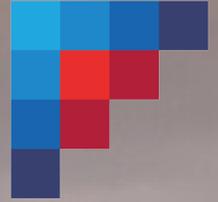


FREE
RUSSIA



CORRUPTION PIPELINE:

**the threat of Nord Stream 2
to EU Security and
Democracy**

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Corruption Pipeline: The Threat of Nord Stream 2 to EU Security and Democracy

I. INTRODUCTION

This paper is a continuation of publications on the Kremlin's subversive activity in Europe prepared by Free Russia Foundation. The first paper, *The Kremlin's Gas Games in Europe*, published jointly with the Atlantic Council, looked at Gazprom's overall current tactics in Europe, including its pipeline plans, energy propaganda, and other policies.¹ However, after our presentations in the US and Europe earlier this year,² we realized that a separate paper specifically focused on certain aspects of Nord Stream 2 was required.

Gazprom and its Western partners that are slated to benefit from Nord Stream 2 are aggressively advancing the pipeline as a purely commercial project that will only bring benefits to Europe. The reality is that the Kremlin is the main driver and financial backer of this pipeline plan of Gazprom, Russia's biggest monopoly, which has a long history of corruption and being used as a political tool in Europe.

This paper also argues that in Russia the project, as was the case with Nord Stream 1, will primarily benefit President Vladimir Putin's cronies and not the Russian budget or regular consumers. In Europe, as we have shown in *The Kremlin's Gas Games in Europe*, the project will result in "divide and rule" political and security outcomes in which German and other big energy corporate interests will override the interests of several Eastern European countries, undermining emerging EU energy principles and the existing transatlantic

security architecture. This Moscow-led pipeline seemingly being served as a free and lucrative gift to European energy corporations in reality comes at the expense of taxpayers and the reasonable long-term development of gas resources in Russia. Nord Stream 1 and 2 have already started bringing the Kremlin's business practices and political cooptation to Europe, and they will further undermine EU aspirations for better governance, democratic institutions and security.

To understand why this development is accepted in Germany, and meets with weak and confused resistance in the EU, it is important to look at the roots of the friendship between big Western energy companies and Soviet and post-Soviet gas producers. This paper also demonstrates that, apart from Gazprom's direct partners, there is a group of Western enablers – lobbyists, public relations firms, co-opted dignitaries, and analysts – who help the Kremlin advance the discourse around Nord Stream 2 in ways that are complementary to Putin's agenda. Some of the propaganda themes employed by these groups date from the Cold War era while others are brand new.

This paper concludes with policy recommendations for the European politicians and regulators who are negotiating Nord Stream 2 as well as for civil society activists dealing with the energy propaganda of Gazprom and its enablers in Europe.

1. <http://www.atlanticcouncil.org/publications/issue-briefs/the-kremlin-s-gas-games-in-europe-implications-for-policy-makers>

2. <http://www.4freerussia.org/conclusions-exposing-security-threats-nord-stream-2-post-soviet-corruption-west/>

II. NORD STREAM 2 AS A TOOL OF THE KREMLIN'S POLITICAL INFLUENCE AGAINST NEIGHBORS AND CORRUPTION

There have been extensive studies showing that Gazprom has been used as a political tool of the Kremlin against Russia's neighbors in the post-Soviet space, including our paper, *The Kremlin's Gas Games in Europe*.³

The most vivid evidence of Gazprom's use as a political tool has been revealed through an anti-trust investigation against it that started in eight EU countries in 2011.⁴ The European Commission filed charges in 2015 and denounced Gazprom with the illegal partitioning of EU markets, denying third-party access to gas pipelines, and unlawful pricing, all of which aimed at strangling politically and economically Central and Eastern European countries. Gazprom wants to settle the case although its sincerity in changing its anti-competitive practices is highly doubtful.⁵

When Free Russia Foundation presented its paper on Gazprom's plans in Europe in Berlin in July, representatives of the company's local partners questioned what they called "allegations" of widespread corruption within Gazprom. It is surprising that these corporations doubt this as all that is required to find relevant information on this is to do a simple Google

3. See the first two pages of the report and select footnotes. Robert L. Larsson identifies over 40 politically driven energy cut offs and altogether over 50 coercive incidents against Russia's neighbors between 1991 and 2004: Robert L. Larsson, *Russian Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, Swedish Defense Research Agency, FOI, (2006), <https://ntrl.ntis.gov/NTRL/dashboard/searchResults/titleDetail/PB2007106453.xhtml>. See also sections of the report on corruption, Ukraine, pipelines machinations, and gas conflicts in the Commonwealth of Independent States by former deputy prime minister Boris Nemtsov and deputy energy minister Vladimir Milov: "Putin and Gazprom," in Boris Nemtsov and Vladimir Mirov, *The Nemtsov White Paper, Part II: Gazprom*, La Russophobe, September 28, 2008, <https://larussophobe.wordpress.com/2008/09/28/the-nemtsov-white-paper-partii-gazprom-the-full-text>

4. <http://www.reuters.com/article/us-eu-gazprom-antitrust/eu-gazprom-need-more-talks-to-settle-gas-antitrust-case-idUSKBN18P1ZS>

5. <https://www.eureporter.co/energy/2017/09/22/is-vestager-letting-russia-off-the-hook>

search, and at maximum do a few simple translations from Russian and English into German. To save time for those who genuinely seek to get an informed view of whether Gazprom and its senior managers have been implicated in corruption since 2000, what follows is a short overview, which is far from exhaustive.

"It is surprising that [Western] corporations doubt this [widespread corruption within Gazprom] as all that is required to find relevant information on this is to do a simple Google search".

One should start with the fact that Putin himself began his career in energy with a plagiarized thesis he claims he wrote in 1997 at the St. Petersburg's Mining Institute. The title of his thesis does not fully correspond to the content, and the content was also "borrowed" from the Russian version of a Western textbook from 1978.⁶

More ominously, as a St. Petersburg city official in the 1990s, Putin also learned how to manipulate markets in the energy sector, piloting schemes that were later used as a template at the national level and beyond it, especially through Gazprom.⁷ These included monopolization of the downstream energy market, management of the city's oil and gas assets through nominal front men and offshore accounts, and the use of ex-Stasi and other Warsaw Pact operatives in energy schemes across Europe.

Putin's key people in Gazprom, including Alexey Miller and Alexander Dyukov, have been implicated in corrupt and criminal dealings in the

6. Putin has never revealed details of how he prepared the dissertation and its copy is no longer available for public access. See presentations by Igor Danchenko and Clifford G. Gaddy at the Brookings Institution panel discussion "The Mystery of Vladimir Putin's Dissertation," (March 2006, 30, Washington, D.C.) www.brookings.edu/events/2006/03/30putin-dissertation and Fiona Hill and Clifford G. Gaddy, *Mr. Putin: Operative in the Kremlin*, New and Expanded Edition (Brooking Institution Press: Washington, D.C., 2015) pp. 198-199.

