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## **Abstract**

Energy resources are a vital factor to the functioning of every state. Upon realization, these commodities gained a significant role in politics of nations and international relations. Recently one of the highly debatable projects, called Nord Stream 2, gained political character after a large number of countries expressed their dissent on the matter. The project is based on Russian-German initiative to build a natural gas pipeline running through the Baltic Sea. The issue? Many believe this will deepen reliance on Russia's natural gas supply and hurt Central and Eastern Europe. Furthermore, the underlying actions are seen by some nations as part of Russian foreign politics targeting at dividing and weakening the European Union.

This research examines the position of four countries also known as the Visegrad Group (V4), including Slovakia, the Czech Republic, Poland and Hungary. The authors chose these countries because the latest opposition had been initiated by them. This paper refers two theories, the Realism and the Interdependence Theory, in order to analyze data gained from statements of the authorities and from relevant official sources, to eventually depict which theory is better suitable to explain the individual positions of the states.

The aim of the analysis is to find the answer to the following questions.: Does Visegrad group oppose Nord Stream 2 project mainly because of their egoism and selfishness? Is it a security concern that prevails over anything else? If real motives are based on these assumptions, realism as a theoretical framework shall be sufficient tool in explaining the phenomenon. However, if V4 countries follow rather economic profit and protect mainly their interdependent status with Russia, then they oppose Nord Stream for economic reasons more than for those related to security.

This thesis provides complex analysis of collected data, while the conclusion answers the question whether it is a security or economy that leads countries in preventing Nord Stream 2 from realisation. In conclusion, it is assumed that even though realism can explain many aspects of critical stance of V4, these results do not generally apply to all four member states. Especially Czech Republic does not fulfil the theoretical criteria to be defined as the country with clearly realist approach. Instead, liberal interdependence seems to explain all V4 countries to satisfactory extent, which creates an argument that Visegrad group primarily follows liberal interdependence, while less emphasis is being put on security matters.

## 1. Introduction

*“I’ve never seen a project that was heralded as a purely commercial one so intensely politically debated, not only by the ministers of energy, but also by the ministers of foreign affairs and by the heads of state and government, and we never received so many letters from the highest representatives of our member states...”* (Maroš Šefčovič, a Slovak diplomat and the Vice President of the European Commission, in charge of Energy Union)

Since the establishment of European Union, there have been many international projects which were directly or indirectly connected to the EU. However, none of them steered the waters as much as the upcoming project between Russia’s Gazprom and a consortium consisting of 5 major European energy companies. An additional pipeline, which is supposed to be built along the bottom of the Baltic Sea, known under the title of “Nord Stream 2”, will connect Germany with Russia and provide a means for additional transport of natural gas. As its name suggests, Nord Stream 2 is not the first pipeline to be built in this area. Its predecessor was finished and inaugurated in 2012. So why now all the commotion, when a similar pipeline is already built?

Natural gas is one of the most important sources of energy in the world, particularly for the European Union, because it is widely used as the dominant energy source, mainly in Central and Eastern Europe. A two side relationship between Russia, as the supplier on the one end, and the European countries, as the demanders on the other end, was established. However, as the market is believed to work, the commodity, if it is scarce or there is only little competition on the market, empowers its supplier to use it as an instrument in enforcing his interest. It gives, for instance, the advantage of setting up one’s own price levels. This mechanism is currently regulated by different complex laws and agreements. The subject can get even more complicated, if the particular commodity is also needed by the supplier himself, which is the case in natural gas. The situation between the Russian Federation and Central and Eastern Europe is exemplary, where almost all the distribution of the energy source goes to these parts of Europe from Russia. This fact also applies to the four countries of Visegrad Group. Since the establishment of the gas flow from Russia through Ukraine to Western Europe, some of these countries became a part of so-called transit territory, enjoying certain privileges.

While every state holds different political interests in the project, a considerable number of countries of Central and Eastern Europe stay united in opposing it. Although their reasons may differ, the shared goal, to stop the project, is also in the interests of Visegrád Group. It seems that the states concerned by the proposed pipeline feel endangered by it. To get to the bottom of this problematic, the following question “Why is the project “Nord Stream 2” resented by the countries

of the Visegrád Group?” was formulated. This master thesis will assess and answer the issue through thorough and complex examination of the issue.

## **2. Methodology**

In the following paragraphs, the methodology for this thesis will be systematically described and particular steps are being explained. The paragraph also contains a detailed description of several approaches and methods, which have been chosen to improve the quality of the analysis, in order to find an answer to the formulated problem.

The academic purpose of this master thesis is to research and subsequently find the answer to the following questions: Why do the V4 countries oppose the “Nord Stream 2” project? Is it because of possible security concerns, or is rather the economic aspect influencing their position?

These questions will be carefully assessed and analysed based on a theoretical framework, which was chosen accordingly. It was decided to use the two major international theories Realism and Liberal Interdependence. The main reason for this choice is that Realism represents the security point of view, while Liberal Interdependence focuses on economic aspects in the analysis. Moreover, both theories are contrasting each other, thus it shall be useful to compare the final outcome of both analyses. All four members of the V4 will be assessed individually, in order to gain more comprehensive result. However, the analysis will touch also Russia, Germany and the European Union, as they are in direct connection to the problem.

The topic of the thesis was primarily chosen based on personal interests of the authors, particularly in the energy sector. Nevertheless, it was ensured that the chosen topic is in line with the study programs of both researchers, in this case Development and International Relations and European Studies. In this context, the “Nord Stream 2” project is arguably one of the most interesting contemporary international relations issues of the energy sector in Europe. Once the initial topic was chosen, the researchers have undertaken partial literature reviews and consequently a first problem formulation had been defined.

The specific choice of analysing the V4 countries originated from the fact that both researchers are from Slovakia, while they also spent significant time in the Czech Republic and in Poland respectively. Having thus valuable knowledge of the local culture and language, has been found as a great advantage for the understanding of the regional environment, both from political and economic perspective.

Furthermore, the problem formulation has been often discussed as it evolved over the time and was finally defined more clearly. Gaining relevant knowledge about given issue during the research allowed the authors to clarify the goals that needed to be achieved and problems that needed to be addressed. However, this progress would not have been possible without the valuable feedback from the thesis supervisor, which the authors would like to dedicate their gratitude to.

## **2.1 Philosophy of Science**

The design and conduct of this thesis is shaped by mental models or frames of references that authors use to organize their reasoning and observations. These mental models or frames (belief systems) are called paradigms. Paradigms are often hard to recognize, because they are implicit, assumed, and taken for granted. However, recognizing these paradigms is crucial to realize and analyse different perceptions of the same social phenomenon. (Bhattacharjee, A., 2012)

There are two popular paradigms among social science researchers, positivism and post-positivism. Positivism was dominant until the mid-20th century, and its major assumption was that science should be restricted to what can be observed and measured.

The strictly empirical nature of positivist philosophy led to the development of post-positivism, also known as postmodernism. This theory argues that researcher can make reasonable inferences about a phenomenon by combining empirical observations with logical reasoning.

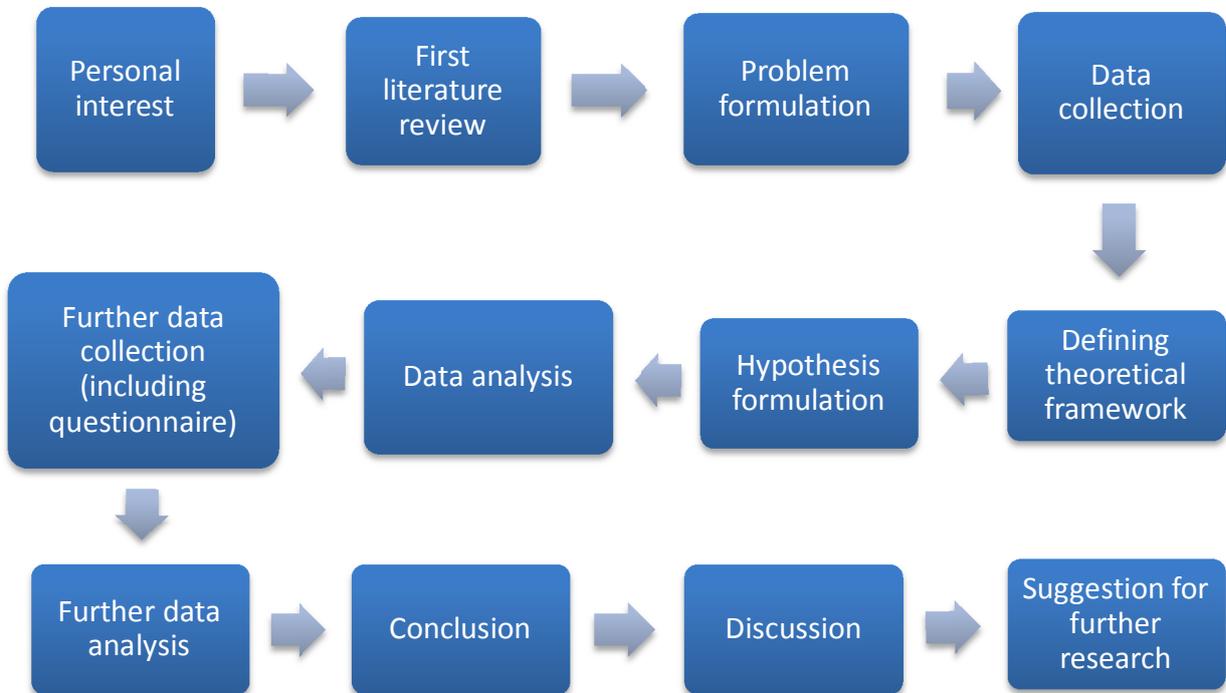
Burrell and Morgan believed that the way researcher analyse particular phenomena is influenced by two fundamental sets of philosophical assumptions: ontology and epistemology. *Ontology* refers to our assumptions about how we see the world, while *Epistemology* explains our assumptions as the best way to study the world. (Burrell and Morgan, as quoted by Bhattacharjee, A., 2012)

## **2.2 Research design**

In the following section, the research design for this project will be presented. This section also served as a main tool for planning and organizing research activities conducted throughout the project. A well-prepared research design prevents researchers from performing unnecessary activities or from collecting irrelevant information and rather guides them to focus on the actions that require more attention. Goals set in the beginning of the project will be achieved easier if authors in general follow their research design.

Although it is important for researchers to agree on suitable design, it is not essential for them to follow it all the way through the project in its exact order. The research structure designed for this

project represents its logical sequence of activities in order to effectively collect and logically interpret data. In order to better understand and visualize this concept, the design for this thesis is chronologically illustrated below:



Before starting a research it is crucial to identify the unit of analysis, to determine an object that will be a target of the research. Understanding the nature of the unit of analysis is critical for researcher in order to identify appropriate data and their source for the research. In this particular project there are four “units” of analysis, each representing one member state of the V4.

A well-defined research question also significantly supports the collection of relevant data as well as the data analysis and generally leads the entire research in the right direction. (Boeijs, 2010) In this thesis, the leading point in its research question is the positions of the V4 countries towards Nord Stream 2, from both a security and an economical perspective. Reasoning of this decision is based on data collected before the research. The overall results achieved in the end of this project are concluded from the analysis of various sources retrieved by the authors and put into understanding.

This analysis will be derived from two different theoretical standpoints, both based on aforementioned theories. A theoretical standpoint can be simply defined as a set of systematically interrelated constructs and propositions intended to explain and predict a phenomenon or behaviour of interest, within certain boundary conditions and assumptions. (Bhattacharjee, A., 2012)

Nevertheless, it is the job of the analyst, not the theorist, to determine where a particular theoretical framework applies in cases from the real world. Whether a 'right theory', in the sense of a rigorous logic of interaction, is a 'right' theory to apply in any particular case depends not on the theory but on the contingent facts related to the topic.

Every theory should make simplifying assumption and these will be formulated into the hypothesis at the end of each theoretical part. If a theoretically predicted outcome does not occur because the assumptions of the theory are not satisfied, such a result of the analysis will be acceptable and should not be seen as a failure.

### **2.3 Research approach**

Within any academic field, theories and observations are the two main pillars of scientific research, operating at different levels, theoretical and empirical. The theoretical level is focused on developing different abstract concepts about a natural or social phenomenon and relationships between them, while the empirical level tests these theoretical concepts and relationships to examine how well they reflect a real world. Empirical aspect might further seek to improve existing theories. (Bhattacharjee, A., 2012)

Depending on a researcher's training and interest, academic work may take one of two possible approaches: inductive or deductive. On the one hand, it is the main goal of inductive research to define theoretical concepts and patterns from observed data. Inductive research is therefore also known as *theory-building* research.

On the contrary, deductive research follows established theoretical concepts and patterns in order to analyse new empirical data. Based on the same logic as used above, deductive can be referred to as *theory-testing* research. In addition, the goal of theory-testing is not just to test that specific theory, but also, possibly, to refine or extend it.

The Character of this thesis is rather deductive, because final conclusions are deducted from formulated theoretical hypothesis. There are several signs in the process that suggest a deductive line, such as relevant theories with a clear hypothesis, followed by the analysis of empirical material and finished by a confirmation or a rejection of the given hypothesis. It can be assumed that this approach is characteristic for deductive style.

Scientific research projects can be also grouped into three types based on their main purpose: exploratory, descriptive, and explanatory. This thesis can be defined as explanatory, because it seeks explanations of observed behaviour of different actors. While descriptive research examines the

what, where, and when of a phenomenon, explanatory research seeks answers to why and how types of questions.

Seeking explanations for observed events requires strong theoretical and interpretation skills, along with intuition, insights, and personal experience. The purpose of this work is to obtain information about the current position of the V4 countries towards the Nord Stream 2 project and consequently explain the problematic with emphasis on the “why” question. This approach also fundamentally affects this thesis’s research design. Data is collected in relation to this fact, as the thesis seeks to explain on theoretical basis - why states react in a certain way - which is typically answered in the explanatory type of research.

## **2.4 Data collection**

It is clear that the selected method has impact on the entire project; in this case a mixed research method has been used with both quantitative and qualitative data being collected concurrently. The majority of data is qualitative, but throughout the project the quantitative method of data collection can be noticed. In addition, the validation of the data was performed through cross verification from two or more sources.

When it comes to data collection for the project, it is important to remember that there are two considerations which need to be taken into account. Firstly, sequencing needs to be set up as it is associated with the time scheduling of the project. This is mainly important for the order of methods used throughout the research.

Secondly, emphasis should be put on dominance, which represents the significance of methods used in research. In this case, a slightly dominant position belongs to primary data collected by the qualitative method, such as a questionnaire sent to the government representatives. However, as mentioned before some elements contain significant signs of the quantitative approach. In addition, secondary sources were also often used when discussing theoretical concepts.

The quantitative method is based on quantification of data and usage of numbers as the basis for making generalization about a certain phenomenon. Most of the data collected from selected indices can be defined as quantitative data. These include many sources concerning energy, such as annual reports as well as official documents from EU institutions, energy companies directly involved in the project and government statements.

Qualitative research is considered to be particularly suitable for gaining a comprehensive understanding of principal reasons and motivations. At the same time, it frequently generates ideas

and hypotheses for later quantitative research. The qualitative material used for purposes of this thesis contains published interviews with politicians and experts, press releases, relevant books, academic papers, journals and websites.

The process of data collection can be based on two different types of sources, primary and secondary. In case of primary data, the researcher has full control over the structure of a certain sample as well as the responses from the participating individuals and/or institutions. This approach provides researcher with a confidence that the collected data is suitable for objectives of his research. However, this type of data collection requires more effort in comparison to the second option, which is secondary data collection. Although secondary data seems easier to collect, it will bring a higher level of uncertainty to the research.

#### **2.4.1 Primary sources**

Primary sources provide direct evidence regarding some particular issue. It includes results of experiments, historical and legal documents, eyewitness accounts, audio and video recordings, speeches, interviews, surveys, internet communications via email, etc. This type of source is widely used in the overview of this thesis, as the nature of the problematic clearly required such an approach.

The authors of this thesis focused mostly on internationally trustworthy sources, such as the European Commission, the World Bank, prestigious global and national newspapers, energy related journals, academic papers and many other sources. In addition, several graphs were imported straight from original source, since they corresponded with the purpose of this thesis.

#### **2.4.2 Secondary sources**

The collection of secondary data also is a valuable source of knowledge in a quantitative analysis. Many organizations or individuals store data for different reason, but when looking into data, the researcher has to assess the suitability for the objective of the research properly. It is also important to take certain changes of circumstances into consideration, which may occur as time passes and can have an impact on the collected data. The crucial role of the researcher is to provide a proper interpretation of the secondary data in relation to the specific purpose of the research. (Smith, 2012)

Secondary data has previously been collected and tabulated by other sources; these can include data from government agencies, data collected by other researchers or publicly available third-party data. If secondary sources available at a level of analysis are suitable for answering the researcher's question, it may provide an effective tool of research, especially if primary data collection is too

costly or infeasible. Problems can occur if secondary data was originally collected for a presumably different purpose, which does not have to be exactly in the line with the research question of the ongoing project. In this thesis, the secondary data is used mainly in its theoretical part, as most books and academic papers refer to the materials from primary source and add their own analysis.

### **2.4.3 Literature Review**

The purpose of a literature review is to survey the current state of knowledge in the area of inquiry and to identify key authors, articles, theories, and findings in that area. It also helps to identify gaps in knowledge in that research area.

First of all, the dynamic character of the topic led to the decision that internet press releases and articles had to be used as a main source of the information included in the overview part. New information regarding the “Nord Stream 2” project is being updated literally on a daily basis, so it was very important to keep track of these updates.

When it comes to the theoretical part, there is a vast amount of literature on both economic interdependence and realism. While the literature review may uncover a wide range of concepts or constructs potentially related to the topic, a theory identifies which of these constructs is logically relevant to the problem formulation.

## **2.5 Reliability, Validity and Limitations**

### **2.5.1 Reliability**

Reliability is mostly focused on understanding whether following the same research process several times would lead to the same outcome. It can be understood as ability to gain the same results from research conducted by another researcher while using the same techniques, methods and approaches. In terms of this thesis, the majority of conclusions are based mainly on interpretations of secondary data from trustworthy sources. It can be therefore assumed that if another researcher would conduct the research following the same techniques, methods and approaches the final result is likely to correlate. However, the reliability of this thesis’ outcome can be slightly decreased by the time span, due to the dynamics of the topic and investigations of secondary data, even though it was made sure that only the most recent data was used. Furthermore, the reliability can be compromised by data collected from the questionnaire, since there is some degree of uncertainty of whether given responses would be exactly the same if requested again.

### **2.5.2 Validity**

Although reliability is an important aspect of every research, an adequate level of validity is required as well. Two fundamental types of validity can be identified, internal and external. Internal validity examines the extent to which the researcher is able to say that no other variables, except those which the researcher is studying, caused the results (Yin, 2004). External validity analysis whether the observed associations can be generalized from the sample to the global measures, to other people, organizations, contexts, or times.

In this particular research, external validity is uncertain. Although the same theoretical and analytical approach can be applied in any similar case, the final outcome could vary depending on many external factors. It is thus questionable to what extent the findings suggested by researchers can be generalized.

### **2.5.3 Limitations**

The following lines will acknowledge some limitations to this thesis. As it was mentioned before, the topic's dynamics are perceived as the biggest limitation by the authors. The negotiations connected to the project are constantly ongoing and every month there is new information outdating the previous one. This being said, there is a high possibility of the data provided in this thesis being outdated soon.

Another limitation is the scope of the thesis. Nord Stream 2 is a wide geopolitical issue, which influences a lot of international actors and commercial businesses. There are many different variations how this topic could have been processed, for example with higher focus on the Russian, Ukrainian or even German stance. However, as time was an important factor, the scope of the thesis needed to be narrowed, and the focus had to be precisely depicted. The authors therefore selected only a group of states based on their personal preferences, connection between these countries and their loud opposing stance.

Last but not least, it would be very beneficial for the thesis to get some inside information from relevant source. However, due to the problematic being so sensitive, the official government stances could have been provided only by high ranked authorities. We tried to schedule interviews with Slovak government officials of this ranks, but due to their busy schedule it was impossible. Therefore we addressed our questions on the government press releases of selected countries. The questions were constructed as follows:

1. What is the official position of the Government of the Slovakia/Hungary/Poland/the Czech Republic to the planned Nord Stream gas pipeline project 2?

2. What are the main reasons for this position?

However, as explained by the employees of the government who provided us with answers, they could only enclose information which is in official briefs and announcements from ministers and other higher representatives. Mostly this information can be found on internet websites and other secondary sources. Therefore, our answers are at least as limited as are the government employees limited by their superiors.

### **3. Theories**

In order to understand the theoretical approach, both theories, which will be used in the analytical part, are briefly described. Thus the aim of following paragraph is to scope a theoretical framework of both Realism and Liberal Interdependence.

#### **3.1 Realism**

Many disciplines adopted this term to interpret a particular path in their sphere of interest. Realism can be found in literature, art, philosophy and other disciplines, but the interpretation of the word varies. In international relations, realism is one of the oldest prominent schools, in which scholars try to explain politics with their perspective theory. The theory has a long history, dating back to times of the Peloponnesian wars. Although not officially marked as a realist, Thucydides is often perceived as a pioneer of this theory. In the renaissance, figures such as Niccolo Machiavelli and Thomas Hobbes represented and elaborated on realism. Among the well-known recent scholars are names such as Hans Morgenthau, George Kennan, Kenneth Waltz and E.H. Carr.

To define this theory, one must understand that realists recognise egoism (selfishness) as a core characteristic of human nature. The scholars give also high emphasis on the concept of no international government which means the world is in chaos. This status of the world order is labelled by them as anarchy. Egoism and anarchy, together with resulting imperatives of power, are the core ideas of realistic theory. (Gilpin, 1986) To be egoistic one must be rational, therefore irrational behaviour is not anticipated by realists.

As Jack Donnely points out: "Theories are beacons, lenses or filters that direct us to what, according to the theory, is essential for understanding some part of the world." (Donnely, 1996 p. 30). The term realism in international relations is often associated with the word power, as the fundamental implication of the theory lies in states pursuing their national purpose through power politics.

Niccolo Machiavelli stressed that men should by default act as if all men are corrupt, seeking to damage others when given the opportunity. (Machiavelli, 1971 [1513]) According to Donnely, a small number of theorists use realism as a theory to explain all of politics, for instance Niebuhr or Tellis. However, in general realism is perceived as a theory of international politics, taking the focus from human nature to political structure. (Donnely, 1996) Butterfield stressed the difference between civilization and savagery, as the same human nature operating under altered circumstances. (Butterfield, 1949) To better explain, the selfishness still exists within states, but it is controlled by a ruling political apparatus. Realists believe that anarchy gives states the opportunity and encouragement to act within the deepest evil of human nature and express it in international relations. According to realists, this behaviour is inevitable, because universal morality is perceived as something not applicable on the action of states. (Morgenthau 1948)

Therefore conflict is seen by most realists as inevitable reality, which is conditioned by the absence of hierarchical political rule. As Kenneth Waltz points out: "but ... believe that even were it not so, pride, lust, and the quest for glory would cause the war of all against all to continue indefinitely. Ultimately, conflict and war are rooted in human nature."(Waltz, 1991 p. 35)

### **Classical realism**

One of the biggest representatives of classical realism was Thomas Hobbes. In his work "Leviathan" from 1651, he stretched simple assumptions which later became the roots of classical realism. He believed every man to be equally capable of defeating anyone, with some ambush-like strategy or by forming alliances. Therefore, he saw men as equal. He further assumed that all men are driven by competition, diffidence and glory. At last he stressed that men interact in an anarchistic world order. The final result leads to all out conflict between every one, no matter if their motivation is to seek gain, glory (reputation) or survival (safety). "During the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war as is of every man against every man." (Hobbes as quoted by Donnely, 1996 p. 33) He further points out that even if there is no conflict for expansion, states will start defensive wars or wars for reputation, as they either have a scarcity mind set or they seek higher respect from others. Hobbes admits that the battling is not constant; however it may burst out even over a very small dispute. Although he

accepts the possibility of countervailing forces which could ensure peace, he is very sceptical about these forces overruling basic human nature. As Kissinger points out: "...an exact balance is impossible ... because while powers appear to outsiders as factors in a security arrangement, they appear domestically as expressions of a historical existence. No power will submit to a settlement, however well-balanced and however "secure", which seems totally to deny its vision of itself" (Kissinger as quoted by Cleva, 1989 p. 63) Donnelly sees "Hobbesian" realism as great power politics instead of as a general theory explaining international relations. (Donnelly, 1996)

Another representative of classical realism was Hans Morgenthau. Similar to Hobbes, he perceived the nature of man negatively and believed that insecurities play a major role in the shaping of politics, further noting "intellectual and moral history of mankind is the story of inner insecurity." (Morgenthau as quoted by Neascu, 2010, p. 72)

Morgenthau believes that lust for power is a consequence of Men's desire to overcome their insecurities'. According to him, the will to achieve the power or to maintain it, gives rise to conflict and evil. For him, this is the vital key to understand the nature of politics. (Morgenthau as quoted by Neascu, 2010)

Based on the realist's perspective, all state actors are in the game of power politics, but not all of them play the same way. Morgenthau distinguished states based on their essential motive, which according to him is a desire for power, into three groups with different foreign policies. First one is "policy of status quo" where actors aim to preserve power, second is "policy of imperialism" where the main goal is to extend this power, and lastly "policy of prestige" with an aim to demonstrate power. States were grouped based on their motivations into status quo versus imperialist powers. (Morgenthau as quoted by Neascu, 2010)

Both Morgenthau and Hobbes present the nature of states similarly. Both say that it is based on power which is seen as a tool for dominance. "It is a characteristic aspect of all politics, domestic as well as international, that frequently its basic manifestations do not appear as what they actually are – manifestations of a struggle for power," (Morgenthau and Thompson, 1985 p. 101) meaning that the struggle for power of states originates from the nature of human beings.

