gazprom managed to convince the five companies to financially support the project.

The commercial motivations of the five energy companies are not necessarily exclusively rooted in their belief in the profitability of the Baltic Sea pipelines. Other commercial agreements with Gazprom can have played into these companies' determined support for the new Russian pipeline project, despite the uncertainty of its completion and despite the real possibilities of US sanctions targeting the project's participants. Several exchanges of ownership stakes ('asset swaps') in the Russian versus the European energy sector were confirmed in 2015 along with the European energy companies' agreements with Gazprom on their participation in Nord Stream 2, which may shed some light on additional incentives indirectly associated with the Baltic Sea pipeline that increase the value and commercial return of these companies' financial commitment to Nord Stream 2.

OMV, a company that is part-owned by the Austrian state (31,5%) was in 2015 facing serious financial problems.³⁸ In response to these problems, the new Chief Executive Officer, Rainer Seele, directed OMV towards a stronger focus on Russia and on natural gas, seeking to reinforce the Austrian company's cooperation with Gazprom.³⁹ Rainer Seele joined OMV in mid-2015, after having been the Chairman of German Wintershall, a wholeowned subsidiary of BASF. Also, after having joined BASF in 1987, and having worked at Wintershall from 1996 until 2015, Rainer Seele possessed several decades of experience in a major European energy company that had nurtured its cooperation with Gazprom both in Russia and in Germany, not least through BASF/Wintershall's participation in Nord Stream, the transmission infrastructure connected to the first Baltic Sea pipeline project, and their co-ownership of Wingas since 1993 - a gas distribution company that operates across Western Europe, the Czech Republic and Austria.

OMV's new strategy to shift the focus from "expensive" Norwegian fields towards "more profitable" Russian explorations was reflected in OMV's preliminary agreement with Gazprom - under the umbrella of Nord Stream 2 - to acquire a 24.98% stake in Urengoy, in exchange for 38.5% of OMV Norge which was to give Gazprom part-ownership in Norwegian fossil fuel fields. It was not made known which of

³⁵ Engie (2016) Joint declaration of ENGIE, GAZPROM, OMV, SHELL, UNIPER, WINTERSHALL and NORD STREAM 2 AG, 16 August, at <https://www.engie.com/en/journalists/press-releases/joint-declaration-nord-stream-2/>

³⁶ Engie (2017) Nord Stream 2 AG and European energy companies sign financing agreements, 24 April, at <https://www.engie.com/en/journalists/press-releases/nord-stream-2/>

³⁷ UOKiK (2018) UOKiK against Nord Stream 2, 9 May, at https://www.uokik.gov.pl/news.php?news_id=14323

³⁸ ORF (2016) OMV mit Umsatzeinbruch, 18 February, at <https://wien.orf.at/news/stories/2758336/>

³⁹ Benz, Mathias (2016) OMV hofft auf Russland, *Neue Zürcher Zeitung*, 18 February, at <https://www.nzz.ch/wirtschaft/unternehmen/oesterreichs-oelkonzern-mit-neuer-strategie-omv-hofft-auf-russland-id.5485>

OMV's licenses on the Norwegian shelf the asset swap would have included.⁴⁰ The Norwegian Energy Ministry had to approve Gazprom's acquisition of licenses from OMV and it was reported that the Norwegian regulatory authorities sought to restrict Gazprom's stakes to a maximum of 25%.⁴¹ Russian sources emphasized meanwhile that the asset transfer would be approved after the Norwegian elections.⁴²

The push by Gazprom for the swap with OMV reflects the Russian energy companies' growing interest in acquiring Norwegian exploration and production assets.⁴³ It also makes clear that an increase in foreign investments in Gazprom's gas explorations has become accepted as a necessary step to secure financial resources and bring foreign expertise into the Russian fossil fuel sector. Instead of the "cash free" swap deal, which was abandoned reportedly due to the uncertainty of obtaining the Norwegian government's approval, OMV agreed in October 2018 to the purchase of the 24.98% share from Gazprom in the Urengoysskoye gas and condensate field, block 4A and 5A.⁴⁴ OMV had in 2017 acquired from another Nord Stream 2 investor, E.ON/Uniper, its 24.99% shares in the Russian Yuzhno Russkoye field.⁴⁵ In 2018, OMV also agreed to extend until 2040 the supply contract with Gazprom for Russian gas deliveries to Austria and it was agreed that the volume of gas deliveries would be increased by 1 billion cubic meters per year.⁴⁶ OMV's deals with Gazprom are interconnected, and in this context, the wider ramifications of anticipated commercial benefits of Nord Stream 2 for the Austrian company can help explain, at least partly, the strong support by the Austrian government for the Russian Baltic Sea pipeline project.