7. <http://www.4freerussia.org/who-is-mister-putin-anastasia-kirilenko-in-washington-dc>

St. Petersburg port and oil terminal, according to a suit that was filed by their former partner, Max Freidzon, in a New York court.⁸ Freidzon also alleges that Miller helped Putin to collect bribes from private businessmen and criminals when the latter was deputy mayor of St. Petersburg.⁹ While the court decided in the end not to look at the case only on jurisdiction grounds, Freidzon's claims have never been countered by these figures in any Western courts.

If one does not believe Putin's former partners like Freidzon, maybe Western corporations and policy-makers should give credence to a decade-long, high-level Spanish prosecution investigation that last year led to arrest warrants being issued for top-level Russian officials close to Putin. While he has not (yet) been the subject of an arrest warrant, Viktor Zubkov, the former prime minister and long-time chairman of the board of directors of Gazprom, features heavily in the investigation papers. Spanish prosecutors consider him to be part of the circle of Russian mafia in Europe and a close associate of its head, Gennady Petrov, as well as facilitating with other officials the activities of Petrov and his subordinates.¹⁰

According to The New Times, the prosecution argues that Zubkov "lobbied interests of the [mafia] group in Russia".¹¹ Unlike with Zubkov, an arrest warrant was issued for Vladislav Reznik, a Duma deputy who reportedly happened to be a one-time boss of Prime Minister Dmitry Medvedev, another former chairman of the Gazprom board, when Bank Rossiya was formed in the early 1990s.¹²

Alexey Miller was implicated in various corruption stories not only before he became CEO of Gazprom but also when and after he did. In fact, according to Vedomosti, Putin exerted pressure on members of Gazprom's board from 2001, i.e. before Miller's election to it, and at the time there were doubts about the legality of the election

procedure.¹³ In the same year, Miller carried out his first major aggressive corporate raiding campaign when Gazprom, at the instigation of Putin, gained control over the privately owned petrochemical company Sibur.¹⁴

Essentially, with the help of Russian security services Miller took the then key owner of Sibur, Yakov Goldovsky, as a hostage, having him arrested for seven months until he agreed to sell his stake in the company below the market price. In the following years, Gazprom, using similar "administrative leverage" (i.e. the backing of Putin's security services, law enforcement and courts), gained control over many gas-industry assets: Vostokgazprom, Zapsibgazprom, Nortgaz, and many others, often at prices much lower than the market price.¹⁵ Since 2005 the minority shareholders of Yukos have filed multiple lawsuits against Miller and Gazprom for illegally nationalizing parts of the company. In recent years, the Court of Arbitration of The Hague satisfied some of these claims, and as a result Gazprom announced the threat of seizure of its assets.

In 2010 Gazprom-controlled company sold 12% of shares in Bank Rossiya, a financial entity now under Western sanctions for its use as a financial vehicle by Putin and his cronies. At that time, the value of the shares was about 10 billion rubles (around \$175 million). However, they were sold at half that price, bringing Gazprom 5 billion rubles (\$87.5 million).¹⁶ The buyer of the shares was a relative of a member of Gazprom's board of directors. According to Vedomosti, one of the private beneficiaries of this deal could have been Miller himself.¹⁷ There have been numerous other cases where Miller allowed Gazprom to buy and sell assets at a great financial loss to the company, including Gazprom neftekhim Salavat (GNS), Transinvestgaz, Sibneft, and many others.

8. <https://www.vedomosti.ru/business/articles/2015/06/08/595560-s-kem-prihodilos-vesti-dela-vladimiru-putinu>; <https://www.svoboda.org/a/27914802.html>

9. <https://www.svoboda.org/a/27728152.html>

10. <http://www.businessinsider.com/prosecutors-putins-cronies-helped-the-russian-mafia-work-in-spain-for-more-than-a-decade-2015-6?r=UK&IR=T>; <https://themoscowtimes.com/news/putin-allies-feature-in-probe-into-russian-mafia-in-spain-report-47793>

11. <https://newtimes.ru/articles/detail/104858/>

12. <https://www.svoboda.org/a/27419698.html>

13. <https://www.vedomosti.ru/newspaper/articles/2001/05/31/nezamenimyh-net>

14. <http://www.forbes.ru/rating/328577-prikluycheniya-yaneka-kto-pomog-goldovskomu-vyiti-iz-tyurmy-i-prodat-neftekhiy-gazp>

15. https://www.vedomosti.ru/business/articles/2011/06/01/goldovskij-esche_pohimichit

16. <https://www.novayagazeta.ru/articles/2016/02/28/67588-171-gazprom-187-sbyvaet-mechty>

17. <https://www.vedomosti.ru/library/articles/2014/07/07/gazprom-inyne-tam>



Media investigations showed that this palace in Moscow region was built for Alexey Miller | Source: Ruslandinwoordenbeeld.com

The most notorious story of enriching Putin's insiders with such price manipulation and controversial loans has been the gradual transfer of a stake of over 20% in Sibur to Putin's son-in-law, Kirill Shamalov, through another Putin crony, Gennadiy Timchenko.¹⁸ Shamalov, his father and Timchenko have been Putin's closest associates, and they have received numerous lucrative assets and contracts from Gazprom and other state companies in Russia.

Miller is personally implicated in a corruption scandal surrounding a palace nicknamed by the Russian press "Millerhof". This relates to the architectural ensemble on the shore of the Istra Reservoir in the Moscow suburbs. The estate area is more than 30 hectares, and the structure is similar to the Great Peterhof Palace in St. Petersburg, hence the "Millerhof" nickname.¹⁹

The total value of the land and buildings is estimated at \$43 million.²⁰ A representative of Gazprom denied that the company was behind the construction or the ownership of the palace. However, the magazine Sobesednik found that the estate is owned by the All-Russian Farm Center, a subsidiary of Gazprom.²¹

Last year Radio Liberty carried out an extensive investigation into multiple machinations by Denis Manturov and how he rose to the position of minister of industry and trade thanks to controversial connections to Putin insiders.²² He is also a board member of Gazprom. A few months earlier, while investigating the murder of Boris Nemtsov, Novaya Gazeta published a damning investigation about another Gazprom top official – Kirill Seleznev, a member of the management board. The paper wrote that he paid money to Chechen intermediaries to keep

18. <http://www.reuters.com/investigates/special-report/russia-capitalism-shamalov>; <https://www.theguardian.com/world/2016/feb/25/putins-alleged-son-in-law-in-top-10-list-of-russian-state-contract-winners>

19. <https://www.zaks.ru/new/archive/view/59506>

20. https://www.gazeta.ru/politics/2009/07/01_a_3217871.shtml

21. <https://sobesednik.ru/rassledovanie/20151009-skandalno-izvestnyy-millergof-nakonec-obrel-hozyaina>

22. <https://www.svoboda.org/a/27850315.html>

his position and that he is involved in syphoning money from Gazprom's subsidiaries responsible for the transit of gas from Kazakhstan.²³

“Alexey Miller was implicated in various corruption stories not only before he became CEO of Gazprom but also when and after he did.”

