Neither Germany nor Europe Can Live Without Russian Gas

Some wind is being taken out of the sails of German political parties, especially the Greens, by the pending energy crisis facing both Germany and much of Europe. This will have far reaching implications, not only in domestically but in Germany’s relations with The Russian Federation and various NATO and EU members.

Germany foresaw this, and thus turned to reliance on wind farms, the supposed cure-all for many of the externalities of energy generation. But as some pundits predicted, they are not delivering cheap and green energy as proffered. The wind is not blowing, and the gas to produce electricity and heat houses is running short.

Solar energy may not be an ideal source for northern countries either, especially in winter when the days are shorter. When people want a sunny holiday they go to Spain, not Germany. It is an inconvenient coincidence how energy is running out in close proximity to the place and season where it is high demand – or perhaps not.

Much of what is happening is rooted in past history. Let us not forget that after the Fukushima disaster in 2011 Germany decided to close all nuclear power stations. This has made an already complicated situation all the more complicated—and we are now seeing the results.

However nuclear power, whether seen positively or negatively, has always been a political issue. Energy demand
reflects a reality politics cannot always face up to - and that is ultimately Germany’s, and thus everyone else’s problem.

**Energy Crisis or Policy Failure**

The crux of the problem is how attempts to use energy policy for larger geopolitical aims are backfiring. As a recent headline reads, “Europe’s Energy Crisis Worsens as Wind Stops Blowing”. Lots of energy issues are now intersecting, creating a perfect storm on the horizon.

Energy prices in Europe have hit record highs due to a shortage of natural gas and much lower than expected wind power output, as reported in this Wall Street Journal article amongst others. The shortage is so acute that some countries have even been forced to restart coal power plants to ensure enough electricity reaches consumers.

But rather than fix the problem, countries such as the UK have chosen to blame Russia for rigging energy prices to undermine economic recovery in the wake of COVID 19 and its impacts. As ever, Russia is presented as the problem and the solution wrapped up in one. The US is having Senate hearings looking for someone to blame, naturally Russia.

In fact most of the pipeline issues, which have traditionally been points of dispute with Russia, are pretty much resolved. Berlin even allowed the completion of the Nord Stream 2 gas pipeline — which in the opinion of the West “poses a serious security and economic threat to Ukraine” — in return for flimsy assurances and compensation for Kyiv.

Germany and much of Western Europe are happy with the expectation of having Russian gas at reasonable prices with continuity of supply. Russia can also respond sensibly to Western concerns, as Putin has, describing the close ties between Russia and Ukraine in this 6,000 word essay.

Ukraine itself is caught between rhetoric and reality; it needs Russian gas to flow through its pipeline. Hence the country must stay friendly to Russian interests.

The idea of energy independence equalling political independence, or rather closer connection with the West, is being pushed now that Russia is perceived to be losing its energy export monopoly. But imports from other sources may just be a stopgap solution. Production numbers from countries being relied upon to avert a short term crisis don’t add up.

Production in Norway steadily increased until around 2000, then oil fell and gas flattened out. Gas production was three per cent lower in 2020 than in 2019. Total sales of gas amounted to 112.3 billion Sm³ (110.1 billion Sm³ 40 megajoules of gas). In 2020, natural gas accounted for just under half of the total production measured in oil equivalents.

**Conflicts Still Simmering**

Kirsten Westphal is a senior analyst at the German Institute for International and Security Affairs (SWP). Her recent article, Construction on the Nord Stream 2 Pipeline Is Finished ... [but] the Conflicts Around It Are Not! She argues that completing Nord Steam only opens the final round of the endgame concerning the actual terms of operation and deliveries of natural gas.

It will be interesting to see how far Germany goes in its commitment to create an extension of up to 10 years of Ukraine’s Transit Agreement, and whether it will have the political resolve to follow up with sanctions “should there be attempts to use energy to pressure or commit aggressive acts against Ukraine”.

Ukraine may now have to start negotiating and looking for a balanced policy, as its opposition to the Nord Stream 2 brought more instability. When Washington and Berlin finally achieved a compromise this year, allowing for its completion and the lifting of sanctions on companies participating in its construction, all that effort was wasted.

Ukraine needs both the gas and the transit fees, and can only feel secure if it can work out a way of agreeing to disagree with Russia in certain areas. This involves making energy decisions which meet energy needs, not political ones, and thereby matching politics to benefit.

Russian knows only too well how America and some of its partners find themselves frustrated with failing to manipulate energy policy. The West wants to dismiss the geopolitical realities of energy and history as something sinister, as a means of not engaging with them.
As Putin describes in one of his articles, “I relied on open-source documents that contain well-known facts rather than on some secret records. The leaders of modern Ukraine and it external “patrons” prefer to overlook these facts.” Unless the West can counter in the same way, this is an argument it cannot win.