E.H. Carr understood nature of men similarly as Morgenthau, although he did not perceive it as negatively. He maintains that a state is built from morality and power, which are elements of human nature. He stated: "No society can exist unless a substantial proportion of its members exhibits in some degree the desire for co-operation and mutual good will." (Carr, 1946 p. 95) However, he agrees with Hobbes that in case of danger or threat to the security of a state, the morality aspect is

quickly interchanged with the desire to survive. Furthermore, he maintains that the behaviour of individuals is similar to that of states, because they operate in anarchy: “war lurks in the background of international politics just as revolution lurks in the background of domestic politics.” (Carr, 1946 p. 109)

### **Structural realism/Neorealism**

Since 1970s a large portion of realists disagreed with classical realism in one way or another, which resulted in the establishment of a new sub school of this theory. It is often attributed to the influence of Kenneth Waltz’ works, mainly a book called “Theory of International Politics”.

As the name of the theory implies, structural realism concentrates on the explanation of international politics through the effects of structural orders in the international system. Waltz’ concept of structure in international system emerges from two assumptions. The first one is the anarchistic order of international systems which lacks any overseeing authority. This means the states act in a selfish way, because they cannot rely on anybody else, but also are not constrained by any higher authority. Waltz maintains that the ultimate goal of states is survival. In his works, Waltz refers to states as units (of the international system) of almost identical attributes.

The second assumption that defines the international politics is based on the distribution of capabilities (power) among units in the system itself. Waltz states that the amount of capabilities one possesses, is in direct connection to the structural limitations and constrains it is faced with. Therefore the amount of capabilities can provide a higher or lesser number of possibilities for the units.

To better picture these two principles together, a pool table without any game rules is often introduced as an example. The table presents the international world and the balls on the table present the singular units. The balls are of different shape based on their amount of power. The bigger balls are able to freely roam the table without any fear of being stopped by the smaller one. To translate this analogy into real politics, one can look on the situation during the Cold War, where the former USSR and the U.S. represented the biggest balls on the table and shaped the future of the world system. (Jakobsen, 2013)

Waltz furthermore advocates that: “External pressure seems to produce internal unity.” (Waltz, 1959 p. 149) As individuals are perceived as rational actors and their primary goal based on neorealism is security, they would, in case of danger, choose any possible option suitable to achieve their objective. Waltz points out that these structural limitations press states to act in certain ways. To better explain, in case of a breach to their security or a danger of such a situation, states

rationally will form alliances with other states to ensure their safety and maximize security. Waltz adds that, if states want to preserve their security, it is necessary for them to pay attention to the structural limitations of the system. This assumption is especially important for the powerful states, which tend to exploit their position. To use an example, Germany - during The Second World War - overestimated its capabilities and the cooperation of other actors, meaning that their exploitation in the end backfired. Therefore one must accept and follow the structural constraints of the system. An example of a unit which so far understood this concept is the U.S.. Although they probably would like to dominate the world, they have always been counterbalanced by other actors similarly endowed with great capabilities. This represents a balancing system which is considered to be a structural constraint. Kenneth Waltz describes the concept of the balance of power as a fundamental stone of neorealism. However Waltz and Walt differ in the motivation of balancing. Waltz believes that states balance against power, while Walt states it can be against threats as well.

The biggest threat to security of one state is a hegemonic world order and these threats need to be balanced by others. Waltz adds that in order to constraint hegemonic tendencies of one superpower, another one needs to be up to the task. He also points out that to prevent revisionist states from expanding, states gradually learned to socialize and communicate between each other, although he does not exclude the possibility of the states failing even despite communication, as it happened before The Second World War.

In contrast to classical realism, Neorealists do not claim that war is always present. But whether it is peace or war, the current state is a reflection of the two essential principles of the structure of international systems. According to them, states will always have conflicting interests, which may but also may not result into a war. Due to the world order being in anarchy, there is nothing that would stop wars from happening. Sometimes wars occur because the scales are not balanced and there is no higher authority to balance it. (Jakobsen, 2013)

Recently scholars of neorealism, mainly Walt, put high emphasis on relative gains. Relative gains mean that states pursue power to get ahead of other states. Nations therefore are not as much interested in the amount of their capabilities, but are rather focused on where these capabilities stand in comparison to others. This is often seen as an obstruction in building trust and further cooperation between the states, as no one wants the others to enjoy greater capabilities as oneself. (Donnelly, 1996)

The upside of Neorealism is its attribute to assess why and under what condition conflict may occur. As it was mentioned above, conflicts occur because of the system being anarchistic, which is a

constant reality. However despite it, wars also fail to appear and this is because of the distribution of capabilities which is a variable. Waltz points out that wars of a greater scale will much more likely appear in multipolar world order than bipolar, because there is higher uncertainty among the units. The initiator of war is usually one with estimated higher power than its adversary, because, as Waltz points out, the interest is shaped by the amount of power. (Jakobsen, 2013)

### **Key differences between the classical realism and neorealism**

From the qualitative description of both schools, it is clear that although the core of realism remains, there are more aspects that make classical realism and neorealism dissimilar.

The first difference is the reason why conflict appears. Where classical realists see the fault in man and his nature, neorealists move beyond focusing on the anarchistic world order and on the structural system. Classical realists divided states into two groups. The first group contains status quo states that are satisfied with their position and wealth, and the second one contains revisionist states which are seeking more power through conquest and expansion. Neorealists do not focus on the classification of states, as they believe that every state is seeking to better his position in the world system. Consequently, classic realists' focus is only on the so called "high politics", which are connected to war, peace and survival. Neorealists spread their focus to all levels of interaction. (Petroff, 2016)

### **Defensive and offensive realism**

Realism can be furthermore divided into offensive and defensive realism. The main difference between the two paths is the motivation of the states. Defensive realists perceive the state as a defensive actor, whose main concern is to preserve the balance. In contrast, offensive realists believe the basic need of a state to be expansion, therefore conquest. (Rynning and Guzzini, 2001)

Kenneth Waltz (structural realism) belongs to the defensive branch together with scholars such as Walt (1987), Glaser (1996) and Van Evera (1999). In defensive realism, states are referred to as "defensive positionalists" or status quo states. Their primary intention is to use their capabilities to secure and balance world order.

However offensive realists rightly point out, that if the view of world order would be perceived just through the lenses of defensive realism, it would be seen as a world of conflict without any conflict.

Offensive realists on other hand, see power as a mean to achieve influence and not just survival. Based on Schweller, the pursuit for influence is a drive for conquest and expansion. For classical realism, power is a tool for achieving influence. He believes the states' motivations differ based on

several factors, such as the satisfaction of a state with its current status and position in the system. It is the satisfaction and dissatisfaction which fires the engines of alliances based on their interests. (Schweller, 1998)

The other distinction between offensive and defensive realism is its classification of predominant players. While defensive realists put status quo states into the role of dominancy, the offensive branch believes in the prevalence of revisionist.

Defensive realists further advocate that in the present world with defensive weapons (nuclear bombs, etc.) aggression is irrational and should be perceived as anomaly. However, they still believe communication is key for status quo actors in order to expose possible revisionists. (Kydd, 1997) (Glaser, 1996). In contrast offensive realists believe that policy-makers react to international changes in means of expansion. This affects also the domestic policies as states adjust to ascending (China) or descending (Soviet Union) powers. (Zakaria, 1992) (Rose, 1998)

Based on above mentioned attributes of the theory, the resulting hypotheses for the analytical part suggest that V4 countries oppose Nord Stream 2 project mainly due to their egoism and selfishness. As the theory suggest, is the protection of the state coming before anything else. As the future consequences of the Nord Stream 2 threaten their national interests, the V4 states, together with other countries, rationally allied in order to protect their security at any costs. Based on these premises, each V4 member will be individually assessed in the analytical part in order to verify this hypothesis.

### **3.2 Liberal Interdependence**

Although the academic debate on the question whether and how interdependence influences international relations is still, to large extends, unresolved, with liberal theoretical arguments being applied, the link between the concept of interdependence and international political outcomes becomes evident. The liberal approach essentially formulates a hypothesis that interdependence ultimately decreases chances of international conflict.

In general, liberal scholars identify four specific causal arguments in different subtypes of liberalism, namely political, economic, sociological, and sophisticated. As these forms are not necessarily mutually exclusive, they should be understood as complimentary rather than competing causal mechanisms associating interdependence with international political outcomes. The different forms of liberalism are similar enough that they share assumptions about the importance of individuals, about the importance of wealth, and about how a free market produces mutually beneficial

interactions. (Stein, 1993) Political, economic, sociological, and sophisticated liberalism all propose the hypothesis that interdependence decreases international conflict, or at least decreases incentives for conflict. It can be therefore assumed that when more of the different types of causal mechanisms are present and working in conjunction with one another, interdependence will have an even stronger impact and interstate conflict is likely to be avoided. (McMillan, 1997)

Nevertheless, some significant differences in the causal argument are to be noticed among the four subtypes, although they can be found together in particular empirical studies. Moreover, the different causal strands may reinforce one another, thus making it difficult to test which mechanism or combination of mechanisms is at work. However, most studies regarding interdependence examined for purposes of this thesis are primarily concerned with economic issues; the emphasis of this work will be thus preferably placed on economic liberalism. It is also clear that trade is the main aspect of interdependence most often addressed by scholars.

In international relations, economic interdependence is expected to have an influence on international politics, although authors differ on the direction and strength of the expected relationship. As mentioned previously, liberal interdependence theory principally suggests that international system should primarily follow the idea of cooperation between states for similar interests. In order to fulfil this goal, states must be willing to collaborate together under the conditions of anarchy and dependence. This relationship is characterized by both cooperation and competition with valuable reciprocal effects of transaction among the actors.

This line of thought can be traced back to Montesquieu, who believed that the "natural effect" of commerce will bring peace to states: *"Two nations which trade together render themselves reciprocally dependent; if one of has an interest in buying - the other has interest in selling and all unions are based upon mutual needs"* (Montesquieu, quoted by Cohler et al., 1989) In addition to the "natural effect" type of mechanism, Montesquieu, Smith, Spinoza, and James Steuart all linked the mobility of capital in modern capitalist systems to increasing peace among nations. (Hirschman, 1977).

In this context, interdependence can be basically defined as a state of mutual dependence in which actors are affected by the actions of their counterparts. The level of interdependence usually reflects the level of transnational relations between the countries, although globalization progress has also a significant impact. In addition, the process of modernization and technological advance generally increases the level of interdependence between states, which leads to even greater interconnectedness.

This concept is fundamentally based on the idea of complex interdependence, originally described by Robert Keohane and Joseph Nye. They believed that multiple channels allow interaction among actors across national borders and increase cooperation and links between state and non-state actors. In contrast to realism, attention is given to all issues equally with no distinction between high and low politics, while realism places emphasis more on security issues and the decline of military force, as a means by which policy is determined. (Keohane, N, Nye, 1977)

Complex Interdependence is mostly used as a neoliberal platform when analysing international politics. It concentrates on international regimes and institutions, highlighting the significance of welfare and trade in foreign policy. This theory further stresses the complex ways in which, as a result of growing ties, the transnational actors become mutually dependent, vulnerable to each other's actions and sensitive to each other's needs. Marc Genest explains complex interdependence as a concept where cooperation is a central characteristic for both international politics and conflicts. Actors thus only cooperate because of their own common interests, whereas prosperity and stability in the international system is a direct result of this cooperation. (Genest, M. 1996).

In addition, Keohane and Nye believe that complex interdependence is a combination of two opposite views and integrates both the elements of power politics and economic liberalism. They assume that it takes into consideration both the costs and benefits of interdependence relationship. However, despite the increasing economic cooperation and ecological interdependence, the possibility of international military conflicts cannot be ignored. Furthermore, the result of complex interdependence may not be the zero-sum game, in spite of the traditional power politics hypothesis. According to Keohane and Nye, politics of economic interdependence involves competition even when large net benefits can be expected from cooperation. (Keohane, N, Nye, 1977)

Keohane and Nye also identified two types of interdependent relationship, distinguished by the nature of the cost imposed on the states involved. Based on their theory, countries are either *sensitive* or *vulnerable* to the changes in trade and investment relationships. If they suffer costs in the short run, yet are able to recover in the long run through policy changes such as seeking new suppliers or by encouraging domestic conservation, they are *sensitive*. On the contrary, if a state is unable to avoid long run cost through mentioned actions, it is considered *vulnerable*. The distinction between sensitivity and vulnerability has both political and theoretical relevance. Sensitivity is important to national leaders, because of the commercial and financial costs that it implies, but vulnerability is a far more serious concern to them. Vulnerability means that the state cannot recover from the disruption of its international trade and financial activities.

Mutual dependence is also an important aspect of Baldwin's definition of interdependence. He describes this phenomenon as a relationship that is too costly to break, because the opportunity costs of autonomy are prohibitively high. (Baldwin 1980, p. 489).

Under this mutual dependence, policies and actions of one actor have relevant impact on the policies and actions of the other actors and vice versa. The emphasis is therefore not only placed on mutually beneficial relationships, but also on the ability of international organizations to bring states into cooperation. Institution can facilitate cooperation by helping to settle distributional conflicts and by assuring states that gains are equally divided. Hirschman also suggests that states gain from following international rules of the game, because those rules help eliminate passionate behaviour and bolster state action based on interest. (Hirschman, 1977)

However, there are several important points to be considered, when it comes to justifying liberal interdependence theory.

Firstly, the basis for the idea of cooperation is the belief that the dependence of country A on country B is roughly the same as the dependence of B on A. This assumption was initially questioned by J.S. Mill, who pointed out that the material benefit derived from international trade is not necessarily divided equally between the various trading nations. (Mill, J.S, quoted by Cohler et al., 1989) Moreover, Albert O. Hirschman assumed that gains from trade often do not accrue to states proportionately and that the distribution of these gains can affect interstate power relations. (Hirschman, 1980) According to Robert O. Keohane and Joseph Nye, interdependence should not be defined entirely as situations of "*evenly balanced mutual dependence*". Instead, it should be assumed that "*It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependence relationship as a source of power in bargaining over an issue and perhaps to affect other issues.*" (Keohane & Nye, 1977:10-11)

Secondly, in contrast to liberalism, realism emphasizes the conflictual aspects of international transactions, instead of the beneficial aspects. From this different starting point, realists come to the conclusion that interdependence either increases the likelihood of war or is not related to war initiation. (McMillan, 1997) Jean Jacques Rousseau suggested that "*interdependence breeds not accommodation and harmony, but suspicion and incompatibility*" (Rousseau, quoted by McMillan, 1997) Kenneth Waltz similarly argues that closer interdependence means closeness of contact and consequently raises the prospect of at least occasional conflict. As he further claims: "*Interdependent states whose relations remain unregulated must experience conflict and will*

*occasionally fall into violence. If interdependence grows at a pace that exceeds the development of central control, then interdependence hastens the occasion for war.” (Waltz, 1979, p. 138)*

Another problem with the concept of interdependence might arise when doing empirical research, because the types of international ties involved in an interdependent relationship remain unclear. The Keohane and Nye definition is on purpose broad enough to comprehend economic, diplomatic, and military relations between and among states. Although Baldwin uses the term "costly" and phrases such as "opportunity costs", there is no clear implication that he referred only to economic ties. These broad definitions of interdependence are useful when suggesting the expected causal relationships in international politics, but the theoretical links between the different types of interdependence are not clearly identified.

Finally, realists question the relevance of systematic relationship between trade and political disputes, claiming that international conflicts are predominantly depended to variations in the distribution of political-military capabilities between states. (Buzan, 1984)

In this context, Keohane believes that realist hypothesis about world politics are consistent with the formation of institutionalized arrangements, containing rules and principles that generally promote cooperation. (Keohane, 1984). This assumption basically rejects the realist idea that international politics are a struggle for power in which military security issues are the top priority. Instead, it argues that we can see the world as a place in which actors other than states participate directly in world politics, in which a clear hierarchy of issues does not exist, and in which force is an ineffective instrument of policy. (Keohane, R & Nye, J, 1977)

In conclusion, liberal interdependence emphasizes the mutual benefits derived from trade between the actors, consequently creating strong incentives for peace. Individuals or governments therefore try to maximize these benefits from interdependent relations.

On the one hand, it can be understood that a high level of interdependence between actors indeed discourages and reduces violent conflicts. According to liberals, economic interdependence potentially increases the size of trade flows, while subsequently decreases the prospect of war.

On the other hand, domestic issues and policies have a major impact on how states cooperate with other states on an international stage. Although states are interdependent, the power relations are not always proportioned; therefore their decisions reflect the power balance between them. Nevertheless, the main objective of the liberal interdependence approach is to promote economic growth as a response to regional and international security issues. (Lamt, S, 2005)

The resulting hypotheses for the analytical part derived from the liberal interdependence theory suggest that the V4 countries oppose the Nord Stream 2 project purely for economic reasons, because there is no material profit from this project. By theory, the V4 members suffer costs not only in the short run, but they might not be able to recover in the long run either. The main reason may be that it is not a simple task to implement policy changes in the energy sector. Seeking for a new suppliers or encouraging domestic conservation seems rather unlikely, thus states are shifting their status from *sensitive* to *vulnerable*. Based on these premises, each V4 member will be individually assessed in the analytical part in order to verify this hypothesis.

## **4. The Overview**

### **4.1 The history of Nord Stream**

Since the late 1950s, before the 1970s, the German company Ruhrgas AG, still operating in the sphere of energy business these days, was providing a majority of natural gas supplies from Norway. However, it was clear to many energy specialists that these gas supplies could not provide a sufficient supply to the constant raise of demand. With this in mind, and available information about the largest closest natural gas reserves located in Russian territory, Germany closed a contract with Russia in the 1970s. The content of this agreement was to provide a great amount of natural gas from Russia to satisfy the demand of Germany. The import would be carried through onshore pipelines running through the countries of the former Soviet Union and beyond the so called "Iron Curtain". The two actors in this deal representing their countries were the Ruhrgas AG and Gazprom.

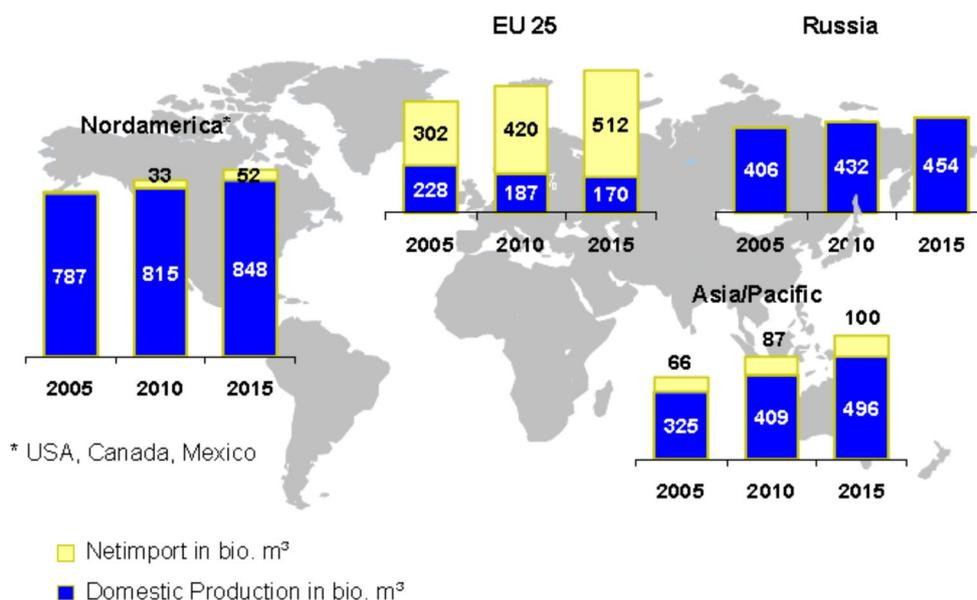
Several other Western countries were fond of the idea of collaboration with the Soviet Union in the energy business. Particularly Sweden and Finland, in the 1980s, were about to seal a deal with the USSR. A business plan was prepared and the work was about to begin, however the disintegration of the Soviet Union prevented the project from execution. (Eugster, 2013)

It was not until the year 1997, when the Finnish company Neste (in 1998 changed to Fortum) began to search for new possibilities to import the natural gas from Russia. The Transgas Oy (NTG) partnership established by Neste and Gazprom aimed to accomplish the transportation of natural gas between Russia and West Europe. 1997 was the year when the fundamental milestones of the original Nord Stream project were laid down. The best possible option for the setup was a route through the Baltic Sea from Western Russia to Northern Germany. In 1998, a study was conducted

by the actors, with the aim to provide an answer to the feasibility of the pipeline. (Fortum Corporation, 2005) (Nord Stream AG, 2006)

By the time the two energy businesses started to cooperate, the European gas supply/demand equilibrium was already disturbed. The 15 European Union members, together with the countries that were about to become members, consumed more natural gas than they could possibly produce from their reserves. Involved energy specialists came to the conclusion that finding a new source of natural gas within the borders of Europe was more than unlikely. Russia, on the other hand, was “sitting” on the presumable one of the largest natural gas reserves in the world with the astonishing estimated number of 45 426 billion cubic metres. (OPEC, 2013) (Emslie, 1998)

Gas consumption statistics in 1997 provided by the U.S. Energy Information Administration show the consumption of Europe (27 countries) at around 438,74 billion cubic metres (bcm), while the production was only around 245,78 bcm creating an import gap around 200 bcm annually. (U.S. Energy Information Administration, 1997-2014) Furthermore, Eurostat figures show that in 1997 around 42% of natural gas was already being imported yearly to the countries of the EU from the former Soviet Union. (OPEC, 2013)

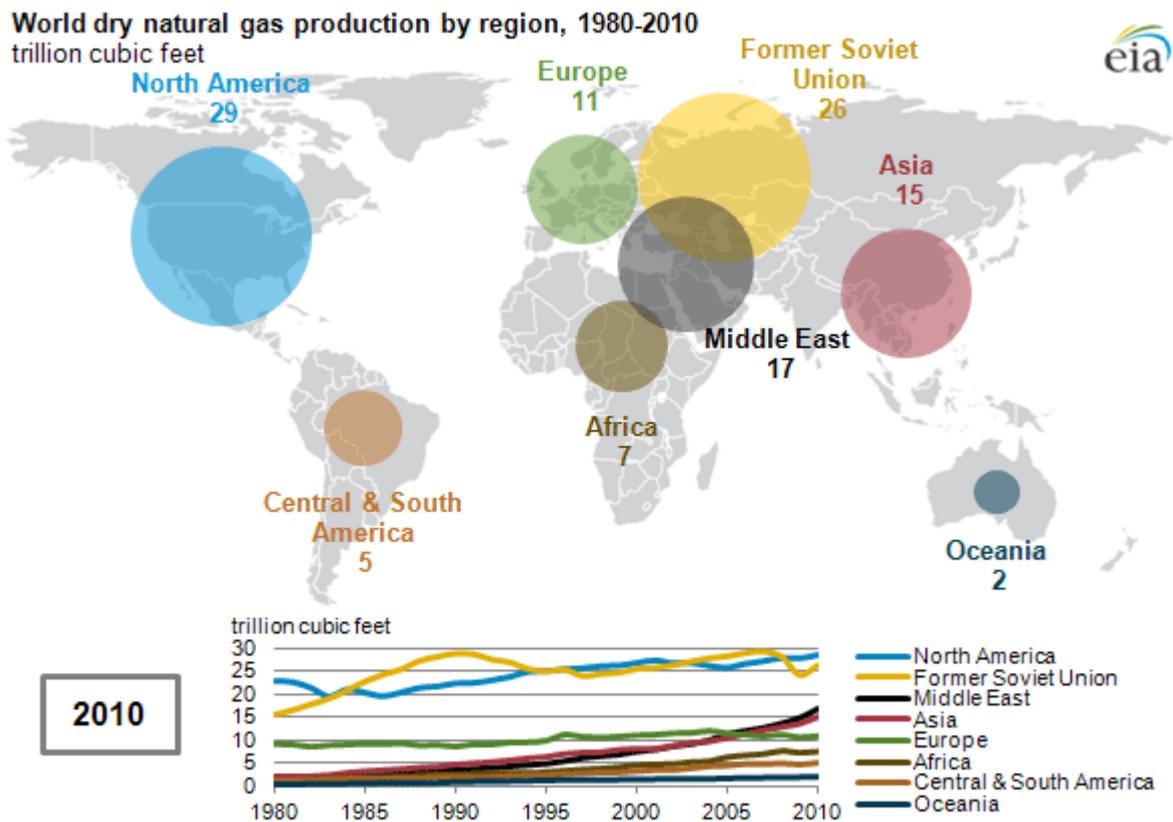


Quelle: IEA, CERA, Wood Mackenzie

Expected development in Natural Gas Demand 2005-2015 (Nord Stream AG, 2006, p. 4)

## The EU Agenda

As mentioned above, the raising demand of Europe's countries forced the European Union to put safeguarding of the flowing gas resources onto their priority list. When we look at below shown picture of closest resources of natural gas, it is clear that the former Soviet Union was the closest well developed part of the world which could provide the supply of this kind of energy type.