There are many other corruption stories that have been uncovered by international and Russian media and activists, including the late Boris Nemtsov and current opposition leaders Alexey Navalny and Vladimir Milov. However, what matters probably the most in relation to Nord Stream 2 is the deliberate unwillingness of Western policy-makers and corporations to notice the corruption that accompanied the construction of Nord Stream 1.

In Germany, the security services and law-enforcement agencies failed to prevent major money laundering and mafia activity around a shipbuilding plant called Nordic Yards (previously Wadan Yards) in the electoral district of Chancellor Angela Merkel.²⁴ This wharf passed into the hands of various Russian officials and criminals through obscure offshore operations. In 2008-16 it was controlled by Igor Yusufov, a Putin insider who was previously minister of energy and a Gazprom board member, and his son Vitaly Yusufov, the head of the Nord Stream 1 office in Moscow. With the help of the Spanish prosecution files and the work of German newspapers, Russian investigative journalists have recently uncovered complicated corruption schemes around the plant and its links with the Vyborg shipbuilding plant in Russia, another asset controlled by Putin and his cronies.²⁵ One of the ideas of this circle was to use the two plants in the schemes of Nord Stream 1 and its expansion.

23. <https://www.novayagazeta.ru/articles/2016/03/02/67629-kondensat-milliardov>

24. <http://www.fr.de/wirtschaft/wadan-werft-volle-kraft-voraus-in-den-untergang-a-729242>

25. <http://theins.ru/korruptsiya/64148>

As for the pipeline itself, Putin insiders Arkady and Boris Rotenberg have been the main beneficiaries of Nord Stream 1 inside Russia. Between 2003 and 2006 their firms acted as artificial intermediaries in the sale of the trunk pipeline from Chelyabinsk pipeline plant to Gazprom. In 2007 they opened the Nord Stream Pipeline Project company, which became the main intermediary for the re-sale of pipelines for Nord Stream 1, bringing 27 billion rubles of profit between 2008 and 2012. Eventually Russia's Anti-Monopoly Agency acted against this scheme but only after the construction and money transfer for Nord Stream 1 was finished.²⁶

On top of that, the Rotenberg brothers built up a construction company, StroyGazMontazh (SGM) that was suspiciously set up by the transfer of key construction companies from Gazprom to it in 2007-08 for prices below the market level. After that the Rotenbergs made billions of dollars by getting construction contracts from Gazprom, including for Nord Stream 1.

III. ACTUAL RESULTS OF NORD STREAM 1

Officially, Nord Stream 1 was driven first by the need to create greater and more secure supplies of gas to Europe. Additionally, European gas companies hoped to get further deals with Russia and vice versa. Putin seems to have believed that the underwater pipeline to Germany would create more lucrative opportunities than an overland one. Gazprom had been offered another, cheaper option to build a pipeline via Belarus in 2001, but refused it and never seriously considered it again.²⁷ In 2013, Putin asked Gazprom to look again into expansion of the Yamal-Europe route via Belarus²⁸ but so far this idea has not become the monopoly's priority.

26. РБК. “Ротенберги закрывают крупнейшего трубного трейдера России.” <http://www.rbc.ru/economics/22/04/2014/57041b9a9a794761c0ce938b>

27. Mikhail Korchemkin, May 13, 2014, EEGA site, accessed August, 10, 2016, http://www.eegas.com/Short_route-2014-05_en.htm

28. Denis Lavnikovich, “Газпром готов терять деньги, но не иметь дела с Украиной [Gazprom is ready to lose money but avoid Ukraine]”, BDG, April 15, 2015, accessed September 21, 2016, <http://bdg.by/news/authors/gazprom-gotov-teryat-dengi-no-ne-imet-dela-s-ukrainoy>

A Russia-Europe Energy Dialogue was convened with the aim of guaranteeing long-term supply and demand through mutually binding contracts and assets swaps.²⁹ Furthermore, the new pipeline was meant to make Russia an important intermediary between Europe and Central Asia. While Gazprom never wanted to allow Central Asian producers to send their gas to Europe, it did want to use the gas from this region to fulfill a large part of its obligations inside Russia and to neighbors such as Ukraine, while at the same time increasing delivery of its own gas to more lucrative markets in Europe.

The deal was also meant to save Russia money by cutting transit costs. At that time, in the mid-2000s, about 10-15% of Gazprom's exports to Europe went through Belarus, and about 70-75% went through Ukraine.³⁰ Gazprom officials often described the route through Ukraine as costly and unprofitable, but they never substantiated those statements. Vladimir Milov, the former deputy energy minister, points out that Gazprom has never released any comprehensive comparison of transit costs via existing onshore export routes and via new offshore pipelines such as Nord Stream 1.³¹ We have recently discussed this with him in his YouTube program #WhereIsMoney? in which he showed that

“Putin insiders Arkady and Boris Rotenberg have been the main beneficiaries of Nord Stream 1 inside Russia.”

29. Europe wanted to invest in Russian reserves and infrastructure, fearing that Russia could not cope with rising demand over the long term. The Kremlin was happy to provide limited access to select European majors into the Russian energy sector, but in return it wanted access to the gas value-chain in the EU as well as long-term contracts (LTCs) linked to oil. This thinking has been formulated in many Russian sources, including in Stanislav Zhiznin, *Energy Diplomacy of Russia* (Moscow: East Brook, 2005), pp. 285-324. Zhiznin is head of Center of Energy Diplomacy and Geopolitics, which is close to the Ministry of Foreign Affairs.

30. In this context, by Europe we mean all Western destinations of Gazprom apart from those in the “near abroad”, thus including non-EU countries in the Balkans as well as Switzerland and Turkey. Ukrainian and Belarusian dominance over exports to the European Union was roughly the same or bigger; however, it makes sense to talk about all Western destinations as they constitute a unitary hard-currency channel in the Kremlin's view.