**External Patrols Looking the Wrong Way**

In Germany the Green Party (at one time leading in the polls) has promised to aggressively phase out fossil energy in favor of renewables, which would affect German gas demand, if ever elected to a position to do so. The Netherlands is suffering from subsidence and earthquakes due to gas production from the Groningen field and so will cease to be a gas producer in the future. It is not as if they did not know what was going to happen. The Dutch Disease has become a regional pandemic, tongues in cheek, and everybody is suffering from the harsh realities of diminished supplies and the closure of field.

Denmark is also phasing out oil and gas production. The North Sea is a mature basin, and so the UK has gone from self-sufficiency to being a gas importer.

So Russia will probably turn out to be the only reliable long term supplier for the whole of Europe. Germany will likely need not only Nordstream 1 and 2 but also significant gas volumes via the existing route through Ukraine. Ukraine’s gas storage capacity is also helpful, making it an ideal partner for helping meet peak winter demand.

The German and other European governments will have to start reconsidering plans to import liquefied natural gas, which require great investment in specialised ports for the unloading of the fuel. Currently higher prices for LNG is Asia have decreased shipments to Europe.

One other issue is that Merkel agreed to phase out nuclear power by 2022. Will the politicians replacing her keep this promise or not? Is that why she is retiring? How will Germany replace this power source, at least at a price that consumers can afford?

**Shaky Ground**

Increases in gas prices are a regional thing, especially in terms of supplies from The Netherlands. Mini-earthquakes there are actually causing the shutdown of the Dutch fields. These are related to the lower pressures after the gas is extracted, which cause subsidence and trigger the earthquakes.

Europe’s gas shortage could make the whole world pay more to get warm this winter, especially if it gets colder than expected. Many expect the uncertainty in Europe to impact prices on an international level too.

Europe has previously relied on Dutch gas supplies. However Norway and Russia will now become the main gas suppliers to northern Europe for the foreseeable future.

Italy has some production, and the pipeline from Albania which carries Caspian gas, and Greece also receives Caspian gas. Algeria is a big gas producer and supplier to European markets. But none of these supplies are large or consistent enough to make up the shortfall created by current policies.

John Kilduff, a partner with Again Capital, explains how natural gas in storage in Europe is 16% below the five-year average, and the level in storage is a record low for September. “It’s going to put the focus on this commodity that’s been overlooked for the last several years,” he says.

Naturally the US hopes that Europe will be forced to turn to it as a supplier, in the form of liquefied natural gas. However, Joe Biden is shutting down pipelines in the US, which goes beyond fulfilling campaign promises as it is instilling uncertainty into international energy markets.

The bottom line is that everybody will end up paying a BIGGER share of the energy bill, and not only Europeans. Energy prices are going through the roof, and this has both economic and political ramifications.

Collectively the impact is crippling, and not only in terms of Europe’s main economies. Gas prices can increase the cost of agricultural and industrial products, adding to consumer prices. and this will result in a political price to pay.

**Just Say Please**

Many politician are now wishing that the heat of their rhetoric could be transformed into headwinds which will get those windmills spinning again. In the meantime they must be hoping for a mild winter. Otherwise, colder weather will be a windfall for Russian and other power sources.
Even the International Energy Agency is “urging Russia to step up gas deliveries to Europe in anticipation of higher winter demand, as tight global supply pushes prices skywards.” Like all international bodies, this one always has to have an eye on the US, so this interjection is not just another set of words.

One reason Europe needs multiple suppliers of gas is so there is some competition and they don’t get screwed on price. That is why they say they also support the use and development of other sources of energy, even costly LNG.

But the only two countries capable of providing significant gas supplies to Germany are Russia and Norway. You can’t diversify without having your basic needs met first, and only these countries can do it. The big problem with the strategies against Nord Stream 1 and 2 (and previously with the initial gas exports from the Soviet Union to Europe) was that they opposed the deliveries but did not give any viable alternatives, probably because there are none.

While Germany may be able to import excess nuclear power from France and hydropower from Scandinavia, the reality is that Germany will need gas for a number of years in the future, and the only plausible suppliers are Norway and Russia. Even then, Norway’s production is stable, but it is exporting gas to the UK, so less is available for the rest of the continent.

Caspian gas and LNG help diversify suppliers and add some volume, but for the next decades Germany’s gas will be predominantly from Russia and Norway. The only real alternative would be to use more coal and/or nuclear power to support demand when renewable sources are insufficient. But doing that means making a new set of political commitments based on the needs of the population, and German democracy is so far failing to deliver this.

In conclusion, it is no wonder that for the first time since 2005, a German general election is too close to call, with the center-left holding a thin lead, as reported by the WSJ. It should also come as no surprise that the Green Party down in the polls-earlier they thought she might take over for Merkel. The Gas Crisis is leaving Europe searching for solutions, scapegoats. Now Europeans must face much higher prices and try to find and pay for alternatives stop-gas source, including renewable energy.

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