(U.S. Energy Information Administration, 2012)

In 2000, the European Union supported the project, by recognising it in its Trans-European Network for Energy guidelines. The purpose of these guidelines was to create simplified electricity and gas transportation infrastructures, mainly to improve the gas routes and differentiate gas sources. The Nord Stream AG project was named as the highest priority energy project for the EU in 2006 by the European Commission. With the amount of natural gas that Russia could provide, it was expected that the project could provide resources for almost all the countries from European Union. (Gazprom, 2009)

## The planning and construction

As mentioned before, between the years 1997 and 1999, both Germany and Russia were employing full teams of experts in energy and engineering to conduct a feasibility research of the Nord Stream

project. Three main options were considered, out of which two were on the shores of EU member states and Russia, and the third was only on Russian shore.

The first option was a mainly onshore pipeline running through Finland and Sweden. The second onshore option would exclude Sweden from the path, which meant the pipeline would run from Russia to Finland and then through the Baltic Sea until it would have connected with Northern Germany. However both ideas were rejected mainly because of the terrain inconsistencies which would make the construction more expensive and time costly. An option that consisted of a pipeline running through Estonia, Latvia and Lithuania was rejected in the beginning due to economic reasons and those countries relationships with Russia. In the end, studies confirmed the technical capability to construct an offshore pipeline running only through the Baltic Sea. This option revealed itself to be the most economic, ecological and technical feasible one. Therefore, a joint study was adopted by Gazprom, Fortum, Wintershall and Ruhrgas in 2001. The arguments in favour of the offshore pipeline, as formulated by Gazprom, were mainly its significantly lower building costs and its higher building speed. The ecological factor played a big role as well, as it is commonly expected to have much lesser impact on nature than onshore pipelines. (Gazprom, 2009)

In 2005, Fortum withdrew from the project due to political changes in Finland. Consequently, Gazprom became the only shareholder of North Transgas Oy, when it bought the remaining shares from Fortum.. Gazprom renamed the project to North European Gas Pipeline and decided to build two pipelines with nearly three times as much transporting capacity than originally planned. (Scientific Surveys, Ltd 2001) (Fortum Corporation, 2005)

The year 2005 was the year when the execution of the project eventually started. Gazprom signed a contract with BASF and E.ON (Ruhrgas AG), regarding the construction of the North European Gas Pipeline. This contract resulted in another renaming of the project, now called "North Stream AG". Its headquarters were set in Switzerland. In late 2005, the construction on Russian land finally began. In 2006, North Transgas ceased to exist, handing all the material to the newly established North Stream AG. (Gazprom, 2009)

Later in the same year after the dissolution of North Transgas, the question of the environmental side of the project came up once more. The environmental impact assessment was sent out to all involved countries that shared territorial waters or exclusive economic zones with the planned path of the pipeline: Russia, Finland, Sweden, Denmark and Germany. The transboundary environmental report was also provided to the remaining Baltic States, including Poland, as they were also

considered as parties affected by the construction. The reporting of the environmental impact ended in 2009, when the final impact assessment was submitted. (Communiqué Nord Stream, 2009)

Between the years 2008 and 2010, the contracts for the construction of the pipelines were divided among the contending companies. In 2008, a former Finnish prime minister was hired as a consultant and a middleman between the Nord Stream AG and the Finnish government. (Deutsche Presse-Agentur (dpa), 2008)

As the pipelines would interfere with the transboundary territories of some countries, the Nord Stream AG needed authorisation for the construction from the relevant authorities of these countries. (Ringstrom, 2008) In second half of 2009, the Danish, Finnish and again Swedish authorities gave a green light to the project, with their permission to construct the pipelines in their territorial waters. (Lamppu, Wasilewski, Korsunskay and Baczynska, 2009)

The pipeline was planned to exit Russia through Vyborg into the Baltic Sea. In 2010, the building of the Portovaya Compressor Station in Vyborg was initiated. First offshore parts of the pipeline were laid down in the first half of the same year in the waters that are part of exclusive economic zone of Sweden. The construction officially began in April of 2010, at Portovaya Bay. (Gazprom, 2010) (Vorobyova, 2010)

The construction of the first pipeline was completed in the middle of the year 2011, with all underwater operations being already finished. (Sputnik International, 2011) In the second half of the same year, the Nord Stream pipeline was connected to the German OPAL pipeline, which is laid down alongside of the Eastern German border, and was built to connect Nord Stream with Western and Central Europe. (Blau, 2011) The first natural gas ran through the pipeline on 6<sup>th</sup> September 2011. The ceremonial opening of the first pipeline took place in November 2011, in the presence of the German Chancellor Angela Merkel, French Prime minister Francois Fillon and Russian President Dmitry Medvedev. (Spiegel Online, 2011) The second pipeline was completed and inaugurated in October of 2012. The initial capacity of the Nord Stream AG was planned at 27,5 billion cubic metres of natural gas per year. However, these numbers doubled with the second pipeline. (Bloomberg, Reuters, AP, 2011)

### **Planned extension**

In 2015, a Memorandum of Understanding between the Austrian company OMV and Gazprom was signed. The content of the agreement defined Austria's part in the construction of the second wave of pipelines on the seabed of the Baltic Sea. (Voříšek, 2015) During the same time, on a conference

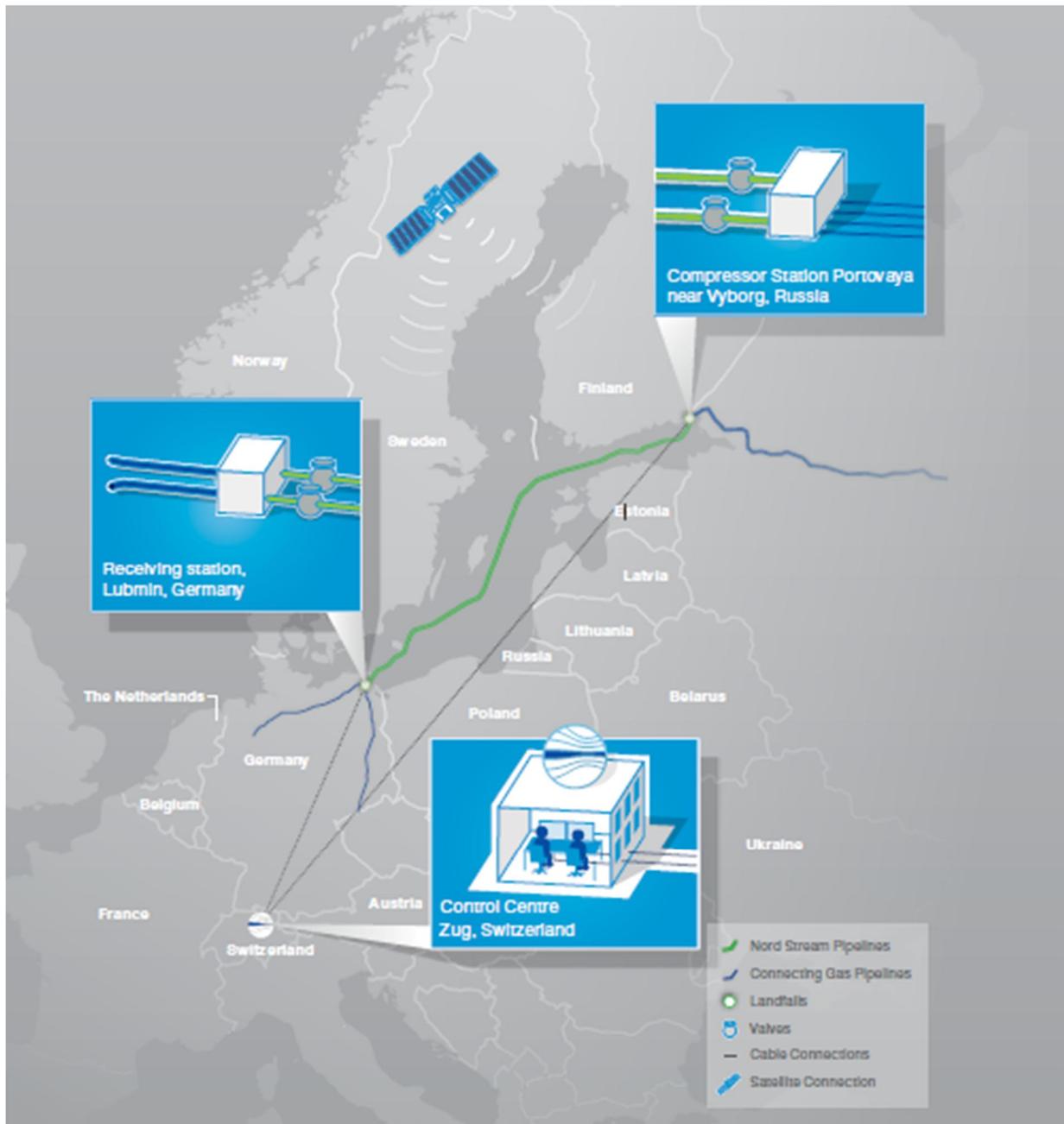
in Sankt Petersburg, two additional companies agreed to join the construction works. One was a German company called E.ON, and the second, with its roots in Britain and the Netherlands, called Shell. The first pipeline was scheduled to be laid down and ready for operation in 2019. At the same time a second pipeline, fourth in total, was planned to be under construction. The project was intended to be finished in 2020. After these two additional pipelines, with a planned capacity of 55 bcm of natural gas, would be operational, Russia planned to stop using the supply pipeline which ran (and still runs?) through the Ukraine. (Deutsche Presse-Agentur (dpa), 2015)

### **A closer look on the proposed project**

As was mentioned before, the starting point of the existing pipeline is located in Russia, specifically in Portovaya Bay near the city of Vyborg. The pipeline's exit point from the Baltic Sea is at Germany's Baltic coast at Synergipark Lubmin. The research area of the project was on the seabed of the Baltic Sea with an approximately 1200 kilometers long path and little less than two kilometres wide corridor. The distance between the two pipelines is set to be 50 metres, which makes the corridor directly influenced by them around 150 metres wide. The operational corridor, which was used for the construction during the first Nord Stream, is therefore approximately 1600 metres wide, including the impact zones of anchors used by the construction boats.

Though the route could have been shorter, if certain conditions did not need to be met, the offshore route is the most possible direct path that could have been taken to connect North Russia's gas fields and Central Europe. The path projecting team had to consider environmentally sensitive areas, important navigation traffic lanes, areas that are considered of an economical or recreational interest to the states, military exclusion zones and unfavourable natural conditions, such as the terrain at the bottom of the Baltic Sea.

The path of the pipelines runs through the exclusive economic zones of four European Union members and Russia. The German part of the Nord Stream interferes with 33 kilometres of their exclusive economic zone (EEZ) and 45 of their territorial waters (TW). In Russia, it is 96 kilometres of EEZ and 22 of TW. The rest of the affected countries do not share their territorial waters with the path of the pipelines, only their EEZs. The route interferes with 369 kilometres of Finland's EEZ. In Sweden it is 482 and in Denmark 149 kilometres. (Nord Stream AG, 2006)



(Eugster 2013, p.126)

## 4.2 Business organizations behind Nord Stream 2

As already mentioned in the previous chapter, shareholder agreement on the extension of the existing Nord Stream pipeline was primarily signed between Russia's oil giant Gazprom and a consortium consisting of five major European energy companies: E.ON and Wintershall from Germany, Austrian OMV, Anglo-Dutch firm SHELL and French-based ENGIE. This project would be developed by a joint venture company called New European Pipeline, in which Gazprom would have

a 50% stake and the other participating companies each agreed to hold 10%. . Following sections will be dedicated to a detailed description of all directly involved parties.

**Gazprom** is the largest supplier of natural gas in the world, accounting for approximately 15% of the world's gas production. It was reorganized into a joint stock company in 1993 and is, by a slight majority, owned by the State of Russia (50.002%). This fact evidently creates some serious concerns during potential deal-making processes, mainly because energy will never be just an article of trade for the State of Russia. Moreover, Gazprom is often accused of acting as a Russian foreign policy tool, rather than a standard commercial actor.

As the U.S. Senator Richard Lugar expressed his doubts about Gazprom's background: "Gazprom's monopoly-seeking activities cannot be explained by economic motives alone. It's difficult to distinguish where the Russian Government ends and Gazprom begins. Clearly, Gazprom has sacrificed profits and needed domestic infrastructure investments to achieve Russian foreign policy goals." (Lugar, 2008)

Unusually for an energy company, Gazprom has also bought television stations and newspapers, which became supportive of Kremlin's policies. Mikhail Krutikhin, from RusEnergy consultancy, pointed out for The Economist magazine that Putin used Gazprom in the past as a tool of foreign policy, for example by cutting off gas supplies to Georgia, Ukraine, Belarus and Moldova during political rows. "*Gazprom has one manager: Putin*", he added. (The Economist, 2013) One political analyst, Stanislav Belkovsky, went even further, claiming that Putin actually owns 4.5% of Gazprom shares, hidden through a non-transparent scheme of successive ownership of off-shore companies and funds. (McClaneghan, 2012)

Irrespective of its political involvement, Gazprom is one of the world leaders in the construction and operation of pipelines. Its core activities include exploration, production, transportation, storage and processing of hydrocarbons, as well as generating heat and electric power. They control approximately 70% of Russian gas reserves and produce 78% of all Russian natural gas, generating 17% of the electricity in Russia. (Nord-stream.com, 2016). Moreover, it is obvious that Russian economy is structured around exploitation of its natural resources, the country covers its payments for imported goods with export of raw material and energy. (Szabo, 2015) Comprehensibly, Gazprom official stance willingly promotes further progress of Nord Stream 2, claiming that the success of this project is "extremely significant for meeting the increasing natural gas demand in the European market." The company further highlights Nord Stream advantages, such as transit countries' essentially reducing gas transmission costs, while any possible political risks shall be also eliminated.

This project will therefore provide customers in Western Europe with reliable gas deliveries. (Gazprom.com, 2015) Based on the official figures, it can be assumed that essential part of company’s portfolio is their trade activity in Germany. As the Bloomberg graphic indicates, Gazprom supplied 45,3 billion cubic meters to Germany last year, covering 55% of the country’s gas imports in 2015. (Bloomberg, 2016)



Furthermore, these business relations apparently evolved throughout the years into a rather open and friendly relationship. It was clearly illustrated in 2013, when the supply of Russian gas to Germany was marking a successful 40 years. Gazprom released a statement that contained several praises: “Over these years, we have become more to each other than just reliable business partners. We have become good friends and this friendship only grows stronger through the years.” Additionally, they claimed that it is not only natural gas that unites them but it is also intensely promoted cultural exchange between both countries by delivering sports and social projects. They further highlighted a steadily developed partnership “despite the passing years and the changing economic and political environment.” (Gazprom.com, 2014)

To support this statement, Gazprom sponsorship agreement with Schalke 04 (one of the major football teams in Germany) unquestionably saved the club from heading down to bankruptcy. It is also worth mentioning that former German chancellor Gerhard Schröder joined the board of Gazprom after losing Germany’s 2005 election and has defended Russia’s response to the crisis in Ukraine on several occasions. (Telegraph.co.uk, 2012) He is currently a Chairman of the Shareholders’ Committee for the existing Nord Stream project. Moreover, Schröder’s former economics minister, Werner Müller, is similarly working as chairman of the energy and chemical

company RAG, which is a subsidiary of E.ON, Gazprom's important business partner. Based on these evident links between Germany and Gazprom, it comes as no surprise that 2 companies involved in Nord Stream 2 agreement are Germany based, namely E.ON. and Wintershall (owned by BASF)

**E.ON** is a major investor-owned energy company with the broadest portfolio of suppliers. The company imports natural gas from Russia, the Netherlands, Norway, and Denmark, providing over 50% of total gas supply to the German market. (gazpromexport.ru) Within the E.ON group operating worldwide, E.ON Global Commodities SE (EGC) is responsible for the global gas business. Alongside gas production and procurement, EGC is investing in technologically advanced gas pipeline systems in partnership with other companies, to link Europe with new and existing gas fields. EGC has been receiving natural gas from Russia for more than 40 years and they have repeatedly agreed on adjustments to existing agreements to "retain the competitiveness of Russian natural gas, as this constructive cooperation will continue to determine the success of Russian natural gas in Germany and ultimately the security of gas supply." (eon.com) Furthermore in August 2006, Gazprom Export and E.ON Global Commodities SE extended their four main contracts until 2035.

The other German company directly involved in Nord Stream 2 plans is **Wintershall Holding GmbH**, which is a subsidiary fully owned by the world's leading chemical company BASF SE. Wintershall has been active in the exploration and production of crude oil and natural gas in various parts of the world for more than 80 years. The company trades and sells natural gas and became Germany's largest producer of crude oil and natural gas. In its exploration and production activities, Wintershall deliberately focuses on selected core regions where the company possesses a wealth of regional and technological expertise. With the aims of making natural gas sales more efficient and increasing its market share in Germany, Gazprom and Wintershall AG have established two joint ventures in Germany: WIEH (1990) and WINGAS (1993), with the latter started to receive gas via the Nord Stream 1 pipeline in 2013. Several long-term contracts have been concluded with WIEH and WINGAS and these have been lately extended until 2031. (gazpromexport.ru) Gazprom also launched a new three-year program of sci-tech cooperation with Wintershall in 2011. Additionally, both companies completed the asset swap deal last year, which resulted in Gazprom increasing its stake in gas selling and storage companies WINGAS and WIEH to 100%. Through the transaction, Wintershall receives the economic equivalent of 25.01% of the blocks IV and V in the Achimov formation of the Urengoy natural gas and condensate field in Western Siberia. The two blocks will be jointly developed by Gazprom and Wintershall. (tass.ru)

**ENGIE** developed its businesses in power, natural gas and energy services, largely based on its expertise in four key sectors: renewable energy, energy efficiency, liquefied natural gas and digital

technology. ENGIE employs over 150 000 people worldwide and achieved revenues of €74.7 billion in 2014. The company celebrated its 40th anniversary of commercial cooperation with Gazprom last year. The press release from this occasion highlighted “the quality of the relationship, which has always prevailed between both groups throughout this long period. Founded on gas supply and strengthened by scientific and technical cooperation, this long-standing partnership was further developed in 2010 with the joint participation in the transmission company Nord Stream.” (Engie.com) It also underlined the importance attached to the Nord Stream 2, and interestingly announced significant decision that they mutually agreed to modify their respective stakes in the project. This practically means that ENGIE will take over 10% of the Nord Stream 2 AG company and Gazprom will hold 50%, compared to the previously agreed 9% and 51%. This new shareholder structure equalizes the European and Russian interests in Nord Stream 2 project. (Engie.com) However, their relationships has slightly worsened lately, as Engie reportedly started legal proceedings to revise prices on a natural gas supply contract with Gazprom Export, a subsidiary of Russia's Gazprom. (Reuters.com)

The British-Dutch oil and gas company **Shell** is focused on hydrocarbon production, processing and marketing in over 70 countries worldwide. When it comes to cooperation with Gazprom, one of the milestones was set-up in 2009, when a liquefied natural gas (LNG) plant with an annual capacity of 9.6 million tons was brought into operation as part of the Sakhalin II project, making it the only LNG plant in Russia. Last year Gazprom and Shell signed an Agreement of Strategic Cooperation promoting the partnership between these two companies across all segments of the gas industry in the form of a potential swap of assets.

**OMV** is Austria's largest listed industrial company, which was 100% state-owned until 1994. The state, still remains its largest shareholder (via the Austrian Industrial Holding), with a 31.5% stake in OMV. Their exploration and production business segment has a strong base in Romania and Austria and significant international portfolio, too. OMV has been the Russian gas industry's main business partner in Austria for over 40 years. They further developed their cooperation in September 2015, by signing the main terms and conditions of the asset swap which, if completed, would enable OMV to acquire a 24.98% strategic stake in the project for developing Blocks 4A and 5A of the Achimov deposits at the Urengoi field in western Siberia, although final negotiations on the details of the swap are yet to be completed. When asked about the Nord Stream 2 agreement, OMV CEO Seele claimed that the project would increase supply security by extending “our trustful partnership” with Gazprom. Finally there is also an agreement about scientific & technical cooperation in fields of gas

production, transportation, processing, underground storage and sales, among others. (NaturalGas.com)

### 4.3 Role of the European Union

In order to provide answers to our problem formulation, it is necessary to look on the problematic from a higher perspective. The Nord Stream issue is connected to the politics of the European Union. It is therefore important to better enclose the stance of the European Union and their policies connected with the future and presence of energy business and security.

The Energy policy of the EU has been introduced as a mandatory and comprehensive path back in 2005, during the meetings of the European Council. It is important to note that this area has been legally



adjusted for many years. There were several incentives that led to deeper unification and development of the energy politics within the EU. A first impulse took place back in 2005 and 2006, when Russia and the Ukraine had their disagreement about the prices of natural gas. This led to a limitation of supply, which negatively affected many EU countries. A similar situation occurred in 2007 and 2010 between Russia and Belarus, with a similar impact on member states of EU. A third case happened in 2009, when the supply of natural gas was totally stopped by the Russian side. (U.S. Energy Information Administration, 2014) (Image - U.S. Energy Information Administration, 2014)

These events forced the members of the European Union to start developing policies, which would prevent such limitations from happening again. (Pauhofová, 2012 p.47). The EU furthermore implemented solidarity in energy supply and energy policy as a part of Treaty of Lisbon in 2007. Before it became part of the Treaty of Lisbon, the energy policy of the EU was exercised through its authority in the sphere of the environment and common market. However, the harmony between the energy policy of the EU and the policies of its members is often based on the cooperation that at many times proved to be difficult. (Frederik, 2012 p. 14)

## EU energy dependency

In 2013, the EU's energy import was about 909 bmc higher than its export of primary energies. The biggest importers were generally countries with the highest population with Poland being the only exception, because of their own reserves of coal. Denmark was the only EU country since 2004 with higher energy exports than imports. However, since 2005, there has not been a net exporter of energy among EU countries.

The security of the supply could be endangered if the imports are centralised among a low number of suppliers. In 2013, 69.1% of the supplied natural gas came from Russia and Norway. The import of the natural gas increased by almost 10% since 2011. The reliance on imported energy in EU rose from below 40% in the 1980s to 53.2% in 2013. The biggest rates of energetic dependence in the year 2013 were reported in the case of crude oil (88.4%) and natural gas (65.3%). In the decade between 2003 and 2013, the natural gas reliance went up by 13.3%, which is even faster than the raise of dependence on crude oil (only 9,2%). Since 2004, more than half of the consumed energy was being imported to the EU by non-member states. (Eurostat, 2015).