31. In an interview with the author.

available data shows transit through Ukraine has not been much more expensive than average transit costs for Gazprom's exported gas.³²

In practice, Nord Stream 1 has never fulfilled any of its officially stated goals. By the time it became operational (first line in 2011, second line a year later), the public justifications were no longer valid. Although Gazprom continued to use its projections of rising gas demand through 2012, by the end of 2008 it was clear that the economic crisis had rendered them invalid. Since then demand for natural gas in Europe has stagnated; only in the last two years has it started to pick up slightly.³³ EU demand for gas still remains far below the additional 100-200 bcma (on top of the level of demand between 400 and 450 bcma seen in the last few years) that Gazprom officials had projected for 2015-25. Even recently, although predictions about EU gas demand and future import requirements remained volatile and inconclusive in the last few years,³⁴ Gazprom and

32. https://www.youtube.com/watch?v=_t_FhryFd4Q; see at 31:30 mins (in Russian)

33. In 2016 it grew by around 4% in EU-28 to 447 bcma, compared to 2015, http://www.eurogas.org/uploads/media/Eurogas_Press_Release_-_New_Eurogas_data_shows_6__increase_in_gas_demand_in_2016.pdf. This is not a decisive growth, though, as it comes from a low base, and it is not clear how sustainable this demand growth is in the long-term given the advances in renewable energy and energy efficiency measures in Europe.

34. For example, in early 2014 Tatyana Mitrova from the Russian Academy of Sciences argued the demand outlook for Russian gas was improving and the European Commission would be open to approving Russian export projects to Europe. Tatyana Mitrova, “Почему у Газпрома не все так плохо, как вам могло показаться [Why Gazprom is doing not as badly as you might have thought]”, Republic, February 20, 2014, accessed November 4, 2016, https://republic.ru/economics/pochemu_u_gazproma_ne_vse_tak_plokho_kak_vam_moglo_pokazatsya-1058961.xhtml. By late 2014, Mitrova reversed her opinion and produced a pessimistic outlook for growth demand in markets targeted by Gazprom. In 2015 Platts suggested that European gas demand is peaking up above its previous expectations while Jonathan Stern from the Oxford Institute of Energy Studies, a supporter of Gazprom's views on new pipeline projects, warned about the lack of additional supply and rising EU import requirements. However, Mikhail Krutikhin from Rusenergy argued that Europe is on course to increasing energy efficiency and to reducing imports from Russia by 45 bcma by 2020. Mikhail Krutikhin, “Незванные гости: оправданно ли строительство Турецкого потока [Unwanted guests: is Turkish Stream construction justified?]”, RBC, June 11, 2015, accessed October 3, 2016, <http://daily.rbc.ru/opinions/economics/11/06/2015/55792b3f9a794749e5fd867f>. He is supported by Italy's Snam, <http://af.reuters.com/article/energyOilNews/idAFL5N0YQ1J420150604>. Thierry Bros, a well-known gas industry expert, argued that European gas demand will struggle to grow and remains uncertain, <http://www.naturalgaseurope.com/european-gas-industry-poor-advocates-bros-31582>



Alexey Miller in a meeting with Vladimir Putin in Kremlin | Source: Kremlin.ru

its corporate friends have continued to talk about the large demand for Russian gas they expect in 2035.³⁵

“The bottom line is that the legacy of Nord Stream 1 for Nord Stream 2 is negative. Nord Stream 1 is still far from profitable; volumes are uncertain for the next 10-15 years... It has proved disastrous for Russian taxpayers and the Russian budget .”

In the meantime, many of the promised Russian-European deals have not come to fruition. Initially Putin was not completely averse to the idea of an Energy Charter that guaranteed mutual investments, but the Kremlin was reluctant to undermine Gazprom’s midstream monopoly or its ability to determine supplies and price levels to Eastern Europe. Thus the Energy Charter was never properly ratified and a creeping tension between Brussels and Moscow emerged long before the financial crisis of 2008.

35. Philippe Vedrenne, CEO of Engie Global Markets, argued Europe was likely to need an extra 144 bcma in imports by 2035 as domestic production fell and demand recovered, <http://www.naturalgaseurope.com/nord-stream-2-ready-to-proceed-31924>

The promise of more transit for Central Asian gas has not materialized either. In 2009, right after the start of the financial crisis, Gazprom defaulted on its binding agreement to import 40 bcma of gas from Turkmenistan. It has since kept the intake of Central Asian gas at a low level.

The bottom line is that the legacy of Nord Stream 1 for Nord Stream 2 is negative. Nord Stream 1 is still far from profitable; volumes are uncertain for the next 10-15 years. Gazprom has guaranteed to return the 12 billion euro investment to its European partners, even if the pipeline stops working altogether – a promise that will hurt the Russian budget and gas-sector development even further. Even if Nord Stream 1 pays for its construction at some point in the mid-2020s, it will not bring any more revenues to Gazprom or to the Russian budget because the same volumes of gas are still being transported to the same customers under the same contract but only through a new and more expensive export route, simply in order to avoid Ukraine and Belarus.³⁶ The only genuine justification for another 55 bcma pipeline is still political: to circumvent Ukraine’s gas transit system altogether and to exclude the country completely from Gazprom’s routes to Europe and Turkey.

36. Online conference with Mikhail Korchemkin by Lenta, November 14, 2011, accessed August 15, 2016, <https://lenta.ru/conf/mkorchemkin>

In practice, Nord Stream 1 has proved disastrous for Russian taxpayers and the Russian budget.³⁷ The costs of transporting gas through Nord Stream 1 proved to be identical or higher to those from the traditional transit route across Ukraine.³⁸ The estimates show the pipeline cannot adequately meet Europe's peak demand due to base load arrangements and Russia's documented manipulation of supply, whereas Ukraine's gas transit coupled with big gas storage can do so and highly flexibly.³⁹

There were no cost savings and the gas that is being transported through Nord Stream 1 is simply diverted from the pipelines across Ukraine.⁴⁰ There is no value added; Gazprom has to treat the new pipeline as "a stranded investment which never makes the promised return on capital", as one leading U.S. industry



37. For more details of the results of Nord Stream 1 for Russia, see a video discussion with oil blog Neftianka by Mikhail Krutikhin and the author with other Russian experts on September 28, 2017. <https://www.facebook.com/neftianka/videos/1549531911736574/>

38. For 2015, the transit cost via Ukraine was a bit less than via Nord Stream 1, see Mikhail Korchemkin, August 1, 2016 (12:00 pm), Mikhail Korchemkin LiveJournal Blog, accessed September, 10, 2016, <http://m-korchemkin.livejournal.com/750722.html>. For other years, reliable numbers are unavailable but most Russian and U.S. experts that the author talked to believe transit through Ukraine was not just cheaper but much cheaper.

39. <http://www.eegas.com/images/archive/EEGA-RGI-2016-12-14-NS-Ukraine-base-load.pdf>

40. Gazprom claims future supplies to Europe may come from Yamal and other new sources. However, that is difficult to verify, and in any case this will be Russian gas and most likely mostly or fully Gazprom's gas. No Central Asian or other non-Russian gas is slated to be admitted into Nord Stream 1 or 2.

expert told the author.⁴¹ On top of that, inside Russia the gasification even of regions adjacent to Nord Stream 1 has been extremely slow.