As a traditional key partner of Gazprom, the German company BASF/Wintershall had already been in the process of expanding its several decades long cooperation with Gazprom in the German market.⁴⁷ The infrastructure for the transport of gas delivered by Nord Stream to the Baltic Sea coast, further on across Eastern Germany and to different European destinations had been jointly built and operated by Wintershall and Gazprom. With BASF/Wintershall, Gazprom agreed in 2015 a transfer of a 25.01% share

⁴⁰ Staalesen, Atle (2016) Norwegian opening for Gazprom, *The Barents Observer*, 4 April, at <https://thebarentsobserver.com/ru/node/646>; Infima AS (2016) Andel av OMV Norge selges til Gazprom, at <http://infima.no/transactions/energi/andel-av-omv-norge-selges-til-gazprom>

⁴¹ Staalesen, Atle (2016) Oslo stops Russian advance on Norwegian shelf - Gazprom, *The Barents Observer*, 29 September, at <https://thebarentsobserver.com/en/industry-and-energy/2016/09/oslo-stops-gazproms-advance-norwegian-shelf>

⁴² Interfax (2017) OMV waiting for formation of Norwegian govt to approve selling asset to Gazprom, 13 September, at <http://www.interfax.com/newsinf.asp?id=777533>

⁴³ Staalesen, Atle (2015) Growing Russian interest in Norwegian oil, *The Barents Observer*, 9 December, at <https://thebarentsobserver.com/ru/node/200>

⁴⁴ Gazprom (2018) Gazprom and OMV sign Basic Agreement on Asset Sale, 3 October, at <http://www.gazprom.com/press/news/2018/october/article462034/>; OMV (2018) OMV and Gazprom sign a "Basic Sale Agreement" regarding the potential acquisition of a 24.98% interest in Achimov IV and V phase development by OMV, 3 October, at <https://www.omv.com/en/news/181003-omv-and-gazprom-sign-a-basic-sale-agreement>

⁴⁵ OMV (2017) OMV has reached an agreement with Uniper for the acquisition of 24.99% of the Yuzhno Russkoye field in Western Siberia, 5 March, at <https://www.omv.com/en/news/ad-hoc-announcement-omv-has-reached-an-agreement-with-uniper-for-the-acquisition-of-24-99-of-the-economic-rights-in-the-production-of-the-yuzhno-russkoye-field-in-western-siberia-for-a-purchase-price>

⁴⁶ Gazprom (2019) Gazprom and OMV discuss relevant cooperation issues, 28 January, at <http://www.gazprom.com/press/news/2019/january/article473722/>

⁴⁷ Gazprom Export (2013) 40 Years in the German Market, 10 October, at <http://www.gazprom.com/about/history/events/germany40/>

in the Urengoyskoye field, Block 4A and 5A, where also OMV acquired its shares from Gazprom. In return, Gazprom acquired valuable assets from the BASF/Wintershall in Germany, the Netherlands, Austria and the North Sea. The deal, retroactively applied to 1 April 2013, includes Gazprom's acquisition of the major German gas storage facilities in Rehden and Jemgum and the Austrian gas storage facility in Haidach.⁴⁸ It also includes Gazprom's acquisition of 50% of *Wintershall Noordzee* which is engaged in oil and gas explorations in the North Sea. This acquisition expands Gazprom's engagement in the European energy sector quite substantially, as Wintershall Noordzee operates 25 platforms and 7 subsea production systems in the UK, the German, Danish and the Dutch sectors of the North Sea, and it is also one of the largest producers of natural gas in the Netherlands.⁴⁹

The deal fulfils Gazprom's long-term strategy of expanding into the North Sea and strengthens also Gazprom's cooperation with a third European company that participates in Nord Stream 2, French Engie (formerly known as GdF Suez).⁵⁰ After receiving the approval of the European Commission,⁵¹ Gazprom acquired also the 50% remaining shares from Wintershall of the gas trading company *Wingas* that captures roughly 20% of the German gas market and of *Wintershall Erdgas Handelshaus* (WIEH) and *Wintershall Erdgas Handelshaus Zug* (WIEE), turning Gazprom into the wholeowner of these major German gas trading companies.⁵² Through this deal, Gazprom acquired at the same time commercially and strategically valuable gas trading and storage assets in the EU's largest energy market, complementing its existing ownership of transmission pipelines and of the Nord Stream and Nord Stream 2 pipelines, in addition to securing foreign technical support and investments for its gas production in Russia in difficult segments of an important Russian gas production site.⁵³