## Europe natural gas consumption by the numbers

Consumption*													
Million tonnes oil equivalent	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Change 2014 over 2013	2014 share of total
Austria	8.5	9.0	8.5	8.0	8.6	8.4	9.1	8.5	8.1	7.6	<b>7.0</b>	-8.4%	0.2%
Azerbaijan	7.5	7.7	8.2	7.2	8.2	7.0	6.7	7.3	7.7	7.7	<b>8.3</b>	7.4%	0.3%
Belarus	16.1	16.5	16.9	16.9	17.4	14.5	17.8	16.5	16.7	16.7	<b>16.5</b>	-1.0%	0.5%
Belgium	14.6	14.7	15.0	14.9	14.8	15.1	17.0	14.9	15.2	15.1	<b>13.3</b>	-12.3%	0.4%
Bulgaria	2.5	2.8	2.9	2.9	2.9	2.1	2.3	2.6	2.5	2.4	<b>2.4</b>	-0.7%	0.1%
Czech Republic	8.2	8.5	8.4	7.8	7.8	7.4	8.4	7.6	7.5	7.6	<b>6.8</b>	-11.3%	0.2%
Denmark	4.7	4.5	4.6	4.1	4.1	4.0	4.5	3.8	3.5	3.4	<b>2.8</b>	-15.3%	0.1%
Finland	3.9	3.6	3.8	3.5	3.6	3.2	3.6	3.1	2.7	2.6	<b>2.2</b>	-14.3%	0.1%
France	40.6	40.3	39.3	38.2	39.4	37.6	42.2	36.4	38.0	38.6	<b>32.3</b>	-16.3%	1.1%
Germany	77.3	77.6	78.5	74.6	73.1	70.2	75.0	67.1	70.5	74.2	<b>63.8</b>	-14.0%	2.1%
Greece	2.4	2.4	2.8	3.3	3.5	2.9	3.2	4.0	3.7	3.2	<b>2.5</b>	-23.5%	0.1%
Hungary	12.5	13.3	13.1	12.2	12.1	10.5	11.3	10.0	9.1	8.3	<b>7.5</b>	-9.5%	0.2%
Republic of Ireland	3.7	3.5	3.9	4.3	4.5	4.3	4.7	4.1	4.0	3.9	<b>3.7</b>	-3.9%	0.1%
Italy	66.5	71.2	69.7	70.0	70.0	64.4	68.6	64.3	61.8	57.8	<b>51.1</b>	-11.6%	1.7%
Kazakhstan	5.1	4.9	8.5	7.3	9.4	5.3	6.3	7.6	6.1	4.1	<b>5.1</b>	23.9%	0.2%
Lithuania	2.8	2.9	2.9	3.3	2.9	2.5	2.8	3.1	3.0	2.4	<b>2.3</b>	-5.1%	0.1%
Netherlands	36.8	35.4	34.3	33.3	34.7	35.0	39.2	34.3	32.8	33.3	<b>28.9</b>	-13.3%	0.9%
Norway	4.1	4.0	4.0	3.8	3.9	3.7	3.7	4.0	3.9	4.0	<b>4.2</b>	5.6%	0.1%
Poland	11.9	12.2	12.4	12.4	13.5	13.0	14.0	14.1	15.0	15.0	<b>14.7</b>	-2.1%	0.5%
Portugal	3.4	3.8	3.7	3.9	4.3	4.2	4.6	4.7	4.0	3.8	<b>3.4</b>	-11.4%	0.1%
Romania	15.7	15.8	16.3	14.5	14.3	11.9	12.2	12.5	12.2	11.3	<b>10.6</b>	-6.7%	0.3%
Russian Federation	350.4	354.6	373.5	379.8	374.4	350.7	372.7	382.1	374.6	372.1	<b>368.3</b>	-1.0%	12.0%
Slovakia	5.5	5.9	5.4	5.1	5.2	4.4	5.0	4.6	4.4	4.8	<b>3.3</b>	-30.6%	0.1%
Spain	25.2	29.8	31.2	31.8	34.9	31.2	31.1	28.9	28.6	26.1	<b>23.7</b>	-9.3%	0.8%
Sweden	0.7	0.7	0.8	0.9	0.8	1.0	1.4	1.1	1.0	1.0	<b>0.8</b>	-13.9%	*
Switzerland	2.7	2.8	2.7	2.6	2.8	2.7	3.0	2.7	2.9	3.1	<b>2.7</b>	-12.9%	0.1%
Turkey	19.9	24.2	27.4	32.5	33.8	32.1	35.1	40.2	40.7	41.1	<b>43.7</b>	6.5%	1.4%
Turkmenistan	13.5	14.5	16.5	19.1	19.3	17.7	20.4	21.2	23.7	20.6	<b>24.9</b>	21.1%	0.8%
Ukraine	61.7	62.1	60.3	56.9	54.0	42.1	47.0	48.3	44.6	41.0	<b>34.6</b>	-15.7%	1.1%
United Kingdom	87.6	85.4	81.0	81.9	84.4	78.4	84.8	70.4	66.5	66.1	<b>60.0</b>	-9.2%	2.0%
Uzbekistan	39.1	38.4	37.7	41.3	43.8	35.9	36.8	42.9	42.5	42.2	<b>43.9</b>	4.1%	1.4%
Other Europe & Eurasia	15.2	15.4	15.7	16.2	15.7	13.9	15.0	15.2	15.1	13.7	<b>13.4</b>	-1.8%	0.4%
<b>Total Europe &amp; Eurasia</b>	<b>970.1</b>	<b>988.6</b>	<b>1009.8</b>	<b>1014.5</b>	<b>1022.2</b>	<b>937.4</b>	<b>1009.2</b>	<b>988.0</b>	<b>972.8</b>	<b>954.7</b>	<b>908.7</b>	<b>-4.8%</b>	<b>29.6%</b>

(Image - BP, 2015)

Green - Visegrad group countries

Red - Eastern European countries

Energy Union – a bold project for further integration

In February 2015, the European Commission developed an idea to deepen the integration of its members. This time it once more was in the area of energy with a goal to create an Energy Union. The expectation from this project is to bring lower prices for energy, lower the dependency on fossil fuels from non-EU members, lower the amount of pollution and increase the endurance in cases of supply cut offs. (EC - Audiovisual Service, 2015)



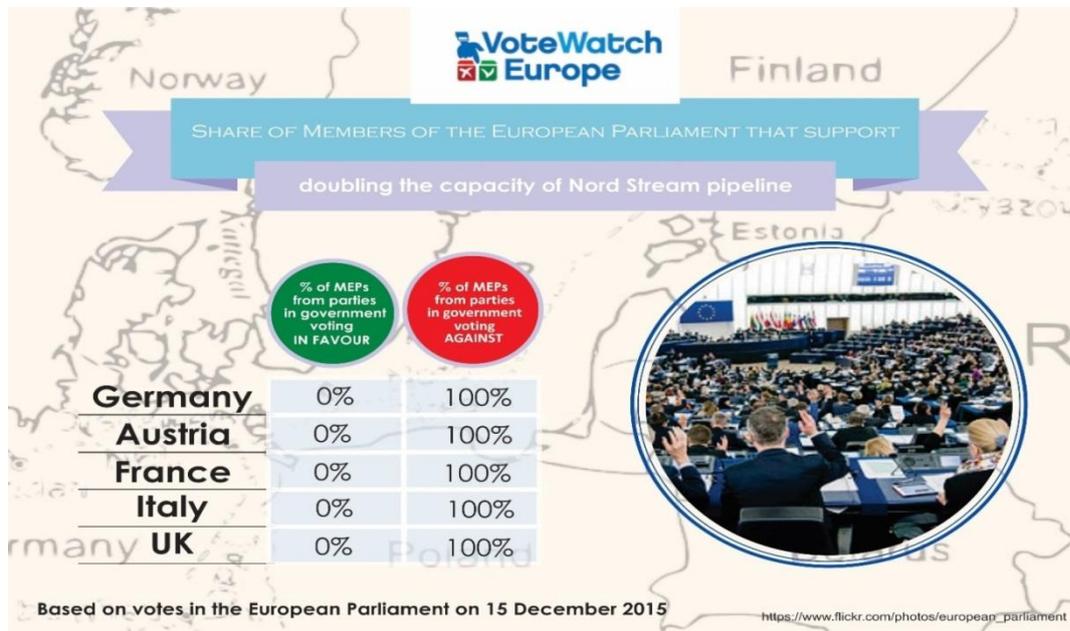
The energy union project stands on five fundamental pillars. Those are: security of the supply, unified market with energy, energetic efficiency, lowering of emission and research/innovation in the area. However, due to the world's current geopolitical and economical situation, none of these pillars seems to present an easy task to accomplish. The prices for energy are currently high, the infrastructure is (out)dated, our economies are too dependent on energy, which is connected to the pollution and the energy import dependence has been illustrated in the previous chapter. (Europsky Parlament, 2015a)

As stated above, the EU is under a constant threat of energy cut-offs from its suppliers (mainly Russia). Moreover the vice president of the EU Commission and of the Energy Union project, Maroš Šefčovič, stated in one of his speeches that 10% of the EU's households cannot afford proper heating, while a great amount of energy in the EU is still being wasted. Maroš Šefčovič further advocates, that the monitoring of the member states during implementation of the EU's existing legislation by the member states is a necessity and should be more strict. He also believes there to be a need to diversify the routes of energy supplies, highlighting the possibilities of supply from the areas of the Caspian (project Nabucco) and the Mediterranean Sea. (Europsky Parlament, 2015b) However, the problem of Nabucco is that most of the natural gas from the countries around the Caspian Sea has been bought by Russia and Iran. Another solution to the question of diversification and energy security is the import of LNG (liquefied natural gas). (Pauhofová, 2012 p.47, 51)

In December of 2015, the European Parliament adopted a legislative act, which highlighted the main priorities of the Energy Union. The representatives adopted the act with a voting ratio of 403 pro, 177 contra and 117 abstained votes. The members of parliament believe that the cooperation of the member states in order to create this union is a necessity. A member of Parliament, Evžen Tošenovsky, stated that "Parliament had today expressed that the integration of common market with energies must be the fundamental stepping stone of the Energy union".

Furthermore, he stated: “The market rules in the case of a member state facing a dominant supplier of energy, must be supported by a solidarity apparatus.” (Europsky Parliament, 2015c) The act contained provisions which highlighted the importance of the active effort between EU Commission and member states, to reach more sustainable and competitive prices and costs of imported energy with the diversification of deliveries.

In order to fulfil this task, all of the upcoming EU projects in the area of infrastructure must be in compliance with the EU regulations and priorities. Member of European Parliament furthermore stresses the need for most effective use of existing national and cross-border energy infrastructure in order to ensure efficient use of Europe's energy sources and improve energy security. The Parliament expressed concerns with the proposed doubling of pipelines in the Baltic Sea. The MEPs believe Russia may endanger the energetic security and diversification of the imports. (Europsky Parliament, 2015c) “The EU risks creating detrimental consequences for the gas supply in Central and Eastern Europe, including Ukraine, in particular against the background of Gazprom’s announcement to stop gas delivery through the Ukraine once Nord Stream 2 is finalised,” (Oliver, 2016) said Manfred Weber, who is the head of the centre-right European People’s party, the largest party in the European Parliament.



(Image - D&D Consulting Services & VoteWatch Europe, 2016)

The above statistic furthermore shows that around 61% of the natural gas is used in the households and other buildings for heating. Parliament therefore demanded revision of the building energy

efficiency regulations and energy efficiency regulations. One of the goals of the Energy Union is to push forward the renewable energies. The transition towards this type of energy, promises the EU to lower usage of other fossil fuels and lesser dependency on non-EU members as suppliers. (Europsky Parliament, 2015c)

#### 4.4 Russian energy policy as a coercive tool

For the benefits of our analysis, it is essential to outline the history of Russian gas supplies to Europe. The aim of this section is to highlight the threat imposed by Russia in this matter, based on relevant historical events.

The history of Russia's gas supply to Europe reaches back to the second half of the 20<sup>th</sup> century. At the end of the 1970's, Moscow developed a plan to build a pipeline that would reconcile their Urengoy deposit with Europe. The



United States opposed the plan because they perceived it as a threat to Europe and their interests in Europe. It is understandable that during these times, an economical edge was of great importance. Therefore both Soviet Union and the U.S. were doing everything in their power to prevent the other from gaining such an advantage. Some critics believed that Western Europe would expose itself to the potential energy dependence and dangerous political influence, because of their reliance on gas supplies from the Soviet Union. U.S. President Ronald Reagan forbids the sale of U.S. technology equipment to the construction of these pipelines. However the supply of energy to Western Europe remained a problem. (Orbánová, 2010) (Image - Kallaugher, 2008)

The main concerns of the U.S. were realized in the 1990s, when the Kremlin started to use their rich reserves as a tool of Russian diplomacy. (Ševce, 2006) Russia put a high emphasis on making the energy foreign policy a crucial point of their diplomacy. Russia, in order to transport its gas to Western Europe, needed to cooperate with the countries that were supposed to build the pipeline on their territory. These transit states were divided into two groups. The first group consisted of Belarus and Ukraine, states of the former Soviet Union. These countries share a boarder with Russia and belong to their sphere of interest. The second group includes countries that can be called middle-man countries. These can be located between the Western states, which represent the primary customers and countries of the first group. The second group's countries are Poland, Hungary and Slovakia (Orbánová, 2010)

Countries of first and second stage constituted a very important role for the Russian gas transit. In the mid-90s, an important aim of Russian foreign policy was to prevent states from Central Europe to join NATO. Russia had developed several energy strategies to gain influence on the first and second stage. Edward Lucas in his book "The New Cold War" analysis three options to do so. The first way is to prevent European countries to diversify their energy sources, gas in particular; the second option is to strengthen the control of the international gas market. A third method is to obtain distribution and storage capacities in Western countries and use it as political leverage. (Lucas, 2008)

Concrete examples of the exploitation by Russia happened already in the 1990s, when Russia cut off supplies to the Baltic countries for their independence efforts. It was a clear signal that Russia had ambitions to retain influence in this area. In 1992, the same thing happened when the Baltic States demanded the withdrawal of Russian troops. The main issue was that Russia offered cheaper "Soviet" prices for gas to its former Soviet Union states and therefore a threat of transition to world market prices served them as leverage against these countries. Russia used this type of coercive tool many times over the past years, with the task to threaten countries to fulfil their geopolitical and economic interests. A year later, in 1993, the same kind of problem occurred in the Ukraine. The Ukraine had signed an agreement with Russia on maintaining the "Soviet" prices in return of nuclear arsenal, which was left in the Ukraine after the collapse of the USSR, and dislocation of the Russian Black Sea Fleet in Sevastopol. (Duleba, 2009)

One of the most recent examples is so-called Polish affair with fiber optic cable. This example illustrates how a legitimate construction and monitoring of a gas pipeline can provide space for illegal activities of Gazprom and Russia. According to the original contract, Gazprom was supposed to build a gas pipeline called Yamal with a fiber optic cable to monitor the flow of gas, which is a regular procedure in the building of gas pipeline. However, in 2000 Poland found that the above mentioned optical cable had a much wider bandwidth size than it should have. This act had been perceived by the Polish government as a threat to national security. There even appeared opinions that the optical cable was technically fit for spying and carrying amounts of data from telephone conversations. (Orbánová, 2010)

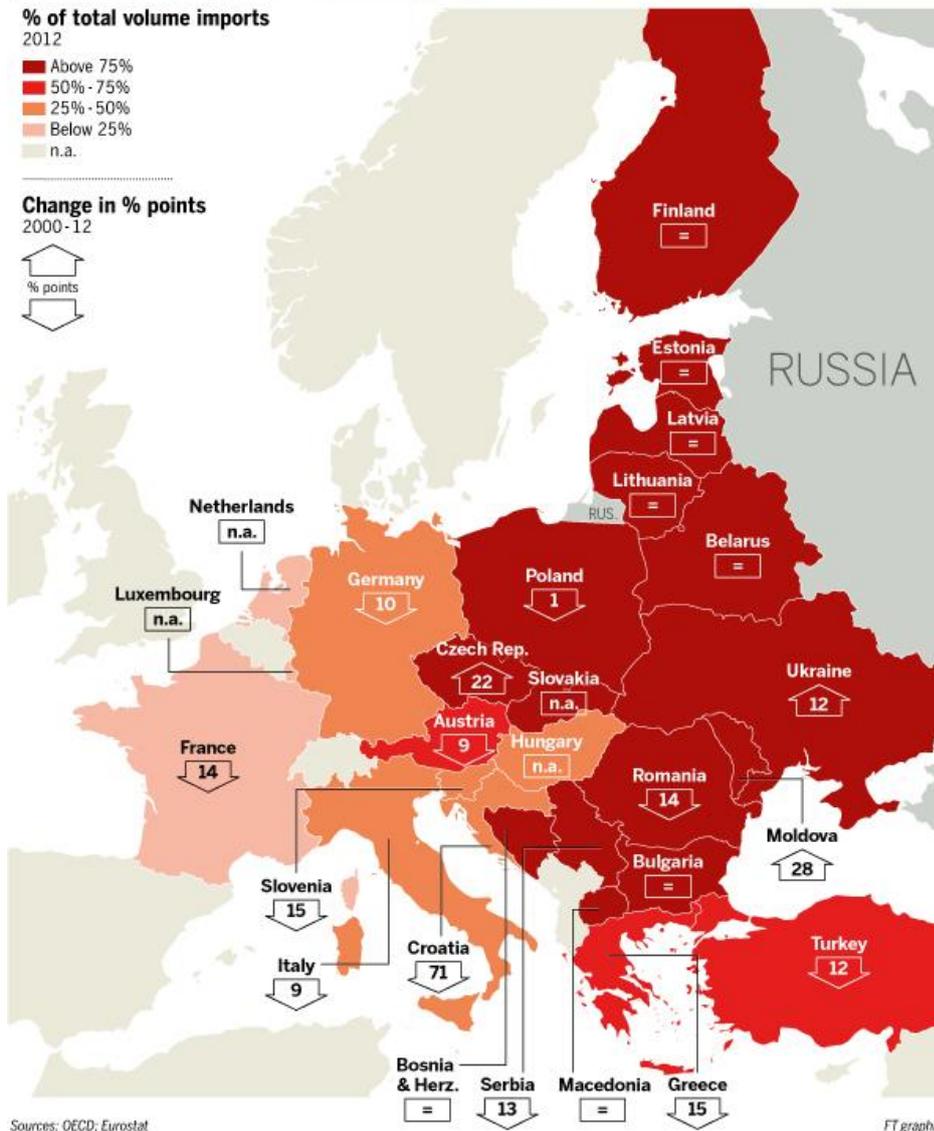
In addition, to highlight the dominant position of Russia, below a map of European countries and their dependency on Russian import of natural gas is shown. (Image - Chazan, 2014)

## Natural gas import dependency on Russia

% of total volume imports  
2012



Change in % points  
2000 - 12



Sources: OECD, Eurostat

FT graphic

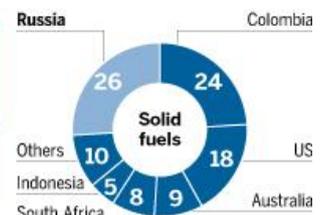
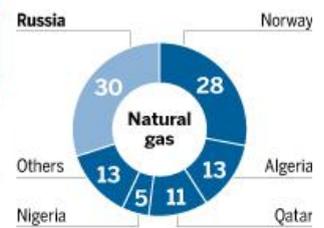
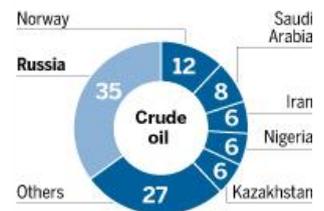
### Top natural gas importers from Russia

Cubic metres (bn), 2012



### EU 27 imports

% of extra-European imports (volume), 2011



## 4.5 Alternative natural gas sources for Europe

In addition to the previous explanations, it is necessary to mention also existing ideas for importing natural gas from Russia to Europe. These might be seen as an alternative to the Nord Stream pipeline project as well as to any other existing pipeline in Eastern Europe. Therefore, the viability of the three most prospective alternatives is briefly being analysed.

### 4.5.1 South Stream

The idea for a South Stream pipeline developed in the mid-2000s during numerous disputes over natural gas between the Ukraine and Gazprom. The conflict escalated when Ukraine's natural gas

supplies were cut off by Russia, in response to the debts owed by Ukraine's company Naftogaz. The Ukraine responded by diverting its supplies which were destined for other consumers in Europe, which led Gazprom to eventually shut down all the natural gas flowing through the Ukraine. Although this suspension only lasted a limited time, it had a direct impact on the flows to Europe as well. (NaturalgasEurope.com)

These events triggered Gazprom to look for different options to deliver gas to their European customers, in order to diversify from pipeline routes passing through the Ukraine. Besides the aforementioned Nord Stream plan, another possibility was considered, too. There was a route which would bypass the Ukraine in the South and it was accordingly named South Stream. This project would open a new route for Russian gas towards Austria and Slovenia via Bulgaria, with a 2,370 km long pipeline, thereof 923 km offshore, and a carrying capacity of 63 Gm3 per year. (gasinfocus.com)

### South Stream plans



(acrossthepond.ideasononeurope.eu)

The plan met first complications in 2009, when a Third Energy Package, based on a proposal of the European Commission, was adopted by the European Parliament and the Council of the European Union. In spite of these new impediments, Gazprom still believed that South Stream would be able to avoid new restrictions, at least to some extent. When it came to Nord Stream, they indeed effectively managed to find their way by securing its status as part of the Trans-European Networks (TEN). This exempted Nord Stream and its associated projects from many Third Energy Package requirements. Although there were several attempts to grant the same exemptions for the South Stream, the TEN status was eventually not approved by the EU.

The main argument was that Europe wants to diversify its supplies away from Russia. In addition, South Stream was seen as a main competition to Europe's Southern Gas Corridor projects, which aimed to bring natural gas to the Continent from the Caspian and Middle East. Consequently, the EU instead provided the TEN status to South Stream's primary competitor, Nabucco.

However, these difficulties did not stop Russia to keep on looking for a way to move forward with the South Stream project; they had even secured the funding and partnerships needed for the project. Moreover, some contracts to lay the first two legs of the underwater construction had already been awarded. Meanwhile, Bulgaria had also participated by building South Stream's onshore segment. The definite turning point came in late 2013, with the outbreak of the Ukraine crisis. Followed by the sanctions against Russian banks which had supported the South Stream project, these were the main factors limiting Gazprom's ability to raise funds for actually building the pipeline.

Furthermore, The European Commission had begun to formally investigate Gazprom's monopolistic practices and threatened to take action against Bulgaria over its South Stream construction. They argued that construction permits for the pipeline on Bulgarian territory were not issued in accordance with existing EU regulations and threatened legal procedures against the Bulgarian government. As a result of these actions, Bulgaria stopped the construction work on the South Stream project in June 2014. (NaturalgasEurope.com) Furthermore, an existing competition law of the EU did not allow Gazprom to exercise monopoly over this project, which would stop third parties' access to the European energy sector. (Gurbanov, 2014) Although, Gazprom had already spent significant amounts of its budget for the first half of the South Stream project, the company was eventually forced to abandon the whole project.

#### **4.5.2 TurkStream**

Very soon after the South Stream project's failure, another major pipeline project called TurkStream started to attract more and more attention. Gazprom turned its focus on Turkey, as it geographically was the only way to avoid any EU transit states when importing gas to Europe. Given the financial pressure that sanctions were putting on the company, this alternative route seemed to be a good solution in contrast to the abandoned South Stream project. Also it has always been an effective Russian tool to demonstrate it might no longer rely on the Ukraine as a transit country in a mid-term future. According to the official TurkStream website any political motives were ruled out, though. Instead, the main argument provided in favour of constructing this route, claims: "The west of Turkey and a number of European countries currently rely on an older system which runs via the

Ukraine. Over the past 20 years, lacks of investments and modernization have made this system less reliable, posing a risk for those countries that depend on it for all their energy.” (TurkStream.com)

The TurkStream project planned to bring Russian natural gas to Europe primarily through Turkey and Greece. As it is illustrated on the picture below, it was going to run through the Black Sea from the Russkaya CS near Anapa to Kiyikoy village in the European part of Turkey and further via Luleburgaz to Ipsala on the border between Turkey and Greece.