Even in the homeland of Putin and Miller – the St. Petersburg region – the gasification level reached 68%, which is just above the average around the country, and Gazprom has been accused by local officials of breaking its promises to the region and of providing extremely slow connection of residential sectors to new gas. Furthermore, in reality the figure of 68% does not reflect that some of the low-pressure pipelines built in the region have not actually been connected to consumers.⁴²

Nominal figures should be properly analyzed as Gazprom itself says that, while big cities in the region have gasification of around 80%, the level hardly reaches 45% in villages and smaller towns⁴³ and that many more villages that are not "worth connecting to gas networks".⁴⁴ All this means that, despite many years of propaganda around the benefits of export pipelines to consumers in Russia, there are many people and businesses just 50-100 km away from Nord Stream 1 that still use medieval methods for heating such as timber blocks and brick furnaces.

IV. THE ROOTS OF THE APPEASEMENT OF GAZPROM IN EUROPE

So far, we have looked at what has been happening in Russia and why it is relevant to discussions about Nord Stream 2. However, no less important is the story of Europe's relations with the Soviet gas ministry and later Gazprom, which is often forgotten or deliberately omitted in the political discourse around gas cooperation with Putin's government.

41. On 23 January Russian analysts from Sberbank suggested Gazprom's preference for mega-costly pipelines will soon force the monopoly into massive asset sales and borrowing to cover a \$15 billion gap in its three-year budget, [http://www.finanz.ru/novosti/aktsii/v-byudzhet-gazproma-obnaruzhilas-dyra-na-\\$15-mlrd-1001690226](http://www.finanz.ru/novosti/aktsii/v-byudzhet-gazproma-obnaruzhilas-dyra-na-$15-mlrd-1001690226).

42. <http://47news.ru/articles/119296/>

43. <http://www.gazprom.ru/press/news/2016/september/article283981/>

44. <http://47news.ru/articles/104699/>



The next West German government, led by the Social Democrat Willy Brandt, enthusiastically embarked on a new economic policy with the East, largely centered around a gas-for-pipes deal that Russians later called “the contract of the century”. Signed in 1970, this allowed the Soviet Union to sell a significant amount of gas to Germany in exchange for German pipes, equipment, and loans. The first Russian exports of gas to West Germany began in 1973.⁴⁶ In the same year, West German companies also began to supply large-diameter gas pipes to the Soviet Union, to be used in the construction of gas pipelines to Europe. Financial support for the scheme was provided by Deutsche Bank,

CIA operatives bug Soviet gas officials in Germany. Scene from “Contract of the century” film.

1950S-1980S: GAS-FOR-PIPES

From the beginning of the Soviet Union’s trade with the West, gas deals were controversial, prompting debates among NATO members about the costs and benefits for democracies of deep economic relationships with an authoritarian state. As early as 1952, the Committee on Eastern European Economic Relations (CEEER or Ost-Ausschuss der Deutschen Wirtschaft),⁴⁵ a group of West German bankers and industrialists, was already advocating the development of strong economic ties with the Soviet Union, and in particular the exchange of Soviet natural resources for heavy industrial goods.

But throughout 1960s West Germany, with the support of the United States, banned such deals because of the national security risks they posed to the country and its Western allies. This ban resulted in big losses for some German industrialists, and helped contribute to the split of some business supporters away from West Germany’s ruling Christian Democratic coalition.

45. <http://www.ost-ausschuss.de/a-common-initiative-economic-associations-and-enterprises>

a financial institution that has remained an integral part of Russian-German business dealings ever since. The gas contracts, which lasted until the collapse of Soviet Union in 1991, enabled the Soviet Ministry of Gas (the predecessor of the Gazprom monopoly) to build Russia’s gas export infrastructure from Western Siberia and Central Asia to Europe via Belarus and Ukraine.⁴⁷

This initial cooperation also gave Soviet trade agencies, as well as the KGB, the opportunity to set up a whole chain of trading and financial organizations in Germany, in Warsaw Pact countries and subsequently in Austria, Italy, France and elsewhere. Otto Wolff von Amerongen, the first head of the CEEER, was one of many European businessmen to argue that gas trade between West and East would change the political regime in the Kremlin and promote détente. Soviet propaganda backed him up. A Soviet film of the time, “Counter measure”

46. “40 лет на рынке Германии [40 years on the market of Germany]”, Gazprom, accessed September 29, 2016, <http://www.gazprom.ru/about/history/events/germany40>

47. Over a dozen truly strategic trunk pipelines were built using large diameter pipes, including Orenburg-Western border, Urengoi-Pomary-Uzhgorod, and Yamburg-Western border

(1974),⁴⁸ portrayed well-intentioned Soviet factory directors doing business with like-minded industrialists in Germany – until they are blocked by ex-Nazis, under American influence, who even murder a Soviet official to get their way.⁴⁹

Another film, “Contract of the Century” (1985) was made with a similar plot, except that it replaced the ex-Nazis with violent CIA operatives.⁵⁰ The film heavily pedals the theme that Soviet gas trade is beneficial to the West and improves relations with Europe despite envy and bad intentions of aggressive Reagan administration and few remaining neo-Nazis in West German government.⁵¹

But while the gas trade was lucrative for German companies, it never delivered political change in the Soviet Union. On the contrary, revenues from foreign sales of gas helped keep the Soviet economy going, funded the Red Army, and propped up the totalitarian state. Only in the 1980s, when gas and oil prices collapsed and sales went down did Mikhail Gorbachev feel pressured to launch perestroika and glasnost. But even then hard-currency revenues were very helpful for the dying Soviet regime and arguably prolonged its existence. Sadly, if one agrees with that statement, it also means that West Germany actually also helped to prolong for few years the regime of Moscow’s satellite in East Germany. These antecedents are worth remembering because the Western corporations that partner with Gazprom today make the same political arguments as their predecessors did, contending that economic cooperation with Gazprom will expedite the liberalization of Russia’s political regime. Few remember that this idea failed in the past.

48. <http://www.imdb.com/title/tt0478220>

49. Ответная мера [Counter measure], YouTube, accessed September 27, 2017, https://www.youtube.com/watch?v=5hiv_Ppltf0

50. “Контракт века [Contract of the century], YouTube, accessed September 27, 2017, <https://www.youtube.com/watch?v=O1CuNbNDWmc>

51. There is also an interesting part in the film when an old soviet engineer warns his younger soviet representatives that Russia could turn into a mere raw material colony of the West through this deal, but his concerns are dismissed with assurances that USSR will develop its own complex gas value-added industry and will diversify away from oil and gas exports. In retrospective we, of course, now know that the old soviet engineer turned out to be right in his predictions.

