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WASHINGTON AND THE WORLD

What Trump Should Have Told Germany About Russian Gas

The president had a point – but as usual, he got the details wrong.

By ANDREW HOLLAND | July 11, 2018

In 2012, I visited the windswept Baltic coastline of northern Germany, near the small town of Greifswald, where the two shiny tubes of the Nord Stream pipeline rise above ground for the first time after 740 miles underwater from Vyborg, Russia. Through these pipes, 55 billion cubic meters of Russian gas per year can flow from Russia into Germany. From Vyborg, the gas is sold to utilities, energy companies and chemical manufacturers through Europe's increasingly interconnected pipeline network to end points across the European Union.

If you had told me then that this pipeline would be the subject of a trans-Atlantic tiff started by President Donald Trump, I would have been very surprised.

In remarks before breakfast with the secretary general of the North Atlantic Treaty Organization on Wednesday, Trump created a new front in his feud with NATO, and Germany in particular, saying: “Germany is totally controlled by Russia because they are getting from 60 to 70 percent of their energy from Russia and a new pipeline.”

Let’s start with the facts — something the president too often overlooks in his comments. This pipeline system, Nord Stream 2, would indeed carry a great deal of gas from Russia to Germany. Trump is, in fact, expressing the American government’s policy of opposition to the pipeline — opposition that his administration shares with the Obama administration, when then-Vice President Joe Biden said: “Nord Stream 2 is a bad deal for Europe.” And, they are, in fact, building a new pipeline.

But, like too many of the president’s pronouncements, what starts with a grain of truth becomes distorted into something else entirely. First, Germany currently receives about half its gas supplies from Russia — if the new pipeline were to replace other sources of gas on a one-to-one basis, it could indeed rise to 60 to 70 percent. However, gas makes up less than 20 percent of Germany’s energy mix for power production, with renewables, coal and nuclear making up the balance.

Furthermore, there are good reasons to oppose the construction of the Nord Stream 2 pipeline, but “total control” of Germany by Russia is not one of them. Germany is a large market with diverse sources of energy: Energy security does not come from the quantities supplied, but from the options available. Today, Germany receives gas in liquefied natural gas (LNG) shipments from Norway, Qatar and even the United States. German companies choose to buy Russian piped gas because it is generally cheaper, not having to go through the expense of being liquefied and then turned back into gas, when compared with seaborne LNG.

The gas is not bought by the German government, either. Private companies buy gas from Gazprom in a commercial marketplace. In fact, if any side “controls” the other in this relationship, the German market is the largest buyer of Gazprom’s exports, accounting for 27 percent of Gazprom’s European exports. The loss of customers in Germany would cripple both the company and Moscow’s budget.

The truth is, while Germany is a big market that can balance the Russians in market power, we should in fact worry about the “energy dominance” — to use a term from the Trump administration — that Russia can exert in Eastern European countries that do not have the market power or alternative supply options that Germany does.

The danger is that Nord Stream 2 could allow Russia to continue to supply gas into Germany — Russia's biggest and most important market — while isolating the Eastern European countries between them. Due to the long history of Soviet-era gas infrastructure, countries like Slovakia, Bulgaria, Hungary and the three Baltic states — all members of NATO and the EU — are far more reliant on Russian gas. In these countries, there is a long history of high-level corruption related to gas contracts along with threats to abruptly raise prices or cut supplies.

These countries — and Europe as a whole — were awakened to the threat of their Russian energy dominance in episodes in the winters of 2006, 2009 and especially 2014. In each of these years, pricing disputes between Gazprom and Ukraine's Naftogaz saw the Russians reduce gas sent through Ukraine, with the effect of causing shortages in the European customers further downstream on the pipeline. The Ukrainian *Maidan* revolution of 2014 was the most important of these, in which Europe woke up to a far more aggressive Russian government willing to send its military to rewrite borders and to order its state-owned companies to cut off energy supplies to the Ukrainian government it saw as a threat. What would stop them from doing the same to EU or NATO member states along their borders that are just as dependent?

Since then, the EU and the Eastern European countries have taken great strides to address the challenge of Russian energy supplies, even as they have done little to actually reduce consumption of Russian energy. This is the appropriate response. The EU has strengthened its anti-monopoly rules to prevent Russia's Gazprom from attempting to use its energy dominance. The European Commission has instituted an "Energy Union" strategy that encourages the growth of a real internal market for energy — not one separated by national borders. National governments have built new infrastructure like pipeline interconnectors (so the gas does not have to solely flow from East to West) and new LNG terminals in Poland and Lithuania, and proposals in Croatia to enable imports of LNG to eastern countries. These all matter: When Lithuania's new LNG import terminal came online, Gazprom almost immediately agreed to renegotiate prices down.

Even NATO, a defense alliance without a core competency in energy security, was moved to address the energy security risks of dependence on Russia, creating an "Energy Security Center of Excellence" in Lithuania. So, Trump was wrong to imply that NATO or the EU are not aware of the energy security challenges Russian energy poses.

Every country should want the Russians to be a reliable, normal, supplier of energy to Europe. Russian energy should be exported seeking profits, not political capital. Just like Norway, Qatar or — increasingly — the U.S. Unfortunately, Russian energy too often comes paired with Russia's corrupt politics. If Gazprom and its Western financiers believe there is a market case to double the size of the Nord Stream pipeline even though it has not yet run at capacity, they should be allowed to test those markets. But they should not be allowed to unduly influence European politics in pursuit of that end.

As for Trump, if he really wants to reduce the political influence of Russian energy in Europe (and is not using it as simply another argument against NATO and Germany), he should tell President Vladimir Putin when they meet in Helsinki to reduce the culture of corruption in Gazprom, to stop trying to undermine European democracies with crass threats and shakedowns, and to support free and open trade in energy across the continent.