Turk Stream



(Gazprom.com)

The annual gas pipeline transport capacity would be a total of 63 billion cubic meters of gas. The offshore gas pipeline will consist of four strings with the capacity of 15.75 billion cubic meters each. The first string was set to be constructed by December 2016 and gas from this string was intended exclusively for the Turkish market. Gazprom also agreed to be solely responsible for the construction of the offshore section, whereas Turkish gas transportation facilities would be built jointly. (Gazprom.com)

Nevertheless, this project is also facing considerable political resistance from European consumers. More importantly, another setback may be caused by recent Russian sanctions against Turkey, in

retaliation for the downing of a Su-24 bomber on the Syrian border on 24 November 2015 by Turkish F-16 jets. (bbc.co.uk)

#### **4.5.3 LNG as an alternative source and the North-South Corridor**

Liquefied natural gas (LNG) is another alternative, as it appears to be a crucial direction for future diversification of energy supply sources for Europe. Its importance for energy security and competitiveness is underlined by the fact that the EU currently is the biggest importer of natural gas of the world. Although LNG is principally natural gas (predominantly methane), it is converted to its liquid form for ease of storage or transport. The liquefaction process involves cooling the gas to around  $-162\text{ }^{\circ}\text{C}$  and removing certain impurities, such as dust and carbon dioxide. As a liquid, LNG takes up around 600 times less volume than gas at standard atmospheric pressure. This makes it possible to transport gas over long distances, without the need of pipelines, typically in specially designed ships or road tankers. When it reaches its final destination it is usually re-gasified and distributed through gas networks – just like gas from pipelines. Today, those Western Europe countries with access to LNG, import terminals and liquid gas markets are far more resilient to possible supply interruptions than those that are dependent on a single gas supplier. Overall, the global LNG market is also undergoing a dynamic development with the entrance of new suppliers, including the U.S and Australia. (Europe.eu)

Furthermore, it is to note that the current high demand for the Russian gas in Europe is rather fixed for the foreseeable future and any project promising to deliver substantially large quantities could be considered as non-realistic. That's why the importance of LNG is lately significantly increasing. Already, there are several concepts based on the LNG model, such as the so-called North-South Corridor project. This project is not only being considered as a direct competitor to the Nord Stream pipelines, but it is also seen as an alternative to Russian natural gas in general. That is why the North-South Corridor is quickly gaining support amongst many Central and Eastern European states, including the V4 governments.

The key feature of the corridor would be to create an infrastructure that joins the dots between Poland's newly opened Swinoujscie LNG terminal and Croatia's proposed Krk Island LNG terminal. The aim of the corridor is to open up a link between the Baltic and Mediterranean gas markets. Furthermore, the project also plans to create closer integration of the Eastern European gas markets with those of Western Europe, where further new LNG import plants in the UK and Belgium will be opened as well. (newsbase.com)

However, it is extremely challenging for the North-South Corridor project to compete with an additional 55 bcm/year of piped gas coming in from Russia through the Nord Stream 2 pipelines. To secure an equivalent amount of gas from LNG, it would require the delivery of around 1000 regular-sized LNG tankers (with carrying capacities of approximately 100,000 cubic metres of LNG, or 60 mcm of natural gas) into the terminals at Krk and Swinoujscie. In a year, that would mean around three new deliveries of LNG cargoes per day at the terminals. This quantity seems unfeasibly high, especially considering the competition for LNG cargoes and fluctuation caused on the spot market from rival buyers in Asia.

The corridor plan also anticipates to link up with Western European LNG plants, which would boost capacity, but still fall short of the amount of gas a new pipeline from Russia would bring in. (newsbase.com) Therefore all plans for the North-South Corridor project look rather abstract at this point of time, in the sense that it is a very complex issue and consists of numerous pieces still to be designed and put together. Even though the Swinoujscie LNG facility is up and running, Croatia's Krk Island LNG import terminal is still some way off completion. In conclusion, when comparing to the Nord Stream 2 project with stable long-term pricing agreements in place, the North-South Corridor project appears to be a valuable way to diversification, rather than a real and complete alternative. (Murphy, J. - Former Soviet Union Oil & Gas)

#### 4.6 Visegrad Group

The Visegrad Group, also referred to as the Visegrad four or just the V4 is an alliance between four countries situated in the Central



region of Europe. The name originated in the year of 1335, when kings and monarchs of the Czech, Polish and Hungarian Empires met in today's Hungarian city of Visegrad. The present V4 dates back to 15.02.1991, when the representing authorities of Czechoslovakia, Hungary and Poland met once more in Visegrad to reconstruct the cooperation between these three (four – Czechoslovakia split in 1993) countries. The alliance was established to support the process of integration into the EU and to help transform their economies to better fit the EU model. The countries officially entered the EU in 2004. The only institution of the Visegrad Group is the International Visegrad Fond located in Bratislava. At present, the purpose of this establishment is to strengthen stability and democracy in

Central Europe and push forward the similar interests of the V4. (visegradgroup.eu) (Image - South Front, 2015)

### **The Energy Union from the standpoint of the Visegrad Group**

In their discussion, the authorities representing Slovakia, the Czech Republic and Hungary proposed similar demands towards the Energy Union. The V4 expects a certain extent of flexibility of the Energy Union, as the opinions of member states often differ. They see the EU Commission's task as a mediator, which would provide truthful and complete information about the development. The Czech Republic acknowledges the goals of the Energy Union, especially the energetic security and common market. "In order for the Energy union to be successful, the balanced development of all its pillars must be rigorously respected" states Lenka Kovačovská from the Czech Ministry of Industry and Commerce.

Slovakia is focused on the question of energetic security and freedom. Competitiveness is also one of the concerns of the state. One of the state's demands is that the Energy Union, or any other project, should respect the existing infrastructure and transit routes. Together with the other countries of the Visegrad group, they question the contribution of the Nord Stream 2 project. Slovakia claims the project wasn't adding to diversification of the energetic imports. (Euractive.sk, 2015)

It may be assumed that the whole group supports the idea to retain the supply pipeline running through the Ukraine as the cheapest option for all Visegrad group countries. However, it was decided for the better understanding of minor differences between the V4 members' standpoints, that all countries will be individually assessed on the following pages.

Nevertheless, in order to express the common stance of the V4 countries against the Nord Stream 2 project, a copy of their letter to the President of the European Commission is enclosed on the next page.

**Mr. Jean-Claude Juncker**  
President of the European Commission

27 March 2016

Dear Mr. President,

*we would like to reassure you that the issue of energy security and diversification is of a crucial importance for our countries. Indeed, the most important feature of the Energy Union for us is to enhance energy security by diversifying sources, suppliers and routes. The basis of our concern is that we cannot see any developments into that direction; what is more, there is a risk of deterioration. This was also reflected by the Heads of States and Governments in the discussion and conclusions of the European Council in December 2015 which stated that any new infrastructure should entirely comply with the EU legislation as well as with the objectives of the Energy Union. In this context, we would like to draw your attention to the aspect of energy security in context of planned infrastructure projects.*

*The Nord Stream II project that is currently under preparation can pose certain risks for energy security in the region of Central and Eastern Europe, which is still highly dependent on a single source of energy. It would strongly influence gas market development and gas transit patterns in the region, most notably the transit route via Ukraine to Central Europe. It would also generate potentially destabilizing geopolitical consequences for the region as well as the countries in the immediate EU neighbourhood.*

*At the same time the Nord Stream II project would represent neither diversification of sources nor diversification of suppliers. It would increase dependence on already existing route which is not in line with the aim of EU energy legislation aiming at increasing the security of supplies as well as market liberalization.*

*It is indispensable that the legal aspects of the Nord Stream II project be also carefully analyzed in order to ensure all pieces of the EU secondary law, in particular the Third Energy Package, but also environmental as well as state aid and public procurement rules apply to the Nord Stream II.*

*Therefore, we officially call for the European Commission to take action to rigorously apply its role as the guardian of the Treaty and its main principles and thoroughly assess the compliance of the Nord Stream II project with the EU energy policy goals and its compatibility with the EU law based on the December 2015 European Council conclusions.*

Respectfully yours,

Bohuslav Sobotka, Prime Minister of the Czech Republic

Viktor Orbán, Prime Minister of Hungary

Beata Szydło, Prime Minister of the Republic of Poland

Robert Fico, Prime Minister of the Slovak Republic

CC:

Donald Tusk, President of the European Council

Dacian Cioloș, Prime Minister of Romania

Taavi Rõivas, Prime Minister of Estonia

Māris Kučinskis, Prime Minister of Latvia

Dalia Grybauskaitė, President of Lithuania

Tihomir Orešković, Prime Minister of Croatia

## 4.7 Slovakia

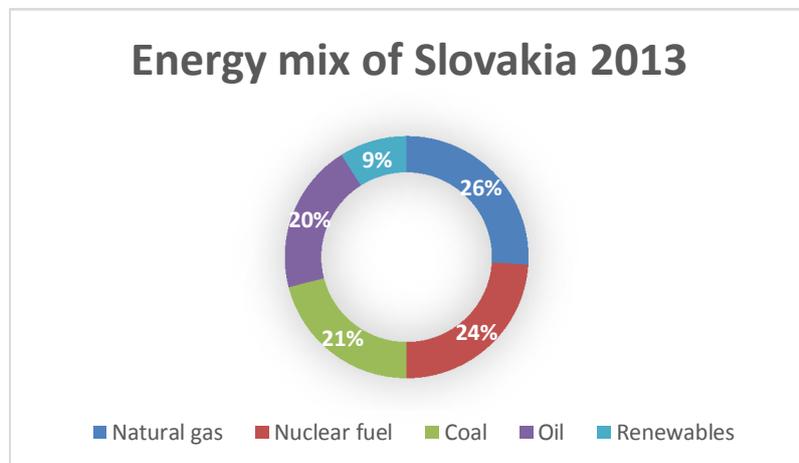
The Slovak Republic is an inland state in Central Europe. The country's population is around 5 430 000 citizens. It shares borders with the Czech Republic, Poland, the Ukraine, Hungary and Austria. The first forms of the current state could be seen after the



disintegration of Austria-Hungary, when the territory at first became a part of Czechoslovakia. The Slovak State was established only in the year of 1939 with the help and support of the German Empire. However, after the Second World War, Slovakia and the Czech Republic decided to “revive” their relationship. Although it lasted for a longer period than before, they “divorced” again in 1993 and Slovakia finally became a self-contained republic with a parliamentary democracy. (slovak-republic.org) During the past 12 years, Slovakia has become a member of the EU (2004), The Schengen Area (2007) and of the European Monetary Union – the Euro Zone (2009). (slovak-republic.org) (Image - Pécsyová and Šramková, 2015)

### The Energy policy of Slovakia

In 2014, the Slovak executive adopted a new energy policy with plans to create new nuclear reactors, hydropower plants and oil pipeline transitions. The goals and priorities of the new policy are set until 2035. The main purpose is securing a reliable and stable supply of energies,



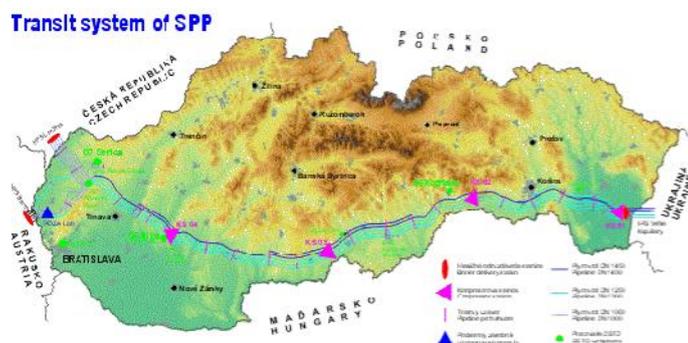
as well as an efficient usage of these supplies. The optimal costs for the supply and preservation of the environment constitute also a part of the policy, but more importantly it allows Slovakia to reach the objectives set by the energy policy of the EU. The number one priority for Slovakia is to secure an optimal energy mix from the perspective of energy supply. The country almost 90% depends on import of primary energy sources. Currently, the import of nuclear fuel is 100%, oil 99%, natural gas 98%, and coal at 68%.

(Ministerstvo hospodárstva Slovenskej republiky, 2013)

Transport routes must be diversified to ensure the stability of energy supplies, especially for natural gas and oil. This is due to the risk of supply disruption of these commodities, which is higher because of the specific international relations between the suppliers and customers. In the case of natural gas transmission, Slovakia will continue to cooperate with Poland and Hungary to create new routes between them. One of these routes represents a reverse gas flow which has been built between Slovakia – Austria, Slovakia – the Czech Republic and a further support of the reverse flow from East to West is expected in the future. (euractiv.sk, 2014)

### The history of the natural gas relationship between Slovakia and Russia

The growing demand for natural gas in the 1950s and 1960s and the discovery of new reserves in Siberia gave Russia an exciting outlook on their future in energy business. However, in order to take advantage of their wealth, transport routes became a necessity.



The geographical location of the former Czechoslovakia and the political relations with the Soviet Union created optimal conditions for the development of transport routes for the transit of Russian gas to Western Europe through Slovakia. (Sojka, 2002) (Image – Sojka, 2002)

The cooperation between Russia and Slovakia in this matter dates back to 1972. For Slovakia, the gas pipes presented a supply of gas and a profit on the transit business. The main transporter of natural gas in Slovakia is a semi-state owned company called Eustream, which transported 60 billion cubic meters of the commodity in 2013. (Úrad Vlady Slovenskej republiky, 2014) Two thirds of the total natural gas supplies coming from Russia went through Slovak territory till 2010 (Regináč, 2011). Thanks to the applied transit fees, Slovakia was able to manage remarkable provisions to the state budget every year. In 2013, Eustream's net profit before taxation was more than 406 million EUR. (Úrad Vlady Slovenskej republiky, 2014)

Before the construction of the Yamal pipeline, the transit crossing Slovak territory was the only connection delivering natural gas from Russia to Western Europe, accounting for 80% of natural gas exports of Gazprom. (euroactiv.sk, 2007) In this win-win situation, Slovakia wanted to retain the position of absolute transit monopoly, due to financial benefits; and Russia wanted to maintain its continuous supply to Western Europe.

The cooperation deepened in 1995, when these two actors discussed the creation of a new joint venture between Gazprom and SPP (Slovak gas monopolistic company). This idea began when the Slovak leaders expressed the incentive to sell 49% shares of SPP to one strategic investor or a consortium of investors. Gazprom wanted to acquire this piece, but they pulled out from the deal in the end.

As stated above, Slovakia, to this day, is dependent on supplies of natural gas from Russia. Dr. PhDr. Alexander Duleba, CSc. points out that "Slovakia is the only Visegrad country that, since 2008, is fully dependent on the supply of natural gas from Russia." (Duleba, 2009 p.86) Based on the document Energy Security Strategy from 2008, about 97-98% of imports of natural gas comes from the Russian Federation. Domestic production of Slovakia represents only about 3% of total demand and domestic extraction has been falling rapidly. Transportation of gas through the Slovak territory in the years of 2011-2012 fell by 24% from 74 billion cubic meters to 56.5 billion cubic meters. This shift occurred mainly because of the project Nord Stream 1. (Úrad Vlády Slovenskej republiky, 2014)

### **The Viewpoint of the Slovak Politicians on the Nord Stream 2 project – “it’s not just a business”**

As it was stated in previous chapters, the final result of the Nord Stream 2 project will not only deliver additional natural gas to Germany, but also bring the transit running through Slovakia to a stop. Many argue, the project should be perceived as an apolitical business article. However, there are a number of Slovak politicians, who think otherwise. The president of Slovakia, Andrej Kiska, does not identify himself with the opinion of Nord Stream 2 being "only" an apolitical commercial business project and believes politics should be considered in this case. According to him, this project is contrary to the interest of reducing any dependence on Russian imports of natural gas. (Euractive.sk, 2015)

As he furthermore stressed: "It is directed straight against the strategic and important goal to stabilize the situation in the Ukraine and to facilitate its further development. If we are willing to accept that Nord Stream 2 is "merely" private business, then, unfortunately, we agree with Eurosceptics, who claim that the whole EU project is just a normal business." (Andrej Kiska President of Slovak republic, 2015)

The State Secretary of the Ministry of Economy of the Slovak Republic, Rastislav Chovanec, further states: "We have to start working in the political field and explain why the Nord Stream 2 is not a good project. We are preparing a joint letter together with the countries of Central Europe for the European Commission," (Euractive.sk, 2015)

"In the case of Nord Stream 2 it is a new infrastructure. If we talk about the fact that the EU countries signed up to the concept of the Energy Union, where it was consulted that the new infrastructures built in the future will contribute to the diversification of routes, sources and suppliers, the project under any circumstances does not fulfil the parameters of diversification of routes," argued the State Secretary of the Ministry of Foreign and European Affairs of the Slovak Republic, Ivan Korčok. (Denník Postoj, 2015)

He furthermore points out the agreement between Slovakia and the EU to help the Ukraine with the reverse gas flow. "Slovakia agreed with the reverse flow, because there has been a strong interest of all Member States to do everything they can to help the Ukraine not to be eliminated as a key transit country for gas supplies to Western Europe from Russia. It covers 30% of the Ukrainian gas consumption." (Denník Postoj, 2015) Therefore the project Nord Stream 2, from the view of Ivan Korčok, does not meet the fundamental principles or other agreements connected with the Energy Union and the policies of the EU. (Denník Postoj, 2015)

Some go even as far as calling the project anti-Ukrainian or anti-European. The Prime Minister of Slovakia, Robert Fico, used even more expressive words, stating: "They are making idiots of us". He further said: "It is not politically possible to talk about the need to stabilize the situation, and then make a decision that puts not only the Ukraine, but mainly Slovakia in an unenviable position..." (TASR, 2015) In case of interruption of the flow, the Ukraine will lose billions and Slovakia hundreds of millions of Euros. Fico agrees with President Kiska and rejects the perception of the Nord Stream 2 project as an apolitical business project. He believes that the companies operating on the territory of the EU member states "betrayed" Slovakia. Moreover, he believes that the consequences will be seen in the monopolization of gas supply routes and in an increase of prices. (TASR, 2015)

The Company Eustream also points out that the construction of the Nord Stream 2 pipelines and the redirection of flows will lead to a situation where almost all of the Russian gas volume dedicated for Europe will be brought into one location in Germany. If this happens, the gas would have to be distributed to the countries of Central, South and South-East Europe and the Ukraine in reverse flow. "The Gas Infrastructure of Europe is not ready, capacity wise, for such an amount to be transferred. Several countries in Southeast Europe are not connected to the Western gas network and after shutting down the Ukrainian route, there will be no possibility to transfer the gas to them. The concerns expressed by the European Commission and Slovak prime minister are fully justified and we cannot imagine to support a full bypassing of the Ukrainian route," said the spokesman of Eustream, Vahram Chuguryan. (Dargaj, 2015) Furthermore, Vojtech Ferencz, State Secretary of the

Ministry of Economy, stated: "Our absolute priority is the energy security of the Slovak Republic and the maintenance of the gas transport through the Ukraine and Slovakia." (TASR, 2016)

The Vice-President of the European Commission for the Energy Union, Maroš Šefčovič, believes that: "Central and Eastern Europe should not be damaged by the Nord Stream project 2. The only way to achieve this is to provide transportation of gas through the Ukraine after 2019." (Matišák, 2016) He further adds that energy security must be seen in terms of diversification of sources and supply routes. In the past, Slovakia has learned what it means to rely only on small number of routes. "In that case, we are vulnerable. In the winter of 2009, we saw what it means when we had no alternative for gas supply," said Šefčovič in the regards of 2009 flow stoppage. (Matišák, 2016)

In regards of the Slovak-German relations, the Ambassador for Energy Security at the Ministry of Foreign and European Affairs of the Slovak Republic, Pavol Hamžík, said: "If the project is realized, it will weaken our trust towards Germany and Western states, because it gives preference to certain interests that are not shared, which will damage the countries of Central and Eastern Europe. That is, at such moments, one must always look for allies." (Ružinská, 2016) According to him, the project although indirectly threatens the energy security of Slovakia and the Ukrainian route has the ability to carry two to three times more gas than Nord Stream 2. He admits this route's need to be modernized, but he adds that the International Bank for Reconstruction and Development has already provided two loans of hundreds of millions of Euros to modernize parts of the pipeline in the Ukraine. From his standpoint, the Nord Stream 2 pipelines are not necessary, because there already is a functioning pipeline. (Ružinská, 2016)

The Minister of Slovak Economy, Vazil Hudak, presented his stance in front of the Energy Council in Brussels: "The construction (of Nord Stream 2) would involve additional costs, which would translate into the price of gas for European consumers. From our perspective this lacks logic, since we already have a pipeline running through the Ukraine. In our view, it makes no sense to build de facto the same thing, only in a different direction," argued the minister. "It is not only in the interests of Slovakia, although we earn 400 million € annually as transit country, but it is a question of how the European Union will be building its energy security and diversification of sources." He further adds: "We pointed out in our argumentation, that there is a need to address the situation between Russia and the Ukraine, but the solution is not a new pipeline, but rather a joint assessment of the situation to find out how to deal with this conflict and find opportunities for cooperation. We believe we need to find strategic, long-term solutions and not a quick fix that is, in addition, contrary to the strategy of the European Union. We are helping the Ukraine to become more stable in order to reach the basic economy of Western countries. The revenues from the transit of gas from Russia represent

over 2 billion. € per year for the Ukraine. The closure would be a big loss for their state budget. Thus, it is an illogical situation where on the one side we send billions of Euros from the European Union to the Ukraine, and on the other, we take away more than 2 billion. € from their budget..." (Slovenskej republiky, 2015) He believes this would pose a threat to the stability of the Ukraine and highlights the fact, that an unstable Ukraine means an unstable Europe. The country's instability would pose risks to all its neighbours, including Slovakia (Ministerstvo Hospodarstva Slovenskej republiky, 2015)

### **Questionnaire**

#### **Question 1: What is the official position of the Government of the Slovak Republic to the planned Nord Stream gas pipeline project 2?**

*The Slovak Republic (SR) considered Nord Stream II from the start as a politically motivated project with insufficient economic justification. SR opposes the project, which significantly threatens the energy security of the country and the whole region, negates the energy objectives of the Union and its compatibility with EU legislation is largely questionable.*

#### **Question 2: What are the main reasons for this position?**

- *Energy security, as one of the five dimensions of Energy Union, represents one of the most important areas of energy politics for Slovakia. Slovakia's priority is to further strengthen energy security at all relevant levels. Therefore we perceive very sensitively the inconsistency of the project with the diversification efforts of the EU (the absence of seeking new routes and sources), given that its implementation would lead to consolidation and possible increased reliance on single suppliers.*
- *From the perspective of the Slovak Republic, the preservation of the Ukrainian transportation route is the key prerequisite for ensuring the energy security in the region. The Implementation of the project would have led to a change in transit flows, in particular by bypassing this route. The project does not contribute to the diversification of transport routes (extending existing transport route), neither to diversification of the sources of the EU's gas supply, but concentrates gas transit through one transport route. Reduction / loss of gas transportation through the UA (Ukrainian route) would also seriously undermine the ability to maintain the UA transmission system, which would result in the loss of important corridors for the transport of gas.*
- *It is necessary to highlight the conclusions from the European Council meeting in December 2015, which emphasized the need for harmony of each infrastructure project with EU legislation and with the objectives of the EU energy policy.*

*In this context, the Slovak Republic initiated a joint approach of countries with the same opinion and sent a letter on behalf of the Ministers responsible for energy to key representatives of the European Union. The initiative was joined by Poland, Hungary, Romania, Lithuania, Latvia and Estonia. The SR initiative has gained intensity by sending a joint letter written by V4 Prime Ministers, to which w the Romanian, Croatian and the Baltic countries were added. This letter was addressed to the European Commission President, J-C. Juncker, and the European Council President, Donald Tusk, with a request to ensure the basic principles of the energy policy and ensure a thorough assessment of compliance of the project with the EU legislation in the light of the conclusions from the European Council meeting in December 2015. The letter was sent in March 2016.*

(Official stance of Slovak Republic in regards of Nord Stream 2 provided by Mgr. Michal Dzurjanin, Head of Communication Department – Office of the Minister at Ministry of Economics of the Slovak Republic)

#### **4.8 The Czech Republic**

The Czech Republic is a landlocked country in Central Europe, bordered by Poland to its North, Germany to its West, Austria to its South, and Slovakia to its East. It has an open, export-driven economy, with 81% of its GDP comprised of export, mostly from the automotive and engineering industry.



(state.gov)

The first Republic of Czechoslovakia was proclaimed in 1918 and lasted until 1939, when Hitler invaded its territory. The Czech part of the country became German protectorate, while Slovakia was proclaimed an independent state. Although Czechoslovakia was reunited after the Second World War, they could not avoid the same fate as the rest of Eastern Europe and soon Communists took over the country. There were some attempts to restore the democratic system, most famous being the "Prague Spring" of 1968, when Communist leader Alexander Dubcek tried to implement liberal reforms. However, these activities definitely ended the same year in August, when the Soviet-led Warsaw Pact tanks and troops invaded the country. They didn't leave Czechoslovakia until 1989, when massive protests all over the country forced the resignation of the Communist Party leadership. The dissident playwright Vaclav Havel emerged as the figurehead of the country's "velvet revolution" and became the first president of post-communist Czechoslovakia. (bbc.com)

In 1993, Czechoslovakia completed so-called "velvet divorce" which resulted in two independent countries, the Czech Republic and Slovakia. It is important to note that this was an extremely peaceful process, comparing to later separatist movements in other countries in the region, such as in Yugoslavia. This split also meant that the Czech Republic held no longer borders with the former Soviet Union and instead shared its longest border with two EU members, Germany and Austria. The Czech foreign policy tried to make virtue out of necessity and claimed that separation changed the geopolitical situation of the new state since it no longer had borders with the former Soviet Union and thus had an allegedly better chance of joining Western institutions, particularly the NATO.