GAZPROM UNDER PUTIN

After the collapse of the Soviet Union in 1991, President Boris Yeltsin partially privatized the Soviet gas ministry and renamed it Gazprom. However, the state always maintained majority control. Though there were efforts in the early days to make Gazprom act like a real private company – and many outside investors genuinely believed that it would – in practice it quickly evolved into a hybrid institution that brought foreign currency into the state budget, provided a slush fund for insiders, and could also be deployed as a foreign policy tool in relations with the West and the former Soviet republics. Initially, while prices were low and Russian relationships with the West were warm, the use of Gazprom was low-key. Although Gorbachev and Yeltsin prevented the transit of Central Asian gas to the West, and there were some early conflicts with the Ukrainian leadership over the division of rents from Gazprom’s transit to Europe and the accompanying gas trade, these were very minor political arguments. The significance of the industry could be seen in the promotion of one of its leaders, Victor Chernomyrdin, to the post of prime minister in the mid-1990s. Rem Vyakhirev, the CEO of Gazprom in the same era, was one of the most powerful men in Russia at the time.

The promotion of Putin to the presidency in 2000 changed the situation. For one thing, it coincided with the beginning of an unprecedented rise in commodity prices, including for gas. Putin also had bigger ambitions than his predecessors. As a KGB operative in East Germany in 1980s, he had had close interactions with Soviet trade agencies and had observed how the “gas-for-pipes” contracts had worked. In 2014, when personally lobbying for the advance of the South Stream project in Austria, Putin lamented that the United States was trying to stop the project, just as it had tried to prevent the “gas-for-pipes” exchange during the Cold War.⁵²

Since then Russia Today and other propaganda outlets have increasingly used alleged the greed of US LNG companies is the true reason for US objections to Nord Stream 2, while the real reason is the fear of US policy-makers of a threat to democratic institutions as well as

52. “Сделка века, или о чем вспомнил в Австрии Путин [Contract of the century or what Putin remembered about in Austria]”, Vesti, June 30, 2014, accessed September 30, 2016, <http://www.vestifinance.ru/articles/44419>

to the transatlantic relationship and security architecture. Similarly, in Soviet times Russia alleged that President Ronald Reagan objected to gas trade in the interests of US coal companies, even though historical facts show that he was mainly concerned with NATO cohesion and democracy.

“While the gas trade was lucrative for German companies, it never delivered political change in the Soviet Union.”

After Putin came to power, several ex-employees of the trade agencies and banks that had participated in the pre-1991 Soviet gas trade – including Andrey Akimov (now CEO of Gazprombank) and Alexander Medvedev (now deputy CEO of Gazprom and until 2014 CEO of Gazpromexport) – were elevated to high-profile positions in the Gazprom empire with a focus on operations in Europe. An ex-Stasi operative, Matthias Warnig, is now CEO of Nord Stream AG. In addition, to advance its agenda the Kremlin re-activated vast networks of former Soviet trading agencies in Europe, as well as ex-KGB ones set up in Europe in 1970s and 1980s.

Using their knowledge of the Soviet gas trade as well as of the pattern of secret-service operations in Soviet and post-Soviet Russia, these new leaders continued building Gazprom’s subsidiaries and affiliates abroad, especially in Germany and Austria, with Putin’s support. “Gazprom” is now a complex web of organizations that deal not only with gas production but also gas transit (midstream), processing, storage, and sale (downstream), as well as with power generation, spot trade, financial and investment management, infrastructure development, real estate, security, communications and surveillance operations, and even cultural, academic and sport sponsorship across Europe.⁵³

As the era of bilateral deals was curtailed by the EU and its regulations, Gazprom began to focus

53. This official list of Gazprom’s subsidiaries worldwide includes only the most prominent daughter and affiliate companies in which it has a control stake, <http://www.gazprom.com/about/subsidiaries/list-items>. There are many more subsidiary organizations in Europe in which Gazprom has a varying degree of control and different stakes directly or indirectly.

more on a new and subtle strategy: the exertion of political and economic leverage in Europe through its relations with Western oil and gas majors. For the past 16 years, BASF (especially its subsidiary Wintershall), ENI, Shell, OMV, MOL, Gasunie, Total, Uniper (formerly known as E. On), Engie (formerly known as GDF Suez) and others have received unprecedented concessions and favors from Gazprom in Russian upstream investment, joint pipeline, and even European downstream investment. In return, Gazprom has expected these corporate counterparts to act as its lobbyists in Europe, and often they have done so.

Big energy projects with excessive budgets but concentrated participation of Putin’s cronies and international oil and gas majors has become one of the favorite ways for the Kremlin to advance its political interests domestically and abroad.⁵⁴ Putin’s primary focus remains, as was the case in the Soviet era, in Germany where the construction of Nord Stream 2 is intended to put Russian-German relations on an entirely new level at the expense of broader security and democracy in Europe – for the benefit of his cronies at home and for the political and economic uplifting of his big corporate partners in the West.

WESTERN ENABLERS AND SYMPATHIZERS OF GAZPROM

Angela Merkel is the architect of the EU sanctions policy against Russia over Ukraine; however, she has been seemingly positive towards Nord Stream 2. Now that she won the latest general elections in Germany, she can be more outspoken and frank in her policies towards the Kremlin. At the same time, she remains under huge pressure from the German industrial lobby,⁵⁵ which wants lucrative deals with Gazprom, guaranteed long-term gas supplies, and an exclusive role as the new gas mega-hub in the heart of Europe. So far, she has not made a full-hearted push for the EU to approve Nord Stream 2, but she has not strongly objected to it either. In general, Merkel has remained ambivalent on

54. <http://berlinpolicyjournal.com/putins-art-of-the-deal>

55. <https://euobserver.com/energy/139007>

Nord Stream 2, appearing to support it in Berlin and in countries, including Poland⁵⁶ and Italy,⁵⁷ that have called this approach duplicitous.

More generally, Merkel has ceased to prioritize economic cooperation with Russia. Since 2014 she has been openly suspicious of Putin's intentions in Ukraine and Europe, and she has several times demonstrated her distrust.

Putin is well aware of Merkel's attitude towards gas contracts as well as toward his regime. There is a wide range of evidence suggesting that the Kremlin campaigned directly and indirectly against her government, in part by trying to create anxiety about refugees and immigration, especially before the elections. Putin did not manage to unsettle Merkel, but he managed to create a rift in her government after the US Congress adopted a new sanctions package in the summer of 2017, which among other things gives President Donald Trump the power to impose sanctions on financial backers of Nord Stream 2.⁵⁸ However, it remains highly unclear whether he will ever want to enforce the sanctions and whether the US Congress will be willing to force the White House to implement them.

Meanwhile, the European Commission is also divided over Nord Stream 2. It has found an internal compromise in the idea of getting a mandate from member states to negotiate a special status for Gazprom's pipeline.⁵⁹ This is intended to avoid a legal void surrounding the project and to move Gazprom to accept an independent operator for the pipeline. However, it is unclear how such control will preclude the whole reconfiguration of the existing gas flows and import infrastructure in Eastern Europe, and prevent setting Germany's business elites against the interests of the wider EU community.