A third European company supporting Nord Stream 2 and with which Gazprom is already engaged in cooperation in the Russian upstream sector is Royal Dutch Shell. The company cooperates with Gazprom in the Sakhalin 2 LNG project in Russia's Far East. Royal Dutch Shell already had to experience in the mid-2000s that foreign access to the Russian energy sector was becoming more tightly controlled. In 2006, Gazprom had entered, arguably by force, the Sakhalin 2 LNG project through an acquisition of a majority stake from the consortium that consisted of Shell and Japanese Mitsui and Mitsubishi.⁵⁴ The participation in the LNG production helped Gazprom acquire valuable technical know-how and opened up the possibility to both generate income from gas sales to Asia, keep up with the domestic Russian

⁴⁸ Wintershall (2015) BASF and Gazprom complete asset swap, 1 October, at <https://www.wintershall.com/press-media/press-releases/detail/basf-and-gazprom-complete-asset-swap.html>

⁴⁹ Wintershall (2017) Wintershall Noordzee B.V. starts first oil production in Danish North Sea, 19 April, at <https://www.wintershall.com/press-media/press-releases/detail/wintershall-noordzee-bv-starts-first-oil-production-in-danish-north-sea.html>

⁵⁰ Gazprom international (n.d.) North Sea, at <http://www.gazprom-international.com/en/operations/country/north-sea>

⁵¹ European Commission (2013) Fusionskontrolle: Kommission gibt Gazprom grünes Licht für Übernahme, IP/13/1207, 4 December, at http://europa.eu/rapid/press-release_IP-13-1207_de.htm

⁵² Federal Government of Germany (2015) Antwort der Bundesregierung "Geplanter Asset-Tausch zwischen BASF bzw Wintershall und Gazprom, Drucksache 18/6526, 2 November, at <http://dip21.bundestag.de/dip21/btd/18/065/1806526.pdf>

⁵³ Gazprom (2015) Gazprom and Wintershall complete asset swap, 1 October, at <http://www.gazprom.com/press/news/2015/october/article248097/>

⁵⁴ Sakhalin Energy (n.d.) Gazprom, Shell, Mitsui, Mitsubishi sign Sakhalin II protocol, at <http://www.sakhalinenergy.ru/en/press-releases/2738/>

competitors and to catch up with the increasing global market shift towards LNG production and trade beyond the regional geographic neighbourhood. Gazprom's agreement with Shell in 2015 envisages a third LNG production train within Sakhalin 2.⁵⁵ In June 2016, Gazprom also signed a Memorandum of Understanding with Shell for its plans to construct a Baltic LNG plant. This LNG plant would be located in Ust-Luga in the close proximity to the Nord Stream 2 pipelines.⁵⁶

For Gazprom, the LNG project had already played for quite a long time a role in future planning, but the plans had never come to fruition. If the Baltic LNG plant can indeed be built with the participation of Royal Dutch Shell, it will promote both the Russian technical and industrial development regarding LNG⁵⁷ and at the same time create practical alternatives to ship Russian gas through the Baltic Sea not just through its Baltic Sea pipelines from Vyborg (Nord Stream) and Ust-Luga (Nord Stream 2) to Germany, but also in the form of LNG to destinations further afield. The participation by the European energy companies in Nord Stream 2 as investor and Gazprom's readiness to grant access to the tightly controlled Russian energy sector, have had a mutually reinforcing effect. In combination with the new and existing Baltic Sea pipelines, the Russian acquisition of assets across the European supply chain will have broader implications for the role that the state-controlled energy giant Gazprom can come to play in the European energy markets in the future.

Concluding reflections on the commercial deals connected with Nord Stream 2

The mosaic of commercial deals of Nord Stream 2 and its subcontractors with companies owned by local municipalities and by the respective state or sub-state political entity provide ample evidence of the difficulty of separating "purely commercial" aspects from the "political" strings attached to the Russian Baltic Sea pipeline project. Similarly, the commercial interests that the European energy companies pursue with their investment in Gazprom's Nord Stream 2 project are less clear-cut when their partnership with Gazprom in this controversial pipeline project is placed in the context of their other business transactions with Gazprom. What the case of Nord Stream 2 clearly demonstrates, is that it is necessary to pay closer attention to the multiple business deals and to the ownership of facilities and companies to fully grasp the extent to which different stakeholders' interests may have impacted the political processes and enabled Gazprom, and the Russian state, to play a range of prospective beneficiaries of the project out against each other, offering commercial deals "too good to refuse".