That orientation prevailed during most of the 1990s, until the country's actual inclusion in the Alliance in March 1999. (Rupnik, J., *The Czecho-Slovak divorce and EU enlargement*, IN: *The Road to the European Union*, Manchester University Press, 2003) It can be assumed that it was the prospect of EU and NATO membership that provided the necessary boost to efforts to complete the political and economic transition process in the country.

The Czech Republic was therefore the first former Eastern Block state to acquire the status of a developed economy. From the start of the transition process with the "velvet revolution" of 1989, the Czech Republic was expected to be among the first countries in Central and Eastern Europe to join the European Union. In the economic sphere, the early years of transition process reinforced the overall impression of maturity. The country's industrial traditions and well-qualified labour force appeared as the economic counterpart of its early democratic experience and the main macroeconomic indicators were only reassuring. The shift to a market system seemed to be occurring with a minimum of social and economic disruption. (Leigh, Michael. *The Czech Republic as an EU candidate*, *The Czecho-Slovak divorce and EU enlargement*, IN: *The Road to the European Union*, Manchester University Press, 2003)

From a political perspective, there is a broad spectrum of parties, from nationalistic parties on the far right wing to the Communist Party on the far left wing. The Parliament of the Czech Republic consists of a lower house, the Chamber of Deputies, and an upper house, the Senate.

Last legislative elections were held in October 2013, seven months before the constitutional expiry of the elected parliament's four year legislative term. The main reason was that the previous government, elected in May 2010, was forced to resign on 17 June 2013, after a corruption and bribery scandal. Two parties gaining the most seats were the Czech Social Democratic Party and the new party "ANO 2011". (Electionresources.org) Earlier in 2013, the first direct Czech presidential

election took place, with former prime minister Milos Zeman beating conservative Foreign Minister Karel Schwarzenberg by a margin of 55% to 45%.

The energy sector plays an important role for the country's economy and for the regional energy security. The Czech Republic has strengthened its energy policy since 2005, according to the International Energy Agency's in-depth review, as it further liberalised its electricity and gas markets and made considerable efforts to improve oil and gas security. As there are no significant oil and natural gas resources, it is being produced only at small deposits and therefore depends on foreign supply. (IEA.org) Czech alternatives for diversification of energy sources include the import of Caspian oil through pipeline IKL and/or increasing the import of Norwegian natural gas. There is also a possibility to replace gas sources by domestic coal in the energy mix.

Natural gas is thus seen as an important alternative to lower the dependence on oil and coal, even though the country is also almost entirely dependent on the import of gas. The current holder of the exclusive license for gas transit is NET4GAS, s. r. o., which operates more than 3600 km of gas pipeline. The gas trade is based on long-term contracts for natural gas supplies, such as a contract from 1998 between the companies Transgas and Gazexport for a delivery of 8 to 9 bcm of Russian gas to the Czech Republic annually for a period of 15 years. This contract was later extended to 2035 by the company RWE Transgas (the successor company to Transgas), which is responsible for the long-term gas deliveries to the Czech Republic (Litera et al., 2006, p. 23).

As it can be seen in the table below, the Czech Republic is dependent on Russian gas to a relatively high degree.

Gas import to the Czech Republic by countries in 2010

Country	Share of %
Russian Federation	75
Norway	24
Germany	0,4

Most natural gas exported from the Russian Federation to the Czech Republic comes from the Russian Urengoy, Yamburg and Medvezhye giant gas fields, covering 75% of the Czech annual gas consumption (RWE Transgas, 2011). It flows through the Brotherhood and Yamal gas pipelines, later joining the Soyuz pipeline in the Western Ukraine. These three bundles then become the Transgas

system. In addition, the current infrastructure is connected to the existing Nord Stream through the Gazelle pipeline. With the capacity amounting to 35 bcm per year the Gazelle is the biggest gas pipeline project that directly affects the Czech Republic. The Brotherhood pipeline is also linked to the Transit pipeline network south of the Czech city of Brno, which ensures the transportation of natural gas mainly in the East–Western direction to other EU countries.

However, the current operational configuration of the Czech Republic’s Transit pipeline network also makes it possible to reverse the flow of gas from the standard East–Western direction to the emergency West–Eastern direction, as shown on the map enclosed. This possibility was much appreciated especially during the 2009 gas crisis, when the company RWE used the pipeline network to transport natural gas received via the Yamal pipeline at the Czech–German border. From there, the gas was transferred through the territory of the Czech Republic to the border delivery station and then to Slovakia.

**Reverse gas flows during the 2009 gas crisis**



Source: [www.entsog.eu](http://www.entsog.eu).

### **Nord Stream 2 stance – in line with other V4 members?**

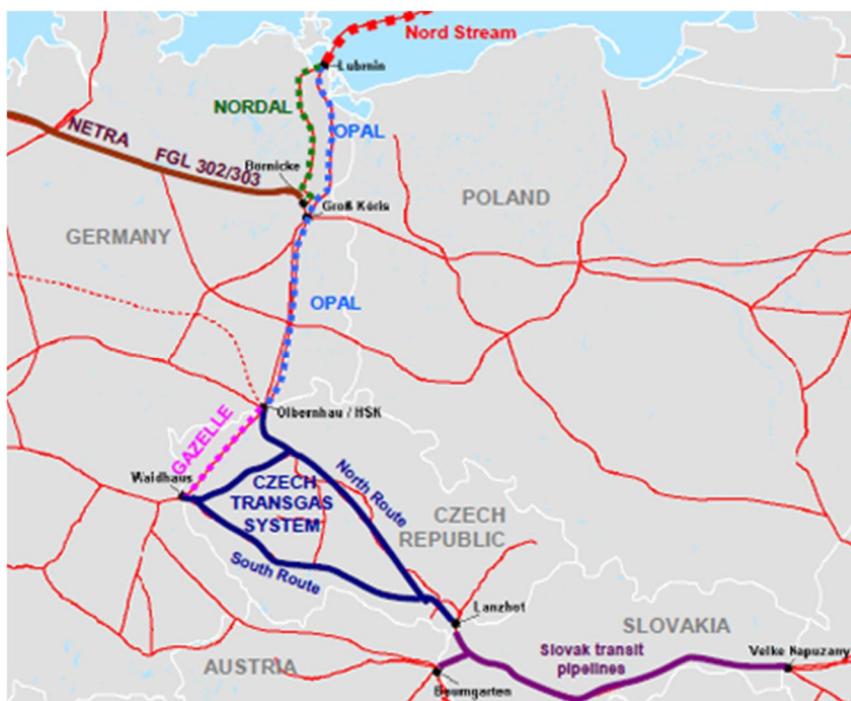
When it comes to the Nord Stream 2, the Czech Republic can be seen as rather undecided whether to support or oppose the project. On the one hand, they joined the 9 European countries in signing the protest letter asking the European Commission to stop the project. (rt.com) Czech Prime Minister Bohuslav Sobotka also repeatedly opposed the Nord Stream 2 plans. After the Brussels summit in December 2015, he claimed that: “Although Nord Stream 2 will provide diversification of routes, it will not diversify the sources and from this perspective it cannot be considered as necessary.” (domaci.ihned.cz) Czech MEP Pavel Telicka lately claimed that the project is not

compatible with Energy Union and rather makes European Union even more divided. As he further stated: "It's good news for the Kremlin and its intention to divide the European Union" (zpravy.e15.cz, 2016)

On the other hand, the Nord Stream 2 project is not perceived as a real threat to the country's energy security. The Minister of Industry and Trade of the Czech Republic, Jan Mladek, can even see some positives and he insists that the new gas pipeline project should be seen in the broader context. As he points out: "It could mean an increase of the current domestic use of the transmission system and strengthen the position of Czech Republic among major transit countries" (energetickyinstitut.sk)

Moreover, the Czech Republic would become an important transit country if the pipeline is eventually built. The operator of Czech gas pipelines, Net4Gas, has even started exploring how to increase transport capacities westwards. (spectator.sme.sk) Zuzana Kucerova, a spokeswoman for Net4Gas, confirmed that technical studies have taken place, in order to determine the level of capacity for existing or new points in the system and identify the necessary actions within the development. However, she refused that Net4Gas is in direct contact with the consortium Nord Stream 2. (zpravy.e15.cz)

The Nord Stream and related infrastructure:



Source: Lochner-Lindenberger 2009.

It can be therefore assumed that Czech Republic stands at a crossroad and therefore has the least critical stance of the V4 countries. Although they declared support of maintaining the flow of gas through the Ukraine and Slovakia, the economic advantages from Nord Stream 2 might be too tempting to persistently oppose the project in line with other V4 countries.

#### *Questionnaire*

The questionnaire was sent in both Czech and English language to the Czech Government's official contact responsible for answering public inquiries and later redirected to The Ministry of Foreign Affairs of the Czech Republic. It was consequently advised by the Press Department of the Online and Public Communications Unit of this Ministry to contact the Ministry of Industry and Trade of the Czech Republic in this matter. However, no reply was received up to the hand in date of this thesis.

#### **4.9 Poland**

Poland is a medium-sized country, with a current population of approximately 38 million. However, this number might be slightly misleading, as many Poles temporarily left the country after EU accession in 2004 and have not yet returned. (stat.gov.pl) Polish territory borders with Germany in its West, the Czech Republic and Slovakia in its South, Ukraine and Belarus in its East. In addition, Poland has a long coastline along the Baltic Sea and has a border in its North with Lithuania and the Russian exclave of Kaliningrad. (europa.eu)



The country boasts with a proud cultural heritage, tracing its roots back over 1000 years. There have been periods of independence, as well as periods of domination by other countries. In 1918, after the First World War, Poland regained independence after 123 years of being partitioned. The country was badly destroyed at that time and it is estimated that the war caused a destruction of about 30% of the national assets as well as the substantial losses in population. (worldenergy.org) Although Poland had managed to successfully reconstruct its economy, damages after the Second World War were even higher, with around 40% national assets being destroyed and over 6 million

people losing their lives. (worldenergy.org) The energy sector infrastructure was also extensively damaged.

Even though a quick reconstruction after the war resulted into significant economic development, the following Soviet system of centrally planned economy proved to be very inefficient, causing shortages of many goods and in consequence led to serious social unrest. This unrest eventually developed into the formation of the famous Solidarity Social Movement, which used methods of civil resistance to advance the causes of workers' rights and social change. These events largely contributed to the collapse of communism not only in Poland, but indirectly also in other countries of Central and Eastern Europe.

The central planning system was definitely abandoned in 1989 and the process of structural transformation was initiated. Since the deep reforms were launched, Poland has grown rapidly from an economic perspective. The country's gross domestic product (GDP) has doubled in size, GDP per capita has moved from 32% to over 60% of Western Europe. Poland is currently the eight-largest economy in the European Union in real GDP terms, with a buoyant private sector, internationally competitive export-oriented companies, as well as well-educated and skilled people.

Although the solid economic growth has clearly translated into substantial welfare gains across the entire society, these benefits have not been shared equally. Despite the fact that Poland was the only country in Europe to experience economic growth during the global financial crisis in 2008, the per capita income growth for the bottom 40 percent has fallen behind the growth rate for the entire population. (worldbank.org)

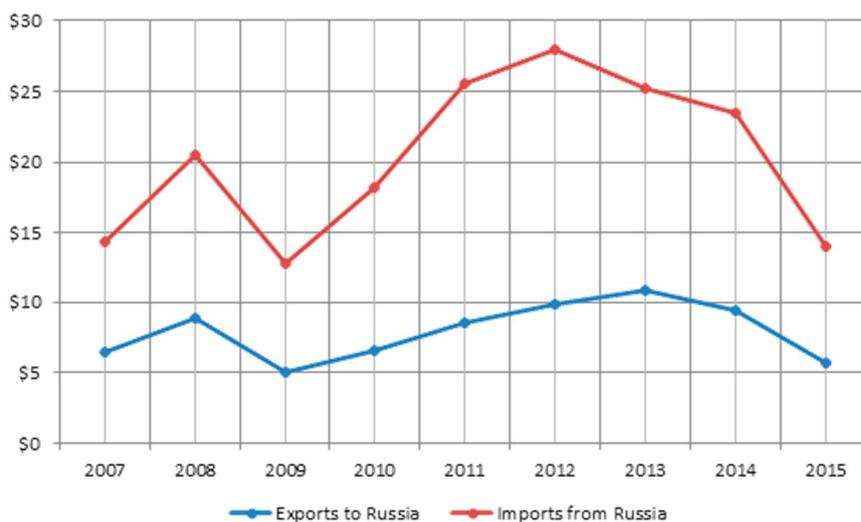
The most important sectors of Poland's economy at the moment are wholesale and retail trade, transport, accommodation and food services (27.1 %), industry (25.1 %) and public administration, defence, education, human health and social work activities (14.3 %). (europa.eu) When it comes to trading partners, Poland's main export countries are Germany, the UK and the the Czech Republic, while its main import partners are Germany, Russia and China.

In terms of domestic affairs, Poland passed a modern constitution in 1997, reorganising the political scene and various aspects of public life. As power in Poland switched between the centre right and the centre left, the 21st century has seen the rise of the more forthrightly conservative and Law and Justice Party (PiS).

After recent general elections, which resulted for the first time in modern Polish history to one party being able to rule by itself, that the PiS, led by former Prime Minister Jaroslaw Kaczynski, therefore replaced the coalition constructed by liberal-conservative Civic Platform (PO). As Joanna Nizynska

observes, Kaczynski’s ideology of Polish identity is focused on the memory and celebration of historical traumas that presupposed a deep distrust of Russia and Germany. (Nizynska J., The politics of Mourning and the Crisis of Poland’s Symbolic Language after April 10, In: East European Politics and Societies 25 (4), 2011)

This distrust significantly deepened after the Smolensk disaster in April 2010, when President Lech Kaczynski (Jaroslaw’s twin brother) and 95 other people, much of the military leadership, tragically died in a plane crash. They were on their way to the Katyn Forest to commemorate the 70th anniversary of the murder of over 20 000 Polish officers and intellectuals by Soviet forces. The Katyn massacre has long been a sensitive topic for Poles, reflecting the complex relationship between Poland and Russia, symbolizing a long history of rivalry, betrayal, oppression and suffering. For years, Soviet authorities claimed the massacre was perpetrated by the Nazis, until Mikhail Gorbachev admitted that Soviet secret police performed the executions. (Galbraith, Marysia H., Being and Becoming European in Poland, London, Anthem Press 2014) Nevertheless, Russia remains a key trading partner for Poland, even though bilateral trade volume decreased in 2015 by 40% and reached only 19.7 billion USD compared to 32.8 billion USD in 2014. (rusexporter.com)



2007-2015 Polish-Russian bilateral trade turnover, billion USD.

Source: ITC Trade Map.

Regarding the imports of natural gas, the national consumption in 2013 was covered 27% by indigenous production and 73% by imports, out of which the majority comes from Russia. However, dependence on Russian imports is supposed to be reduced when the LNG regasification terminal in Swinoujscie is put into complete operation.

The LNG terminal in Swinoujscie has a great potential to reduce Poland’s dependence on Russia as it will enable the diversification of imports from Russia, connecting Poland with the global gas

market. The Polish gas company PGNiG and the Qatari gas company Qatargas already signed a contract in 2009 over a period of 20 years to purchase 1.5 bcm of LNG gas per year. In addition, the prices of LNG gas are also cheaper than the natural gas bought from Russia. (Warsaw Business Journal, 2012)

The Polish stance against the Nord Stream project is in line with the other Visegrad 4 members. There is a concern that the new pipeline would also cause problems in the operation of the aforementioned LNG terminal in Swinoujscie. The Polish president, Andrzej Duda, expressed his disapproval of the plans to construct the Nord Stream 2 pipeline, arguing that the investment decision is rather political in nature than it is based on economics. He clearly claimed his position during a joint briefing in Brussels with the European Council's President Donald Tusk: "We believe that the investment is economically unjustified. We believe that the European solidarity will prevail over the particular way of thinking and individual interest". (offshoreenergytoday.com)

The foreign Minister Witold Waszczykowski in his recent speech in the Polish parliament concerning the Polish foreign policy in 2016, stated: "We are critical towards the Nord Stream 2 project, which is an economically inefficient idea, aimed at increasing the European Union's dependency on supplies from the same direction." (financialobserver.eu)

As The Government Representative for energy infrastructure, Piotr Naimski, further explains, Poland is against this project, because it would ensure Gazprom's dominant position in the region, which is not in the country's interest. He insists that Nord Stream clearly undermines European solidarity, denies common foreign policy, energy policy and security as such. (polskieradio.pl)

The strongest argument, often used by the other V4 countries as well, is that the new pipeline will not increase energy security and diversification of sources of supply. The construction therefore stands in contradiction to the fundamental principles of the Energy Union. The former Prime Minister of Poland, Jerzy Buzek,, currently MEP of the European People's Party, stressed his concern rather clearly in the European Parliament: "Nord Stream 2 and the Energy Union cannot co-exist" It is a significant statement, considering the importance of the Energy Union for the current European Commission. Buzek also pointed out that the majority of the European Parliament opposes Nord Stream 2. (energypost.eu)

In conclusion, Poland is clearly against the construction of the Nord Stream 2 pipelines, as they believe it violates the basic European interests and also undermines the energy security of the EU countries. Moreover, Polish authorities claim that new pipelines will have a negative impact on the development of the Energy Union.

## Questionnaire

The questionnaire was sent in both Polish and English language to the Polish Government official contact for providing information to public inquiries and was later redirected to The Ministry of Foreign Affairs of the Republic of Poland. The press office of this Ministry replied with the advice to contact the Polish Institute of International Affairs in this matter. Regardless of trying to get the information from all provided contacts, the Polish Institute of International Affairs did not answer to any email.

### 4.10 Hungary

Hungary, a state formed by nomadic people who arrived to the Carpathian basin possibly from the East, was founded by King Stephen I. in 1000. After the battle of Mohács in 1526 Hungary became a part of the Habsburg monarchy. This ownership lasted until the 19<sup>th</sup> century, a century stormed by reforms and revolutions. In 1848-1849 Hungary achieved its independence. Two decades after that, in the year 1867, Hungary and the Habsburg monarchy gave birth to a new cluster called Austrian-Hungarian monarchy. After losing the First World War, Austria-Hungary disintegrated into several smaller countries, including Hungary which lost more than half of its former citizens. Since then, Hungary retained its territorial form until today. It had been part of the USSR until 1989, when it declared itself as an independent democratic state. Nowadays, Hungary has approximately 10 million citizens and is a part of the NATO (1999) and a member of the European Union (2004). It is surrounded by Slovakia, the Ukraine, Romania, Serbia, Croatia, Slovenia and Austria. (visegradgroup.eu)



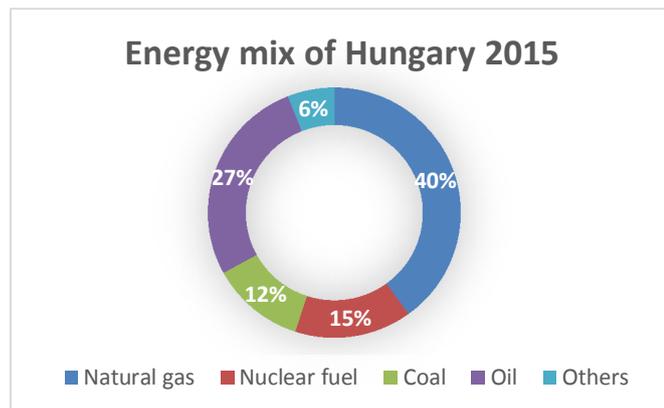
(Image - Gofundme.com)

#### **The Energy condition and politics of Hungary**

As a member of the EU, Hungary issues its energy strategy documents in compliance with the EU policy. As a country heavily dependent on the import of energy sources, its main priority is to decrease this reliance. Its strategic documents provide a couple of tools to tackle the issue and enhance the energy efficiency of the state. They mostly promote renewable energies, alternative heat production and deeper integration into the energy infrastructure of the EU. However, based on

the energy expert Zoltán Lontay, the reality looks different: “in the practice, the most important characteristics of the Hungarian energy policy are the reduction of energy prices of household consumers at the expense of industrial consumers and energy companies; commitment for the development of nuclear capacity and attack against energy companies owned by foreigners.” (Lontay, p. 4)

In the primary energy mix of Hungary, based on the Statistical Review of World Energy 2015 by BP, gas is the dominant source of energy with 40%. Oil represents 27%, nuclear energy 15%, coal/peat around 12% and others represent the remaining sum. (BP, 2015) The dependency on the import of natural gas,



though lower than that of their neighbour Slovakia, is still around 80% and increasing due to declining domestic production. With natural gas being the dominant energy source by far, the steady supply of this commodity is a necessity for the country. (BP, 2015)

Hungary faces the same problem as their Northern neighbour Slovakia. Not only is it heavily dependent on the import of natural gas, but the diversity of the supply is non-existent. All of the natural gas that reaches Hungary originates from Russia. Although the government tries to find other sources in order to diversify the imports and improve the energy security, the geographical location plays a big role of their little progress in this area, as it is making other alternatives very costly. The state was involved in the projects Nabucco and South Stream, but as mentioned in previous chapters, both projects were not supported by the EU and ultimately cancelled. (Lontay, 2015)

Hungary is also a part of the North-South Gas Corridor, which is supposed to connect European gas supply sources located in the Adriatic, Baltic and Black Seas with Central and East Europe. The pipeline part between Slovenia and Hungary has been built in 2015. The director of the energy research institute REKK, Peter Kaderjak, believes that a new gas interconnector between Slovakia and Hungary, which is able to transport gas from the West, is one of some smaller key projects forming a group that makes the difference for energy security of Hungary. (Hungary matters, 2015)

## **Hungary's view on the Nord Stream 2 project**

Hungary is also one of the 9 countries that expressed their objections and concerns against the Nord Stream 2 project. Although the consequences are not as severe for it as for example for Slovakia, the termination of the South Stream project and a possible price increase are still a concern to many. The argument of higher prices is brought up by András Aradszki, the Secretary of State for Energy Affairs at the Ministry of National Development, who believes that costs for natural gas will increase due to the Nord Stream 2 project. (Hungarian Ministry of National Development, 2016) Some governmental representatives believe that the safety of Hungary's gas deliveries will be negatively affected by the Nord Stream 2 gas pipeline. One of the reasons is that the states will be forced to further rely on Russia, just under different conditions, now set by their new Western suppliers. (Hungary matters, 2015)

Furthermore, the South Stream project that was terminated by the EU serves as an argument for Hungary, which believes it should have set precedent against Nord Stream 2. Hungary had high hopes for the South Stream project should have run through their territory and create significant revenue to their state budget. Therefore, many believe the Nord Stream 2 is biased against Central and Eastern Europe and call for termination of the Northern project. Hungary, in this regard, feels played by Western Europe. (Jakóvik, 2016)

The Hungarian Foreign Minister, Peter Szijjarto, criticises the soft stance of the EU and the power imbalances regarding the Nord Stream 2 project: "We are under the impression that maybe due to the fact that the Balkan countries are not as big and influential as other EU members, our project (South Stream) may be cancelled, and the other project is criticised less because it involves major players." He also believes that the finishing of the project will have negative consequences for Hungary. (Matalucci, 2015).

The Prime minister of Hungary, Viktor Orban, also pointed out : "South Stream was blocked, and now it needs a reasonable argument explaining at least why South Stream is bad and Nord Stream is acceptable." (reuters.com, 2015)

However, there is the other the side of the coin. Although many authorities of Hungary reject the project, the final stance of the country is perceived by many as uncertain. These doubts come from the friendly relationship between Russia and Hungary. Hungary already invited Russia to build a gas hub on their territory, which would provide a secure supply in any unforeseen events, for example sudden stoppage of gas flow through the Ukraine. Many sceptics believe it is only the compensation and better prices by the Kremlin that could tip the scales of Hungary. (Jakóvik, 2016)

Moreover, it is important for Hungary to preserve the good relationship with Russia. “I have made it clear (to Mr. Putin) that Hungary needs Russia,” Mr. Orban said. In the first quarter of 2015, Russia and Hungary stroke a deal in which Hungary gained significantly cheaper gas in exchange for stopping the reverse flow of Russian natural gas to Ukraine. Orbán himself stated that Hungary now pays for Russian gas 260\$ per 1,000 cubic meters instead of 500\$ in 2009. Furthermore Putin terminated a “take or pay” clause for Hungary, which means the state has to pay only for used natural gas as opposed to all of it. (Gotev, 2015)

Although Hungary signed the letter against the Nord Stream 2 project and the state’s future as a transit country vanished with the cancellation of the South Stream projec, the close relationship between Hungary and Russia, Orban and Putin with his willingness to provide special treatment to Hungary in order to push forward the project, might possess a risk of further dissensions between the countries of the Visegrad Group. The increase in prices right now is just a speculation and the country has right now certainly more to gain by siding with Russia.