Elsewhere in Western and Northern Europe, resistance to Nord Stream 2 is also weak and confused by divisions over the project among competing political forces. In Denmark and Sweden, individual parliamentarians have

56. <http://www.newsweek.com/why-merkel-backing-pipeline-appeases-putin-420252>

57. <http://www.politico.eu/article/matteo-renzi-pipeline-politics-energy-south-stream-germany-russia-dependency>

58. <https://globalbarrel.com/2017/07/03/neue-neue-ostpolitik-my-bjp-piece-on-german-fury-at-senate-ns2-sanctions/>

59. <https://euobserver.com/energy/139023>

spoken of the perceived security threats and environmental impact of Nord Stream 2.⁶⁰ However, it seems that on their own these countries will not dare to block the project that Germany's business elite wants so much.

Although for now Gazprom has shelved the extension of Nord Stream 1 to the UK due to low gas pricing,⁶¹ it may also believe that the Brexit process will strengthen its hand in the long run. With the removal of the UK's voice from the EU's formal political process, Russia's allies within Germany, Hungary, Italy, Slovakia, and the Czech Republic are more likely to get a more sympathetic hearing in Brussels. Gazprom will try to win allies in the UK too by offering concessions to companies there. Rosneft has already established a complex relationship with BP, and Gazprom has managed to secure the National Health Service, Oxford University, and other prominent institutions as customers.⁶²

The decision of the Austrian company OMV to join the Nord Stream 2 consortium in 2015 is also noteworthy politically and from a business perspective. Historically, Baumgarten, Austria's gas hub, received most of its gas from the Ukrainian-Slovakian transit corridor, but inflow from this source has dried up since Gazprom started diverting flows away from Ukraine in 2014.⁶³ To fend off a complete halt in supply, OMV decided to join the Nord Stream 2 consortium. In 2015, it appointed a new president, Rainer Seele, who has long connections to Gazprom.⁶⁴

Russia has even looked for American support in its effort. Congressional lobbying disclosures

60. <https://uk.reuters.com/article/uk-denmark-gazprom-pipeline/denmark-seeks-to-change-law-on-pipelines-amid-nord-stream-2-divisions-idUKKBN17B039>

61. <http://uk.reuters.com/article/russia-gazprom-nordstream-idUSL6N0V71HO20150128>

62. <https://www.theguardian.com/business/2014/jul/30/russia-sanction-tension-gazprom-gas-role-britain>

63. OMV is the majority owner of the Central Europe Gas Hub (CEGH), an integral part of the highly developed Baumgarten hub, near Vienna. Baumgarten had been named as a final destination for South Stream and for the EU's Nabucco pipeline, both of which have been cancelled. However, Nord Stream 1 combined with Nord Stream 2 would render that hub obsolete as they could stop sending Russian gas to it from Germany.

64. <http://www.omv.com/portal/generic-list/display?lang=en&contentId=1255764335999781> Presumably, Seele's task is to tie Gazprom's flows even closer to the Austrian company, and to keep the company profitable by linking it with Nord Stream.

have shown that last year the firm of Richard Burt, a former Reagan administration official and Trump speech writer, was paid to lobby for Nord Stream 2 in Washington.⁶⁵ In 2016 Nord Stream 2 hired the US firm McLarty Inbound to represent the project.⁶⁶

In Brussels and London, Gazprom has worked with top professional lobbyists and public relations firms such as GPlus, Hill & Knowlton, and Brunswick.⁶⁷

The Oxford Institute of Energy Studies (OIES), whose Natural Gas Research Programme is co-sponsored by Gazprom M&T and leading members of the Nord Stream 2 consortium, has consistently issued publications favorable to Gazprom's vision in Europe, although this is not to suggest that OIES independent analysis is driven by its funding.⁶⁸ It just happens to often be supportive of Gazprom's plans or perceptions. For example, in 2014 OIES's Jonathan Stern supported South Stream as a non-political project.⁶⁹ In January 2017 OIES published a paper supporting Gazprom's full access to the German onshore pipeline OPAL as a "belated and rules-based" decision, and dismissing all resistance to it on legal and regulatory grounds by the European Commission, Poland and other EU actors as "obstruction" supposedly driven by anti-Russian "political objectives".⁷⁰

65. <http://kleptocracyinitiative.org/2017/01/pipeline-politics>

66. <http://www.thedailybeast.com/articles/2017/03/09/the-kremlin-s-oil-company-has-a-man-in-trumpland.html>. In addition to this Daily Beast article, the author verified information recoverable from the website for the Lobbying Disclosures Act Database, administered by the U.S. Senate, which shows that from 2016 to early 2017 New European Pipeline AG hired McLarty Inbound.

67. https://corporateeurope.org/sites/default/files/20150120_spindoctors_mr.pdf pp.13-16

68. <https://www.oxfordenergy.org/about/benefactors>. Roughly half of the Programme is sponsored by Gazprom's subsidiaries or partners in Europe or companies like BP who have great exposure to Russian state energy companies. Also notable is the extent to which OIES has cooperated with Gazprom in the EU – in the Russia Gas Advisory Council and in a big number of training programs that Gazprom and its partners in Europe contracted from OIES over the last decade and a half.

69. Jonathan Stern wrote the following: "The extent to which Gazprom's transit-avoidance strategy should be considered 'political' is analytically problematic...The transit-avoidance strategy represents a Russian refusal to expose its gas exports to economic or political transit risks – which in Russian eyes is amply justified by its experience in Ukraine during the post-Soviet era which culminated in the January 2009 crisis". See Jonathan Stern, *The Russian Gas Matrix: How Markets are Driving Change*, p.100.

70. <https://www.oxfordenergy.org/publications/opal-exemption-decision-past-present-future>

Another notable example of sympathy towards Gazprom in the UK is the report published by Professor Andreas Goldthau with the help of the European Centre For Energy And Resource Security (EUCERS) and the King's Russia Institute in 2016, titled *Assessing Nord Stream 2: Regulation, Geopolitics and Energy Security in the EU, Central Eastern Europe and the UK*.⁷¹ Its launch was attended by OIES members.⁷² The report argues that there is a strong business case for Nord Stream 2 for Europe, and that the EU would somehow be acting outside its regulatory purview and as "a political animal" if it wanted to reject Nord Stream 2. I have argued against these views with Prof. Goldthau at an event at the German Council on Foreign Relations,⁷³ saying that independent analysis by think tanks from Belgium and Hungary has shown that the business benefits of the pipeline are mixed for Germany and for overall gas pricing in the region, while Eastern Europe is bound to become a hostage to multiple new economic and security threats.