Where local and national as well as large businesses' economic interests are positively affected, it is more difficult for national governments to strongly oppose the Nord Stream 2 pipeline construction. The multiple economic engagements, where they offer tangible financial benefits to local communities and businesses, or are perceived to do so, have placed national governments and local decision-makers in a

⁵⁵ Gazprom (2015) Gazprom and Shell expanding cooperation, 18 June, at <http://www.gazprom.com/press/news/2015/june/article229606/>; Gazprom (2017) Gazprom and Shell discuss joint prospects under Agreement of Strategic Cooperation, 29 May, at <http://www.gazprom.com/press/news/2017/may/article333818/>

⁵⁶ Tass (2018) Gazprom, Shell signed agreement on development of technical concept for Baltic LNG, 4 October, at <http://tass.com/economy/1024501>

⁵⁷ Gazprom Export (2018) Gazprom and Shell continuing joint work on Baltic LNG project, 25 May, at <http://www.gazpromexport.ru/en/presscenter/information/2152/>

difficult position. Despite the conviction held by many of them that Nord Stream 2 is a "bad deal" for Europe, and in particular, Ukraine, governments and decision-makers at the local and national level have had to consider the economic benefits and their political room for maneuver in the existing legislative context. Even when they did not endorse the project's implementation, as a matter of principle, they have felt compelled to give their approval for both commercial and legislative reasons. For others, the reverse has been true: some of those that believed in the economic benefits for the local economy have been forced to reject a participation in Nord Stream 2, as was the case with Slite, Bornholm and Ventspils.

The lessons to draw from Nord Stream 2 are, that when large, strategic infrastructure projects are concerned, it's not only "never *just* business", but even well worth scrutinizing the commercial value, the beneficiaries and the political ties attached to associated business deals. Large commercial enterprises that can operate across national borders in the EU are often able to play off different stakeholders against each other, as Nord Stream 2 shows. What is more, Nord Stream 2 serves as an important reminder that business and politics are often intertwined in ways not always evident at first sight. Many valuable insights can be gleaned from a systematic examination of the links between local actors' commercial interests and the national government's political objectives. In Germany, the principled traditional stance that "trade (with Russia) is never a problem" and that "commercial deals should not be politicized" had most likely a role to play in the formulation of national and federal state positions on Nord Stream 2. It is equally likely that the multiple commercial strings attached to the project further *encouraged* the governments' framing of it as a "purely commercial" project. A key take-away from the mosaic of commercial and political interests in Nord Stream 2 is that the *ownership* of enterprises, ports and pipelines always deserves close attention, to fully grasp the dilemmas that seemingly "pure business" deals can create for the political leadership.

Annex:

The national Nord Stream 2 permitting process

	Extension of NordStream2	Construction on land / in EEZ	Construction in territorial waters	Green light
Denmark	139 km (envisaged, unconfirmed)	Danish Energy Agency, assessment of new route proposal through the EEZ (avoiding territorial waters) submitted on 10 August 2018, in progress	Danish Ministry of Foreign Affairs and Danish Energy Agency . assessment in progress, based on new Continental Shelf Act, in force since 1 January 2018	decision pending
Finland	374km (EEZ)	Consent for use of the Finnish Exclusive Economic Zone granted by the Finnish Government and notified by the Ministry of Economic Affairs and Employment on 5 April 2018	Regional State Administrative Agency of Southern Finland, permit for pipeline construction and operation granted in accordance with the Finnish Water act, on 12 April 2018	12 April 2018
Germany	85 km	Federal Maritime and Hydrographic Agency (BSH) on the basis of the Federal Mining Law (Bundesberggesetz, BBergG) granted the permit for the construction in the EEZ on 27 March 2018	Stralsund Mining Authority, on the basis of the German Energy Industry Law (Energiewirtschaftsgesetz, EnWG), granted the permit for construction in the territorial waters on 31 January 2018	27 March 2018
Russia	114km	Ministry of Construction and Utilities, oermit for construction on Russian territory, granted on 7 June 2018	offshore construction permit by Federal Agency for the Supervision of Natural Resources Use, 14 August 2018	14 August 2018
Sweden	510 km (EEZ)	Construction and operation permit granted on 7 June 2018 by the Swedish Government, notified by the Ministry of Enterprise and Innovation		7 June 2018

Source: Author's own compilation from information supplied by Nord Stream 2