*Questionnaire:* The questionnaire was sent in English to the Hungarian Government official contact for providing information to the public. A reply was received from the International Communications Office of the Cabinet Office of the Prime Minister. It was suggested to contact the Ministry of National Development, although this Ministry did not answer any emails sent to their different departments.

## **5. Analysis**

### **5.1 The glimpse provided by lances of Realism**

This part will closely examine gathered data and compare them with the hypothesis created from the theory. Do the V4 countries oppose Nord Stream 2 project mainly because of their egoism and selfishness? In Realism, protection of the state’s interests and security comes before anything else. Does this premise apply here as well? As the future consequences of the Nord Stream 2 threaten their national interests, V4 together with other countries rationally allied in order to protect their security at any costs. What is the real driving force behind their unity?

In order to answer these questions, the authors feel the need to analyse parts of the thesis gathered in the overview section, which are not directly but rather indirectly relevant to the hypothesis and problematic as whole.

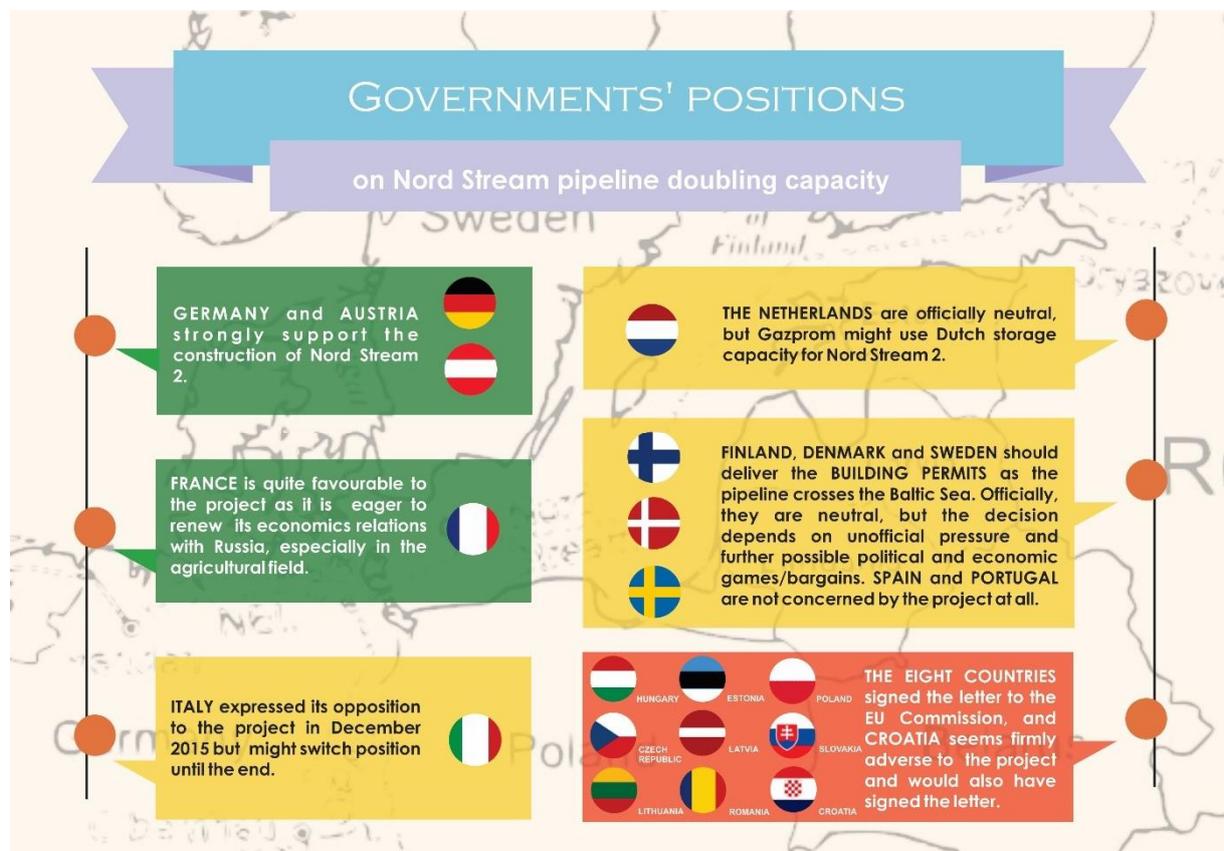
Russia is perhaps the best example that scholars of Realism could hope for. The use of hard power throughout the history and the country's culture, which is undermined by struggle for survival by many but simultaneously a deep love for their soil, as called by them "Mother Russia", highlights many aspects of the theory. From recent history Russian most important political representative Vladimir Putin is perceived by many as a realist and the annexation of Crimea could be an act predicted by the theory. Many acts of Russia resemble acts of state that wants to conquer and fulfil their national interests throughout the means of hard power. Over the time, Russia proved to be a hard partner to deal with, many times not willing to compromise or acting in a way unthinkable for western liberal countries. The authors believe it is important to understand the nature of Russia to connect the "dots" with the behaviour of other states.

As mentioned before, Zbigniew Brzezinski offered a description of Russian energy policy as a tool to disunite the Western part of Europe from the Central part. This is often done through companies majorly owned by Russia. Gazprom is a bright example of that. With its 50.002% of shares in the company, Russian Federation is able to pursue its energy politics with the help of this corporation. Therefore many, for example US Senator Richard Lugar, see Gazprom as a foreign policy tool rather than an ordinary business actor. From a perspective of realist, the idea to use Gazprom in this way is very rational and beneficial. It highlights the key aspects of the theory and also corresponds with the concept provided by Machiavelli that all men are corrupt and given opportunity will damage others. Therefore many states distrust and worry to make deals with the eastern giant. However in the case of natural gas, as detailed in the overview section, the best rational choice was Russia. One could say this creates a paradox because two concepts of Realism, namely rationality of actors and survival, clash here. On one side the actors are rational and the closest large natural gas reserves are in Russia, however on the other side countries feel threatened by Russia's shady politics and the importance of national security should prevail. In the end it comes to scaling the security aspect of both decisions. Which one of them provides lesser threat to security? Is it cooperation with Russian Federation or stopped supply of natural gas? Over the history the states chose the first option, but as we can see, the European countries are actively looking for other solutions, which would grant them better security. However, in this case options were and still remain limited and the security aspect is undermined by potential deals as Nord Stream 2.

Jirij Vitrenko from Ukrainian gas company Naftogaz said in this matter: "We recognize Nord Stream 2 as a politically motivated project, with an aim to bring higher prices for Eastern Europe and lower the transit prices, which would result into fatal consequences for Ukraine." (Ružinská, 2016a)

Pavol Hamžík the Ambassador for energetic security at Ministry of foreign affairs and European matters of SR, believes the lowering of flow through Ukraine is a Russia's ambition for political and economic subjugation of Ukraine. (Ružinská, 2016)

Taken Mr. Brzezinski description of Russian energy politics into the case of Nord Stream 2, although the initial desires of Russian government and Gazprom might or might not be related to his definition, if we look at the below picture the so far situation looks like his statement might have been spot on.



(Image - D&D Consulting Services & VoteWatch Europe, 2016)

Although lately the position of Czech Republic started to be more unclear, the project is creating dissenting opinions among member states in a crucial political and national interest. But this will be assessed in the separate part of this section.

As the Cold War ended, the distribution of influence over European states were up to the US and Russian Federation. Both dominant actors wanted to have the greatest influence over as much as countries as possible. The reason was to become the hegemon of the world, which complies with Realism. In the 90s Russia's main concern was NATO. "The New Cold War" by Edward Lucas

identified the main goal of Russian foreign policy back then as the prevention of states of Central Europe to become members of NATO. To accomplish their best and most rational option was to use their dominant natural gas reserves on the Eurasian market and exploit the shortage of this energy resource in Europe. Lucas further analysed three ways to accomplish this. First was to prevent Europe to diversify their sources, second to strengthen control over international gas market and last to obtain distribution and storage capacities in the Western Europe. The project Nord Stream 2 would possibly accomplish at least two out of the three options.

As Kenneth Waltz stated: “external pressure seems to produce internal unity”, (Waltz, 1959 p. 149) in the case of European Union energy politics the unification and further progression in development of the energy policies happened after certain events related to Russian Federation. The incentives were connected with stoppage of gas flow from Russian side several times due to disagreements with Ukraine and Belarus. However there were similar cases with the Baltic States already in the 90s. Due to fear of another natural gas shortage and high dependence on Russian supplies, countries of European Union agreed to further integrate their energy politics within European Union and develop and share similar energy goals. The main purpose in this case was to protect and secure the energy flow, which is a vital part of a functioning state. This again correlates with Realism, as the states number one reason is the security and survival and they chose rationally to cooperate in this matter. Nord Stream 2 is seen by many as a great threat to this exact energy security that was set down to be established with Energy Union. Gazprom Deputy CEO Alexander Medvedev said back in 2015: “We will not export gas via Ukraine after 2019. The customers will get gas at (newly) agreed delivery points.” (Euractive.com, 2016) Perhaps due to the pressure created by the Central and Eastern Europe, the minister of energy of Russia Alexander Novak provided different answer this year (2016): “Probably, some gas volumes will remain after 2019 though it will mainly depend on talks between Gazprom and Naftogaz Ukrainy closer to the end of the current contract.” (TASS.ru, 2016)

That is why projects like North-South corridor, which exclude Russia from the natural gas business equation, are highly supported by most European Union member states. Due to the collaboration this example may be more associated with Realism, as it predicts alliances to fight against states with hegemonic tendencies.

Classical Realism is associated with power politics. However in this case there is hard power being used. No war to examine and no conquest for new land. In the present century, the war between democratic countries has almost disappeared. In this regards we cannot make use of classical Realism, because there is no real war being waged by any of these actors. Despite this fact, if one

understands power not just as the military capabilities, but also recognise it's other components, we can agree with Morgenthau that Russia's greater power on the energy markets would be cause for dominance. Can one mark the current state as war for energy dominance? Hobbes assumption that the driving factors of men are distrust, competition and glory may be correct in regards of Russian Federation, which is showing signs of typical revisionist state, trying to extend its influence over countries of European Union. Moreover Putin is the key player in Russian politics, which he has proven many times. This highlights the fact provided by classical Realism which sees the source of selfishness, egoism and corruption in human nature.

In contrast, Realism does not predict war to be always present, but it anticipates units wanting better position in the structural system which creates conflicting situations. These conflicting situations were for example between Russia and Ukraine or the other mentioned states and the subject of them was natural gas. Furthermore there is indeed some degree of anarchy in the world. Certainly there is no higher authority to oversee Russian acts, however states learned to check and balance others mainly through economic and political tools. This does not mean that they will succeed every time, as for example with sanction imposed on Russia during the annexation of Crimea. But the incentives to create this higher authority through international organizations exist. In relation to Russian foreign politics, due to the distribution of capabilities, in this case natural gas reserves, it truly gives them advantage and more options to seek better position for themselves.

It is hard to distinguish whether the nature of man or the structural system is better to explain the conflicts in the above mentioned cases. The authors believe it is the little bit of both, as it is hard to argue that Putin is not the dominant decision maker of all policies in Russia, but the natural reserves and no real recognised authority gives him options to act the way he does. From the perspective of defensive and offensive liberalism, Russia would represent the offensive realistic conception.

#### **5.1.1 Visegrad Four**

From the standpoint of Realism, there is a problem with this cluster of states. As classical realists predict that states do not form alliances and neorealists predict the formation of cooperation, but not under the conditions connected to establishment of V4. The neorealists understand collaboration in order to preserve security which is either under direct attack from another unit or there is a possible threat of this to happen. Based on Schweller one also expects the dissatisfaction of the states with their position in the structure. However the countries began their cooperation under totally different conditions, which are hardly explainable by Realism. Nevertheless this is a problematic of its own and this paper's focus lies elsewhere.

From the perspective of Classical and Defensive Realism, the countries of V4 are status quo countries, trying to preserve their positions with no expanding incentives.

### **5.1.2 Slovakia**

Slovakia is the most active state in the issue. It is the country that started the initiative and mobilised all of the other remaining members of V4. In sense of Classical Realism the country is a typical status quo state, with the eagerness to preserve their position in. This is very understandable as Slovakia has the most to lose out of the whole group. For couple decades it enjoyed valuable position as a transit country, with significant transit fees enlarging states budget. Furthermore it has the largest dependency of 98% on Russian imports, making it the only Visegrad country fully dependant on Russia for the supply of natural gas. There is already a lower gas transmission through the territory after Nord Stream 1 and with Nord Stream 2 and the Russian statements about closing of the Ukrainian route, the country would lose its valuable position and money. This aligns with Neorealism and Kenneth Waltz's statement about external pressure creating internal unity. If Nord Stream 2 happens, Slovakia would most likely decrease its position in the structure and capabilities (money). That is definitely not in the interest of the state.

Many Slovak representatives, namely Slovak President Andrej Kiska, State Secretary of the Ministry of Foreign and Euroeap Affairs of the Slovak Republic Ivan Korčok or Minister of Slovak Economy Vazil Hudak, stressed the importance of Ukraine in this problematic. They believe the project threatens the stabilization efforts of European Union in Ukraine. As Prime Minister of Slovakia Robert Fico stated: "It is not politically possible to talk about the need to stabilize the situation, and then make a decision that puts not only Ukraine, but mainly Slovakia in unenviable position...". Ukraine would lose approximately 2 billion euro per year, which would be certainly a blow to their economic stabilization. From perception of Realism destabilised Ukraine may create a threat for Slovakia because they share borders, and it is rational to preserve wealthy and stabile neighbours. Moreover they add that Slovakia accepted the role given by EU to provide reversed gas flow to Ukraine in order to stabilize it. Stabilization of Ukraine can be perceived by Neorealist as a protection against raising hegemon (Russia) and it fits into their balancing system. With the recent annexation of Crimea, it is not a surprise that Slovakia together with Poland should hold dear their borders with Ukraine. Vazil Hudak points out that unstable Ukraine means unstable Europe. In Realism unstable can be associated with vulnerable, which is a position of low security and high risk.

Other arguments were that the project goes against fundamental principles of prepared Energy Union, mainly in diversification of sources, energy security and other energy policies. Eustream points out that most of the infrastructure is not very well established to transport gas from the west

to some parts of the east. Ivan Korčok furthermore argues, that the countries signed a concept of Energy Union, one of which main provisions was that any new energy infrastructure must fulfil the goal to enhance the energy security of European Union. The Nord Stream 2 does not fulfil that goal and he with many believe this will further monopolize gas routes and bring higher prices.

However as stated above, the biggest concern of Slovakia is the stoppage of Ukrainian pipeline. As Vice-President of European Commission for Energy Union Maroš Šefčovič puts it: "Central and Eastern Europe should not be damaged by the Nord Stream project 2. The only way to achieve this is to provide transportation of gas through Ukraine after 2019." Many stress out the highest priority being the energy security of Slovakia, which is only achievable with Ukrainian route being untouched.

Slovakia had some rough times when Russia stopped gas transit through the Ukrainian pipeline. The country was in peculiar position, due to the limited natural gas resources and uncertainty when and if the supply continues. This naturally threatens their security as the natural gas is a very important commodity for the proper functioning of Slovak Republic. "In that case, we are vulnerable. In the winter of 2009, we saw what it means when we have no alternative for gas supply," said Šefčovič in the regards of 2009 flow stoppage. (Matišák, 2016) Therefore all the efforts right now are aimed at diversifying of sources through several projects such as reverse gas flows between Slovakia – Austria or Slovakia – Czech Republic and others. This very well complies with the survival or security concept presented by Realism.

From Classical Realism Slovakia is a status quo state which perhaps egoistically wants to preserve their position and interests. Luckily it is not alone in it, and came to the conflict with allies. Although as stated cooperation is not predicted by Classical Realism, Neorealism certainly is able and coherent with explanation of the alliance of the opposition in case of Nord Stream 2. As stated the country would lose capabilities which are one of the two main concepts of Neorealism. To highlight the key driving factors according to realism, due to high corruption in Slovak government, the authors believe the egoism is within the nature of Slovakian authorities which care for the issue only because it touches significant resources of energy and money. But in this respect more or less all of the countries pursue their interests and are egoistic towards the interests of others.

### **5.1.3 Czech Republic**

As mentioned before, the country is heavily dependent on natural gas supply. Outside of being an energy source, natural gas has another important role for Czech Republic. The country although almost utterly dependent on supply of natural gas, uses this commodity to decrease dependency on

other sources such as oil and coal. This is mainly because there are no significant energy resources to be found on its territory. From the perspective of Realism, this is a rational act of a man, which understands the importance of energy sources to its security. In order to enhance its security, Czech Republic seeks not only to diversify the suppliers of natural gas, but also the type of energy sources needed for the functioning. The possibility of Caspian oil import, increase of supply of natural gas from Norway or replacement of a percentage of gas consumption by domestic coal, all provide a possible substitute natural gas imported from Russia. (visegrad.info, 2010)

As stated before, although the country signed the joint letter sent by 9 countries, their position towards Nord Stream 2 remains questionable. The country is well diversified already, providing it a much better position in the structure, as well as against Nord Stream 2. Moreover Czech Republic is already connected to the Nord Stream pipeline through Gazelle pipeline, which provides the biggest chunk of their natural gas supply. They would not lose so much as the other countries of V4. In fact, new information shows that the Nord Stream 2 might be beneficial for their economy. Though many representatives like Prime Minister Sobotka or MEP Telicka, expressed their concerns with the pipeline, it is clear Czech Republic should be one of the countries least concerned by the possible threat by the project to the energy security of their state. Furthermore it is not a secret that representatives from Czech Republic were hesitant to join the countries in their protest letter to EU in December. Ambassador for Slovak energetic security Pavol Hamžík believes that Czech Republic may be considering to bypass Slovakia with the transit route dedicated to transmit gas provided by Nord Stream pipelines from north to south. To the regards of why was Czech Republic hesitant in December he stated: "Some the people in the Czech Republic probably calculated that it earns them money not considering the other factors. But it's not just about who earns how much, but the overall context. Why there are negotiations about the Energy Union? If we do not seek solutions acceptable for the entire European Union, we will stop believing in the project (Energy Union) as a whole." (Ružinská, 2016) Dissenting opinions on the Nord Stream 2 were provided also by Jan Mladek a Minister of Industry and Trade of the Czech Republic, which believes the project will enhance the position the state among transit countries, because of the increase in transfer of gas through the territory. This would generate more revenue to the state treasury and Czech Republic would become a valuable transit state from the perspective of Russia. Moreover a major Czech gas company Net4Gas, is already conducting researches connected with the Nord Stream 2.

It is interesting to apply Realism in the case of Czech Republic and this problematic. In this case as all the other countries, Czech Republic should be perceived as status quo state from the classical realistic conception. However, the hesitation and the possible benefits following the Nord Stream 2

construction put them into the middle of a cross road. On one side there is a path with other group members from V4 and on the other is a highly possible reward in form of higher revenue and greater position in the structure among states. They enjoy different position mainly due to the fact, that their energy security is not as much threatened by the construction of the new pipeline. Based on Classical Realism the choice is clear, a man is egoist being living in a world of anarchy without a space for morality, and the selfishness and corruption is burned deep to the core of his soul. As there is no risk or threat, Czech Republic should not join the countries opposing Nord Stream 2. Nevertheless they eventually did join, which means the Classical Realism failed in this aspect. The country acts morally and solidary so far, to support its long term partners. Realism, on other hand, expresses the need of the units in the system, to pay attention to the structural constrains. Czech Republic surely understands these constrains coming from the other states expecting it to cooperate and help them because of their past relations. But then again this is connected to the security issue, which there is none in this case and the country is not trying to better its position, although it has the chance. Therefore neither Classical Realism nor Realism can in the present satisfactory explain Czech's position.

The situation is interesting as of now, but it will be even more interesting in the future. The Czech Republic has two options. Either they stick with the countries of V4 and do not betray them, although then there is a possibility of losing the benefits connected to Nord Stream 2, or they will stop supporting the side rebelling against the project. If their position to the issue does not change, Realism cannot really provide explanation of why Czech Republic opposes the Nord Stream 2. Their security is not in a threat and they would choose an option even less beneficial for them. This totally undermines the core beliefs of Realism in egoism, distrust, immorality, anarchy and corruption. On the other hand, if the second option happened Czech Republic would prove that the human nature is greedy and wants to enhance its position even in the case of damaging others. This would further highlight the aspect of anarchy in the international system and would prove that the competition and distrust are the driving factors behind ones actions. Nevertheless in both options Czech Republic is not such a critical actor to influence much the outcome of this dispute. Therefore it may rationally choose to stick with its neighbours hoping for them to fail with their initiative.

#### **5.1.4 Poland**

Poland is also a status quo state from the perspective of Classical Realism. There is a significant distrust between Poland and Russian Federation. The tension has built up over the decades through incidents related or presumable related to Russia, as for example Smolensk disaster or Katyn massacre. The mentioned optic fibre cable or the fact that after imposed sanction on Russia, it

stopped with imports of certain Polish commodities even deepened the distrust. However as neighbouring countries they still remain a large business partners. From natural gas perspective, Poland is also very dependent on Russian supply.

Their perspective on Nord Stream 2 is similar to Slovakia. They believe the project does not stand on economic grounds and has more of a political nature. Furthermore they are concerned about their LNG terminal in Swinoujscie, which may be touched by this project. Polish president Andrzej Duda hopes that solidarity will prevail over individual interests connected with the project. Foreign Minister Witold Waszczykowski moreover believes that the new pipeline will increase dependency on gas supply from one direction. Furthermore Government Representative for the energy infrastructure Piotr Naimski adds to this that Gazprom will gain a dominant position in the region. Many, such as former Prime Minister of Poland Jerzy Buzek, argue that Nord Stream 2 goes against major principles of Energy Union, such as for example solidarity and security.

Realism's concept of distrust is here eminent. Poland does not trust Russia, but as Realist believe this comes from nature of man or structure, in Poland it comes from repeated events linked with corruption and shady Russian acts. Due to the distrust, Realism would make you believe that there are no transactions possible. However Russia is a large economy and being a Polish neighbour, it would not be rational not to use this to better their position in the structure. With Russian invasion in Ukraine, the relationship with Poland remains interesting.

On one side there is no doubt, that the country fears Russia in the sense of its military capabilities and believes they are threat to its security. But on the other side, if the economic interconnection would cease to exist, Poland's economy would be significantly hurt leaving the country even more vulnerable. Moreover they need natural gas just as much as any other country from Visegrad Group. As a neighbour of Ukraine, it is understandable they realize the risks that the stoppage of the gas transit route brings. That is why most of the Polish politicians believe it is politically motivated project. It is only rational for Poland to oppose this, as the Ukraine may be seen as a line of security from Russia. With Ukraine being in such a bad shape, Nord Stream 2 will hurt its revenue and leave it even more vulnerable to Russian economic and perhaps even military conquest. This means Poland would much be much more exposed to Russian influence. This would mean even higher fear of security and survival.

Poland is a bright example of country which should really fear that Nord Stream 2 might be a threat for not just its energy security. The importance of stable Ukraine is a vital part for their security. Poland see Russia as revisionist, therefore it allied with other countries to preserve its position and

fighters against Russian expansive politics. Therefore the major principle of Realism, the survival, is in the case of Poland significant.

### **5.1.5 Hungary**

Hungary as well as the previous three countries can be perceived as status quo state in the sense of Classical Realism. However the position of the state is a little bit closer tipped towards the not so firm stance of Czech Republic.

The country is also very highly dependent on gas, as it is their major primary energy source. They recognize the need to establish more transit routes with diversified sources, because all of the natural gas imported to Hungary is from Russia. Their major concerns with the project are connected with further gas reliance on Russia, fear of higher prices for the gas and cessation of South Stream project. This project plays a major role in the dispute against Nord Stream 2 from Hungarian perspective. Although South Stream was still connected to Russia, Hungary would become a transit country which would increase states revenue, because the country would be granted fees for the transit. As the South Stream 2 was blocked, the country would feel betrayed if the Nord Stream 2 passed. As the Hungarian Foreign Minister Peter Szijjarto said: "We have the impression that maybe due to the fact that the Balkan countries are not as big and influential as EU members, our project (South Stream) may be cancelled, and the other project (Nord Stream 2) is criticised less because it involves major players." (Matalucci, 2015) For them the projects are of similar nature, just with different actors, but more importantly without Hungary. Morgenthau said the insecurities lead to lust which creates conflict. In this sense Hungary does not want the others to have what they could not. This cohere with the egoism and distrust projected by Realism and may be a cause why Hungary sticks to the opposition side, as they do not trust anymore that the West Europe acts in their interest as well.