While I do not question the independent thinking of Prof. Goldthau, it is notable that the paper itself lists the following company executives that are on the EUCERS Advisory Board: Ilya Kochevrin (executive director of Gazprom Export Ltd), Professor Dr Burkhard Schwenker (chairman of the supervisory board, Roland Berger Strategy Consultants GmbH, Hamburg), Marco Arcelli (executive vice president, Upstream Gas, Enel, Rome, which has been a partner of Gazprom and the Kremlin in Russia in many projects), and Professor Dr Friedbert Pflüger (director of EUCERS).

In the summer of 2017 one German foundation hosted Prof. Pflüger in Washington. At that event he spoke in favor of Nord Stream 2 and cited the report of Prof. Goldthau. He presented himself as an independent analyst and academic from think tanks. At that meeting, however, he failed to note that he is also a senior advisor for Roland Berger Strategy Consultants. The website of that company states:

Roland Berger supported the planning and delivery of this project [Nord Stream]. Through

71. <https://www.kcl.ac.uk/sspp/departments/warstudies/research/groups/eucers/pubs/strategy-paper-10.pdf>

72. <https://www.kcl.ac.uk/sspp/departments/warstudies/research/groups/eucers/events/nord-stream-2-launch.aspx>

73. <https://dgap.org/en/node/29653>

a critical path analysis it was discovered that the project permitting was on the critical path, endangering the timely delivery of the project overall. The permitting operation was recovered through management of the overall process through comprehensive planning and program management, with task forces covering all relevant functions. Permitting became leading in all decisions for the project planning and execution. This resulted in a successful and timely preparation of the permitting documents for nine Baltic states.⁷⁴

It is unclear whether Prof. Pflüger personally worked for Nord Stream or not as part of Roland Berger operations. However, he has been seen on Russia Today advocating in favor of the project at a recent St. Petersburg Economic Forum.⁷⁵

V. IMPLICATIONS OF NORD STREAM 2 FOR WESTERN POLICY-MAKERS

A TEST OF EUROPEAN LAW, PRINCIPLES AND VALUES

There are long-term moral, political, and strategic implications of Nord Stream 2 for Russia and Europe. Like its predecessor, the project will drain huge resources from Russian taxpayers for many years to come and exacerbate already rampant corruption in Gazprom and beyond. The only certain financial beneficiaries in Russia are Kremlin insiders and Gazprom's subcontractors. Do European regulators, politicians, and business people want to collude in a project that will direct more money towards corrupt people who are dedicated to the undermining of rule of law in Europe? At a time when faith in the European Union and the integrity of its regulators is at an all-time low, a Nord Stream 2 deal will send a disastrous message. If German industrialists are allowed to take advantage of their special relationship with Russia largely at the expense of the rest of Europe and of the EU as a union, then naturally

74. https://www.rolandberger.com/publications/publication_pdf/roland_berger_tab_megaproject_management_20151208.pdf, p. 9.

75. <https://deutsch.rt.com/wirtschaft/51673-professor-friedberg-pfluger-nord-stream>

other national business elites in Europe will also try to advance cozy deals with Gazprom and the Kremlin.

In my view, the Kremlin has not yet taken any decision about what it will do in 2019 or afterwards in terms of cutting off transit via Ukraine. At the moment, the political and economic losses still outweigh the benefits.⁷⁶ However, if defying Europe further and escalating conflict become politically expedient and are perceived as economically viable by 2019 or the early 2020s, Russia may try it.⁷⁷ If the Kremlin was capable of starting a war in Ukraine, it is capable of shutting Europe off when and if the leadership concludes it has the means and interests to do so. It is correct to predict that with dependence on gas transit through Ukraine gone, Putin is much more likely to reignite full scale aggression against Ukraine.⁷⁸

For these reasons, cooperation with Putin's Gazprom should not be seen as just another trade decision or case of business as usual. As noted, large mineral extraction corporations and infrastructure companies have argued since Soviet times that bilateral trade with corrupt and authoritarian states will change their political character for the better and bring them closer to liberal market economies. The overwhelming evidence, not only from Russia but also from Caspian states and elsewhere, over the last two decades points to the opposite conclusion: hard currency revenues from hydrocarbon exports do not transform authoritarian countries at all.

Instead, oil and gas revenues allow dictatorships and kleptocracies to take a firmer grip on power, to deploy improved surveillance, to buy more military and police equipment, and to engage in regional wars and domestic oppression. In the Cold War and in the present, the oil and gas trade between Europe and Russia has undermined liberal capitalism and democracy.

76. Korchemkin argues the US will enforce the Ukraine Freedom Act against Gazprom in case it cuts off Europe in 2019, which will seriously hamper Russia. Mikhail Korchemkin, May 7, 2015, EEGA site, accessed October, 13, 2016, <http://www.eegas.com/turkish-2015-05e.htm>

77. In fact, as Kristine Berzina from the German Marshall Fund of the United States points out, last year's incident with Russian naval ships disrupting the laying of the NordBalt electric line in the Baltic Sea may suggest Russia is moving to new aggressive methods in dealing with perceived adversaries in the energy sector, such as Lithuania, <http://www.gmfus.org/blog/2015/05/20/russia-strikes-back-against-europe%E2%80%99s-energy-union>

78. <https://www.the-american-interest.com/2017/09/05/gas-attack>

RECOMMENDATIONS TO WESTERN POLICY-MAKERS

- If the EU Commission gets a mandate to negotiate a new regulatory framework for Nord Stream 2, provide its decision-makers with detailed information of corruption within Gazprom and full implications of Nord Stream projects for European political institutions, economy, security and democratic values.
- Translate and publicize for the benefit of Western audiences and corporations the findings of investigative journalists and activists in Russia about Gazprom's corruption and the actual results of Nord Stream 1 for all involved parties.
- Ask Western law-enforcement agencies that are sitting on incriminating information about Putin's circle and its corrupt operations within Gazprom to act on this and to release comprehensive reports about it.
- Ask relevant government bodies to counter Gazprom's propaganda about European gas demand and import requirements, market reality, and reasonable outlooks.

RECOMMENDATIONS TO WESTERN CIVIL SOCIETY GROUPS

- Hold partners of Gazprom in Europe – major corporations that are slated to benefit from Nord Stream 1 and 2 – to public account of rampant corruption in the Russian gas industry, and appeal to their self-stated standards on governance and corporate social responsibility values. Make them aware that the “free lunch” offered by Gazprom is at the expense of Russian taxpayers and Europe's long-term democracy and security.
- Facilitate more public events and publications in Europe in which the voice of the regular consumers and the opposition in Russia can be heard with regard to policy-making on Nord Stream 2. Right now, the balance is tilted heavily towards Gazprom's enablers and sympathizers. Encourage less superficial and more historical, fact-based, and detailed discussion of the problem.
- Insist on measures that will force think tanks and academics in favor of the project to fully disclose their potential conflicts of interest and any affiliation with Gazprom or its partners.

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