However Hungary's energy security should not be that much affected by Nord Stream 2. They are already fully dependent on Russia, and the alteration of the routes does not change much for them. True there might be some concerns over the possible increase in prices, but these are just speculations so far. Furthermore Russia and Hungary relations are decent and the new deals regarding the gas prices or "take or pay" clause even deepened them. That is why there is a considerable chance the country might stop supporting the opposition movement against Nord Stream 2. The example with the termination of "take or pay" clause for the stoppage of reverse gas supply is important in the sense of Realism.

This highlights both the egoism and Waltz's conception of states wanting to better their position. From the start of South Stream Hungary was trying to enhance its position and the failure of the project is blamed from their perspective on EU (or Western countries). Hungary has therefore nothing against Russia in particular and the deals in 2015 regarding natural gas just prove it. Moreover it proves that the concept of Realism is present in the thinking of Hungary, and the question is, if they were able to sell out Ukraine for their financial benefits, why will they not sell out the V4 if the Russia provides a good satisfaction for it? Just like the Czech Republic, if the opportunity presents itself and they decide not to support Slovakia and other countries in their effort against Nord Stream 2, it will prove several points of Realism.

So far Hungary has not been hesitant with their stance and if they remain this way, the act can be explained from the point of Realism only by the selfishness and the need to damage others, because they feel harmed by the termination of South Stream.

## **5.2 Liberal Interdependence Analysis**

### **5.2.1 Germany in favour of new pipelines?**

Before one can start analysing the position of V4 countries against Nord Stream 2, it is necessary to focus on Germany, the main state actor indirectly involved in this project. Besides, when it comes to liberal interdependence in practice, Russian economic relationship with Germany is a perfect example.

While Germany imports from Russia mainly raw materials including oil and gas, it is a crucial target country for export of manufactured goods. However, energy trade remains the most important aspect of their relationship. As mentioned before, Gazprom's supplies to Germany covered 55% of its overall gas imports in 2015.

In order to describe these ties a term "modernization partnership" was introduced by former German Foreign Minister Frank Walter Steinmeier. He believed that close economic networks contribute to overcoming remaining lines of division. Just like the idea of "Ostpolitik", the modernization partnership is based on the concept of modernization through interdependence. It assumes that country cannot be changed through the pressure from the outside, but only through continual and nonthreatening interaction and interdependence which will eventually lead to change from within.

In addition, Gazprom approach also proves that Russia prefers bilateral long term agreements rather than trying to negotiate with organized groups of states, such as V4 or the EU. Therefore Energetic Union is not a welcome initiative from Russian perspective either.

### **5.2.2 V4 relations with Russia: a result of U.S. policies?**

In 2014, Stuart Gottlieb and Eric Lorber published an article in the Foreign Affairs magazine, called "*The Dark Side of Interdependence*". They claimed that economic interdependence between V4 members and Russia is the direct result of U.S. policies in the 1990s, when the United States actively tried to integrate Russia and the former Soviet Union countries into the liberal free trade framework. These policies were based on the liberal hypothesis that political and economic integration is the best way to reduce the likelihood of conflict between nations or groups of nations in Europe.

In contrast, they also suggested that the logic behind greater interdependence may also work in reverse, as it is increasingly difficult to punish economic partners for their aggression. Therefore the rational fear of economic backlash creates high tolerance for international wrongdoing. (Gottlieb, Lorber, 2014) This dynamic demonstrates a broader problem for liberal interdependence. Even though it may keep states from coming to setbacks, it may also limit their ability to put pressure on their partners into complying with international standards of behaviour.

Regardless of this limitation, liberal interdependence is a very useful theory when explaining international relations not only between countries, but also between any actors involved in international politics such as Russia and V4 countries. However, it is often claimed that in this partnership, countries are not equally depended on each other. Keohane and Nye described this situation as *asymmetrical interdependence*. They believed that it is based on unequal distribution of gains and expenses secured by the source of power, such as control over resources or potential to affect outcomes. (Keohane and Nye, 2001)

Other factors reinforcing the asymmetric nature of the energy relationship is the unequal distribution of gains and expenses and the Russian idea of national energy policy, which oscillates between notions of maximum gains and the employment of energy sources as a means to gain a dominant economic and political position in the world. As Keohane and Nye pointed out "less dependent actors can often use the interdependence relationship as a source of power in bargaining over an issue and perhaps to affect other issues." (Keohane & Nye, 1977:10-11)

Another particularly helpful tool for analysing interdependent relations from liberal perspective is to apply two dimensions of interdependence as described in the theoretical part of this thesis, namely *sensitivity* and *vulnerability*.

Although sensitivity is measured by level of responsiveness within a policy framework, it is not merely affected by the volume of flows across borders, but also by the costs that each side suffers when the other state does not offer the benefits expected from their relationship.

In contrast, vulnerability can be defined as a liability to suffer costs as a result from external events. These could not be prevented even after policies have been implemented. Vulnerability is the degree of weakness of a state in a relationship of interdependence with another state in a situation where the other state tries to end this relationship. In the context of this analysis, this would mean that Russia decided to completely stop the gas supply to V4 countries and they would consequently suffer severe problems due to a lack of alternative sources. According to Nye, vulnerability depends on more than aggregate measures, such the ability of society to quickly respond, or whether substitutes are available and whether there are diverse sources of supply (Nye, 2007).

When applied in the case of Nord Stream 2, there are clear indications that Russia (Gazprom) is planning to cease supplying the gas in foreseeable future. For this reason, it is important to identify whether Nord Stream 2 could be qualified as *sensible* or *vulnerable* variable of mutual relationship between Russia and V4 countries. The next paragraphs will therefore focus on all V4 countries individually, in order to analyse possible differences between their economic motives for opposing Nord Stream 2 from this theoretical standpoint.

### **5.2.3 Slovakia**

As quoted in the overview, Slovakian representatives, politicians and experts all oppose Nord Stream 2 intensively and Slovakia is considered a leading country in criticising the whole project. Their strongest arguments are mostly based on security concerns, as the new pipeline would bypass Ukraine and made the country exposed to possible cut off. They also claim that project does not fulfil the parameters of diversification and is against the fundamental principles or other agreements connected with Energy Union and policies of EU.

Based on these official statements, Nord Stream opponents does not often acknowledge that main reasons for standing against the pipeline construction are economic, although they do occasionally mention the increase of prices and the loss of transit fees. Nevertheless, when looking at the economic advantages of this mutual relationship, it appears that both countries have been benefiting from their economic interdependence, especially when it comes to energy business.

Geographical location of the former Czechoslovakia and political relations with the Soviet Union were predisposed to the successful development of transport routes, used for the transit of Russian gas to Western Europe.

On one hand, Slovakia had enjoyed the privileged position of absolute transit monopoly of Russian gas supply to Western Europe for many years before Yamal pipeline was launched. As mentioned earlier, the gas transit crossing Slovak territory was the only connection delivering natural gas from Russia to Western Europe, accounting for 80% of natural gas exports of Gazprom. Consequently, Slovakia was able to manage significant provisions to the state budget every year thanks to the transit fees.

On the other hand, it was important for Russia to maintain continuous and secure supply to Western Europe. In terms of security, Slovakia has been indeed a reliable partner for years and credible ally when it comes to a transit country.

Nonetheless, Russian-Slovak relationship might be rather recognized as asymmetrical interdependence. Even with possible setback in Nord Stream 2 plans, Russia is technically able to diversify routes to avoid Slovakia if needed for any reason. To maintain gas flow to their customers in Western Europe it can be done also through existing Nord Stream pipeline. On the contrary, Slovakia is completely dependent on the supply of natural gas from Gazprom and it would be extremely challenging to find another source of gas supply, from both financial and logistic perspective.

When sensitivity and vulnerability reasoning is applied in this case, the outcomes are generally in line with other Visegrad members. As already mentioned above, Slovakia is the only V4 country that is currently almost fully dependent on the supply of natural gas from Russia, while domestic production can effectively cover only about 3% of total demand. Moreover, transportation of gas through Slovak territory in the years of 2011-2012 fell by 24% from 74 billion cubic meters to 56.5 billion cubic meters. This shift occurred mainly because of the project Nord Stream 1, as country's ability to reduce or substitute Russian oil or gas imports is apparently limited. For these reasons, Slovakia can not only be defined as sensitive, but from long term perspective also as vulnerable in terms of dependence on Russian gas supply.

From the other point of view, Gazprom is highly sensitive to decrease of global energy prices, even though this is not directly related to potential loss of Slovak gas market. Nevertheless, Russia could face possible loss of revenue from export of oil and gas primarily to the EU as a whole, so Slovakia may be important from the perspective of being one of the EU member states. In this context, Russia

is also vulnerable toward the EU attempts both to diversify energy resources and producers, and to build new pipelines.

To summarize the cause of the negative standpoint of Slovakia towards the Nord Stream 2, the aversion originates in economic interdependence as there is a significant impact on country's economy. Due to the planned stoppage of the pipeline running through the country, Slovakia would lose its position of a transit state and Russia would not have to pay the transit fees anymore. The country is expected to lose 400 million of euros annually if this happened. Because of the role of a transit state, Slovakia became fully dependent on Russia for the supply of natural gas. However, if Slovakia loses this status, it might lose more than a profit from the transition fees. If the import to Europe bypasses Slovakia, the fear of the need to pay higher prices for the supply may be justified. (Associated Press, 2015)

#### **5.2.4 Czech Republic**

Before one can analyse the position of Czech Republic, it is important to note that it is arguably the least determined V4 member when it comes to rejecting Nord Stream 2 project. The main reason is that the country would become an important transit partner if the pipeline is eventually built. As mentioned in the overview, main operator of gas pipelines in Czech Republic already started to look for possibilities how to increase transport capacities westwards.

However, Czech Republic acknowledges common goals of V4 to promote the Energy Union development. Their energy policy is influenced by the European Union and its focus on the liberalization of the energy market, diversification of the currently existing transportation routes and legislative proposals aimed at strengthening the EU's own energy security. In addition, Prime Minister of the Czech Republic Bohuslav Sobotka also joined V4 countries and signed the letter to the President of the European Commission, stressing their concern over new pipeline.

Regarding import of natural gas, the Czech Republic is basically fully dependent on the supply of natural gas from foreign countries. In the past, Russian gas imports covered Czech consumption up to almost 100%. In 1997, the Czech government decided to diversify away from Russia and concluded a long-term contract on gas imports with Norway. (Paces Report, 2008) Securing deliveries of Norwegian natural gas was an important step towards reducing Czech energy dependence on Russia. The level of diversification of natural gas supplies to the Czech Republic is therefore considerably high in the context of V4 countries, despite the high level of dependency on Russia. (Vlcek, T., Cernoch, 2013)

Although there is the lack of domestic energy resources and sufficient alternative suppliers, potentially several aforementioned replacements may be used, such as import of Caspian oil through pipeline IKL or domestic coal sources. When it comes to the gas supply, import of Norwegian natural gas is one of the most prospective options. In addition, eight underground gas storages represent another tool strengthening Czech energy security. Underground gas storages have an overall capacity of approximately 3.077 bcm of gas, which makes up to 33% of the Czech yearly gas consumption. (Paces Report, 2008, p. 127).

Finally, when the concept of *sensitivity* and *vulnerability* is applied in case of Czech gas import from Russia, it is clear that the Czech Republic is sensitive to possible increase of gas price, but only vulnerable to some extent in relation to Russian decision to cut off energy supplies. It was best illustrated during the gas crisis in 2009, when the Czech Republic managed the situation reasonably good and they neither declared a state of emergency, nor were their individual customers negatively affected. Czech market even managed to help some of its neighbours, although they had to import more expensive gas from Norway via the northern route and its costs increased. (Hynek, Stritecky 2010, p. 81) In terms of vulnerability, it is questionable if the similar response would be possible in case of the long-term cease of Russian gas supply.

Russia, on the contrary, is the main gas producer and exporter and therefore significantly less sensitive or vulnerable in this particular relationship. As Russia is not dependent on gas purchases from the Czech Republic, the potential loss of the Czech energy market is likely to have a minimal financial impact on Russian economy. However, as the EU remains their most important partner a permanent stop of Russian energy supplies to the Czech Republic would directly affect Russian exports to other European countries. Based on the historical development of a Soviet energy export infrastructure in oil and gas, Czech Republic is a key country for energy transit to Germany, which in fact makes Russia considerably sensitive.

### **5.2.5 Poland**

When looking closer at Polish stance against Nord Stream 2, it seems that economic concerns prevail. Although security is also mentioned many times, generally linked to Ukraine situation, Polish statesmen often talk about Nord stream 2 as “economically unjustified” and “economically inefficient” idea. The most senior Polish officials even reportedly called this contract “the new Ribbentrop-Molotov pact”. (Andoura, 2013)

Nonetheless, many arguments are in line with those previously mentioned by other Visegrad countries, mostly stating that project goes against the fundamental principles of the Energy Union and will not eventually result in diversification of sources of supply.

It is important to mention that although Russia and Poland are economically interdependent, this relationship can be easily shifted in the foreseeable future. According to Russia's official energy strategy till 2030, one of its long term interests is to lower its transit dependence on the Ukraine, Belarus and Poland in order to diversify export paths to the EU. As this document further stress: "The main goals of the Energy Strategy are to maximize the effectiveness of exploitation of natural resources and the potential of the energy sector for the long term sustainable growth of the domestic economy, improve the living standard of the citizens of Russia and strengthen Russia's position in other countries and globally. In Russia, the country's vast energy resources are generally recognized as an instrument for renewing Russia's power and status in the international arena and also as a mean to protect Russia's sovereignty against external influences."(Energeticeskaja strategija Rossiji na period do 2030 g., 2009) It effectively means that Russia perceive this interdependent relationship as asymmetrical, which may increase the sensitivity and vulnerability of Poland. The theory of asymmetrical relationship, as described before, proved yet again fruitful when explaining the real-world relationship of another V4 country with Russia.

As already mentioned in the text, the energy sensitivity of a particular state is expressed by the costs of a change in the energy interactions with another party (Keohane and Nye, 2001, p. 11). In this regard, the energy sensitivity of Poland is revealed by the fact that it would have to spend greater amounts of money for deliveries of gas from alternative sources. Furthermore, if the Russian gas flowing through Yamal pipeline decreases, Poland would have to give up the profit that is generated through transit fees. The energy sensitivity of Poland would be therefore affected if a short-term suspension of Russian gas deliveries takes place. The last time such a suspension occurred was in January 2009.

The energy sensitivity of Poland could also be exposed if Russia did not invest enough into the development of new oil and gas fields and the refurbishment of its outdated and decrepit transportation infrastructure (Keohane and Nye, 2001, pp. 10–11). In this scenario, Poland and other European states would be forced to make unexpected investments into renewing the Russian energy sector and infrastructure just to secure their own deliveries of energy resources. In contrast, if the decrease of gas consumption is caused by Poland, Gazprom would also lose income for the sale of gas, which makes Russia sensitive in this regard.

Similarly to a country's energy sensitivity, its vulnerability depends on the availability of alternative resources that could compensate for unavailable raw material. In fact, if Russia stopped its gas deliveries through Yamal, Poland would not be able to compensate for the Russian gas in a time horizon exceeding 90 days, because the degree of dependence on Russian gas is too high. (Paces Report, 2008, p. 127)

Although LNG terminal in Swinoujście has a great potential to reduce both sensitivity and vulnerability of Poland, it currently remains vulnerable to any project which bypasses its territory, including Nord Stream. The main reason is that Qatari LNG and spot market contracts can't simply replace Russian gas, while the position of Qatar as a reliable long term partner also remains questionable. It is therefore understandable that Polish authorities consistently protest against the construction of Nord Stream 2, supporting the hypothesis based on liberal interdependence theory.

### **5.2.6 Hungary**

As mentioned in overview, Hungary under Viktor Orbán and Russia are close allies not only from economical perspective, but also politically. Good example of these ties is a bilateral deal from 2015 that guarantees Hungary significantly cheaper gas in exchange for stoppage of reverse flow of Russian natural gas to Ukraine.

It can be also assumed that Hungary's relationship with Russia is qualitatively different to those of other V4 members. Practical economic cooperation based on mutual interdependence has always been part of Hungarian foreign policy ever since the loss of the Russian market at the end of the Cold War. This cooperation was fundamentally limited to the energy issue and thus never threatened to undermine the country's Euro-Atlantic orientation. (Hegedüs, 2015)

When compared to other V4 countries, trade relations are fairly limited, as only around 3% of Hungarian exports go to Russia. However, Russia is de facto an important buyer of Hungarian state bonds and thus finances Hungarian state debt, making Hungary much more financially dependent on Russia than other Visegrad countries are. Moreover, Hungary's energy dependence on Moscow is unquestionable, 99% of its oil and 74% of its natural gas comes from Russia. (Hegedüs, 2015)

In this context, it is important to note that the whole electricity sector in Hungary is highly dependent on gas-fired power plants and there are also high volumes of relatively inflexible residential demand. Gas storage is therefore crucial to decrease both energy sensitivity and vulnerability. Following the supply interruption of January 2006, the Hungarian parliament approved a new legislation act that includes plans to build a strategic underground gas storage facility of 1.2

bcm. This facility would be able to provide Hungary with 40 to 45 days of autonomy if its main import source from Russia failed.

While it decreases sensitivity of Hungary, this alternative is not sufficient enough from the perspective of vulnerability. As Keohane and Nye observed, the extent of vulnerability depends on availability of viable alternatives. That means the state with more alternatives is less vulnerable and is therefore provided with better bargaining position. (Keohane, Nye, 2001). This is clearly not a case for Hungary, as 45 days of autonomy and high cost of other long term solutions cannot be qualified as “viable alternatives”.

For this reasons, it is in Hungary’s interest that Nord Stream 2 shall not be constructed, as it would mean no diversification of sources and could even lead to increase of gas prices. However, in case of Hungary, it is difficult to identify if the protest voice has purely economic background, or if it is rather act of frustration that South Stream did not meet the EU requirements, while Nord Stream 2 seems to have no political obstruction whatsoever.

## **6. Conclusion**

The energy topic is becoming a particularly significant element of international politics, creating new alliances as well as dividing states. In case of Nord Stream 2 it created both. Countries of Visegrad Group aligned together with other Eastern European countries and their dissenting opinion is in contrast to German and Western European approach. This paper examined the issue of Nord Stream 2 from the position of these key opposition actors and came to conclusion by appliance of two distinct theories.

The ages of wars and conquests are long over and so is the concept of constant war and power politics initially presented by Realism. Therefore we cannot apply the theory in its full amplitude to this case. There is no real war present between the actors, nor are they using any signs of hard power. However the other fundamental stones of the theory remain present in the human nature and international relations. This concept gave basis to our analysis from the standpoint of Realism. It is clear that the dispute has larger magnitude because the debatable project is presented by Russian Federation. The country with its hegemonic tendencies and devious politics is perceived by many as a threat to their interests and security, and to the unity of whole European Union. It would be interesting if such uproar happened in hypothetically similar situation with different actor, for example Norway. The authors decided to use the theory of Realism to also analyse the behaviour of

Russian Federation, because they believe it plays a role in the conflict. Russian Federation indeed can be an example that confirms the theory of Realism.

There were several questions to be answered in the analytical section. The analysis showed that in the case of all of the countries, except Czech Republic, their egoism and selfishness is the driving factor behind the conflict. Countries are believed to enhance their position in the system, if they are provided with the opportunity. Slovakia believes Nord Stream 2 is against its energy security, however most of their arguments is connected to preserving of the Ukrainian route, which in fact does not add to diversification of sources, just to diversification of routes. The same applies for Hungary, which believes the South Stream should have created a precedent against Nord Stream 2. Poland carries a dislike towards Russia for long period of time and is against acts that better the position of Russian Federation. The current position of Czech Republic is hardly explainable by either one of the Realistic theories. However as mentioned in the analysis, there are signs that this might change and the country may present us with its selfishness in the future.

Based on Realism, the utmost importance for a state should be its survival which is linked to their security. As the real war conquest is not present anymore, authors believe the security levels are connected with the economy of the state. This is mainly because better economy produces greater capabilities which servers to enhance security. Slovakia and Poland in this matter are afraid about their security and the security of Ukraine, as it filters Russian revisionist tendencies. Czech Republic and Hungary are not really touched by the security issue. The energy security is at question, as it always was with Russia as a supplier, but as stated above Nord Stream 2 does not add to the diversification of sources and Germany is a more reliable business partner than Ukraine, which was the cause of the previous gas stoppages.

Slovakia and Poland rationally allied to support each other against a bigger threat seen in further Russian expansion. Nonetheless, the states did not oppose the South Stream, which was of a similar nature as Nord Stream 2, proving the egoism of both actors. Realism cannot explain the fact that Czech Republic joined the other countries in their fight against Nord Stream 2 and Hungary is also questionable. Mainly the position of Czech Republic undermines the core belief of Realism, that international system is anarchy and its actors do what is best for them. However as stated above, if the countries take up position of indifference or even stand against the opposition, which is highly unlikely, the roots of Realistic theories will be noticeable in their change of behaviour.

The result of the other theory appliance, interdependence, is based on the analysis of costs and profits from Nord Stream 2 project. It assumes that interdependence cannot be limited to a situation

of equal interdependence, as this would indicate rather balanced situation. As it is clear from the analysis, this is not completely the case of Russia and V4 countries. With the help of the neoliberal theory of interdependence, it is possible to conclude that the current energy relations between the V4 and Russia can be defined as an asymmetric interdependence.

On the one hand, Visegrad countries are at minor disadvantage because of their potential vulnerability with respect to import of natural gas. The asymmetric interdependence could act as a source of Russia's influence on energy security and thus have an effect on both the vulnerability and sensitivity. Evidence for this is found in some of the aspects and expressions of Russia's energy policy, which threaten the efforts to secure stable deliveries of energies.

Energy sensitivity of V4 countries would be applicable in the event of a short-term suspension of gas deliveries or any sharp rise in energy prices. Such a price increase would have negative impact on all the economic and social areas of the functioning in all affected countries. Furthermore, sensitivity might be also exposed if Russia refuses to invest enough sources into the necessary maintenance of transportation infrastructure.

On the other hand, the state of the asymmetric interdependence of the V4 and Russia can make the latter vulnerable and sensitive as well. Although Russia is less sensitive to gas purchases from V4 countries and their possible decision to reduce or substitute its gas imports by another suppliers, its sensitivity can be equally tested in case of smaller purchases of Russian energies by the EU as a whole. It would also affect Russia's vulnerability in the sense that its share and influence on European markets would decrease.

Moreover, The European Union has also positive impact on energy security. All V4 members acknowledge the goals of the Energy Union and their energy policy is influenced by the European Union and its focus on the liberalization of the energy market, diversification of the currently existing transportation routes and legislative proposals aimed at strengthening the EU's own energy security.

Although it can be assumed that the energy interaction between the V4 and Russia is an asymmetric interdependence rather than a one-sided dependence, the European Union and regional cooperation, such as V4 group, could balance out the asymmetry of interdependence, thus also lower the sensitivity and vulnerability of its members towards Russia.

In conclusion, the hypothesis formulated in theoretical part can be widely supported in the analysis. It is clear that economic interdependence theory explains motives of V4 countries for opposing Nord Stream 2 construction to significant extent. Especially the concept introduced by Keohane and Nye,

who identified two types of interdependence, proved to be extremely helpful and precise when analysing countries individually. Their framework of *sensitive* or *vulnerable* countries was repeatedly applied in every V4 country. Based on this logic, it can be assumed that countries are concerned with sensitivity because of the commercial and financial costs that it implies, while vulnerability is absolutely crucial for them, as it means that they cannot possibly recover from the disruption of its energy deficiencies.

On the contrary, Realistic theories cannot be applied isolate on the problematic, because they would be deemed to fail in explanation of the problem formulation in this thesis. Nonetheless the theories provide key concepts to identify certain behaviours of the countries of V4. Although the Balancing system of Neorealism and Waltz's concept of distribution of capabilities provides a better understanding of the problematic than Classical Realism, both theories are equipped with usable concepts to explain certain situations and current positions of the countries from Visegrad Group. Therefore the theories do not fully support the hypothesis, as there are some elements that cannot be explained by these theories.

Despite the fact that relevance of realist theories and neo-realism is not to be undervalued, liberal approach provided researchers with almost complex explanation of motives of V4 member states for opposing the Nord Stream 2.

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