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**COMMERCIAL AND POLITICAL IMPLICATIONS OF THE
NORD STREAM 2**

Bachelor's thesis

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I hereby declare that I have compiled the paper independently and all works, important standpoints and data by other authors has been properly referenced and the same paper has not been previously presented for grading. The document length is 7767 words from the introduction to the end of conclusion.

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ABSTRACT

The objective of this thesis is to detect the actual aim of the Nord Stream 2 (NS-2) project and possible consequences, geo-strategy wise, after it will have been fully completed. The NS-2 has generated a sizeable response from academia, as many scholars attempted to understand whether the project serves economic interests or implements some other intentions. The project remains a highly disputed issue for certain states since they perceive it as a serious security threat. Many countries of the broad Baltic Sea/Central Europe region continuously criticize the project as well as the Germany's particular role in it. The factor of increased Russian natural gas 'presence' in Europe challenges some of those states' national security-related paradigms, while hindering their deep and comprehensive integration in European institutions that burdens hardly achieved solidarity between the EU Member States as it happens on Germany and Poland's example. The NS-2 has already divided positions in the EU that could be assessed as a half-completed work by Russia to weaken EU solidarity principles and demonstrate the EU as a fluctuating union.

Keywords: Nord Stream 2, security, priority, Gazprom, Germany, functionalism.

INTRODUCTION

By definition energy resources can be associated with power that have molded the modern way of life (Bos 2012, 1). Throughout the last two decades, energy policies have been causing substantial disputes among political powers in Europe. Satisfying Europe's hunger for energy has always been a difficulty. Natural gas is, in particular, a very versatile energy source with extensive industrial and domestic uses (Szikali *et al.* 2018, 1). Very first tensions over natural gas policies in Europe appeared in the beginning of 2000s' by launching the natural gas pipeline named as Nord Stream (further – NS-1), which led to political tensions within the European Union (further – EU) as some the entity's Central European Member States viewed it as a “Trojan horse”, a way to undermine the region's diversification efforts (EPSC 2016, 6). Despite a sizable number of its adversaries, the NS-1 has not gained as high political resonance as its successor the Nord Stream 2 (further – NS-2) has earned within the last years.

The NS-2 intends to become the longest offshore pipeline in the world, transporting natural gas 1,230 kilometers from Russia's Baltic coast to Greifswald in Germany. The project aims to double the capacity of the already-built NS-1 to 110 billion cubic meters (further – m³) per year that consists of around 38% of the EU's gas consumption (Coelho *et al.* 2018). Regardless of the project's commerciality since it delivers comparably cheap gas to the EU, the anti NS-2 political and academic community agree that there is no immediate indication that NS-2 will enhance EU energy security, unlikely to German counterparts who argue that the EU have already enough pipelines to satisfy its needs, if not mention Liquefied Natural Gas (further – LNG) terminals (Kikushin 2018). Opponents of the NS-2 also argue that it will increase Germany's consumption and dependence on Russian gas while it aims at bypassing Poland, Slovakia, Ukraine and Belarus. Compared to NS-1, criticism towards the NS-2 has doubled after the Crimean Annexation and major gas crisis in 2006 and 2009 between Ukraine and Russia (Zaslavskiy 2017).

The NS-2 is the mostly criticized project in the Central and Eastern Europe (further – CEE).

According to some of the Central European countries, Russian gas presents a challenge for region's security and it plays a significant role for Vladimir Putin to restore the geopolitical influence over the CEE region. The Visegrad four (Poland, Slovakia, Hungary and the Czech Republic) have been constantly resisting the increase and dependence on Russian gas in Europe. The fundamental concern of the CEE states is that while there may be enough gas for Germany, there may not be enough for the CEE states that undermines three major EU objectives such as liberalization of energy market, the proper Euro integration of the aforementioned states and economic and political transformation of Ukraine (Riley 2018, 2). Arguably, Poland takes a lead to oppose the pipeline completion, which is estimated by the end of 2019, and its government officials tend to use every possible voice at regional or international level to show how commercially unnecessary and politically motivated the NS-2 project is. Former prime minister of Poland, Donald Tusk heavily criticizes the project and announces that excessive dependence on Russian energy makes Europe weak and gives a powerful leverage to the Kremlin to use it as a political weapon (Collins 2017, 1). Along with the Visegrad states, the Baltics seek for the alternative routes to replace state-run natural gas exporter Gazprom from their energy market and Lithuania has set the very first steps to abolish the contract with Gazprom, scheduled by 2022, in order to satisfy domestic demand from the USA and Norway. Lithuania is a flagship opponent of the project in the Baltic region and its officials consider the pipeline as a threat for the region's stability.

This paper aims at identifying the motives of the proponents and opponents of the NS-2 pipeline and also showing what political or economic factors stand behind the arguments of actors such as the United States of America (further – USA). Arguably, the NS-2 as a factor of political economy has already burdened the trans-Atlantic relations, especially interactions between the USA and Germany. Project is loudly criticized by the Donald Trump's administration, which qualifies it as a tool in the Kremlin's hand to destabilize hardly achieved European solidarity. Donald Trump vividly express his attitude towards Germany and calls it as a "captive" of cheap Russian gas and intends to initiate sanctions against all companies of the NS-2 consortium which are responsible for pipeline construction (MacAskill 2018). The paper will present those incentives, which will clearly show why the USA is such actively involved in sanctioning those five companies and why leaving Ukraine out of the game by bypassing its gas transition capacities puts the USA in a guardian's position of the Brotherhood pipeline¹.

¹Russia, with its Druzhba pipeline transits natural gas to Europe by passing Ukraine. Its transition capacity is 100 billion m³.

Germany, as the main actor and supporter of the NS-2, has never been such widely criticized since the Molotov-Ribbentrop² pact agreement. Critics of the NS-2 argue that Germany's Chancellor Angela Merkel breaches the EU solidarity and Europe's regional integration when she plays a dual game by harshly criticizing Russia's annexation of Crimea and simultaneously giving the green light to Kremlin-run company Gazprom to monopolize the European gas market. Betraying European solidarity and integrity is the core argument of the opponents of the NS-2 against Angela Merkel and German officials who support the project.

David Mitrany and, to an extent, Mary Parker Follett are prominent functional theory authors described economic integration between allies in Europe as a premise towards peace (Popoviciu 2010, 169). Functional theory in international relations appeared as a guidebook towards European sectorial integration in the XX century by the great help of Mitrany and Follett, lately used by Jean Monnet and Robert Schuman in the process of developing the EU's predecessors. In order to understand the roots of the arguments why Germany gives protection to the NS-2, this paper will make an attempt to analyse the context-focused Russo-German alliance through the prism of classic functionalism.

The paper will not focus on upholding only pro-NS-2 or anti-NS-2 positions in order to support one particular flank in a partisan way; instead, it will discuss both economic and political characters of the project and sums up in conclusion whether it is a pure commercially or politically motivated project or either. First chapter will encompass the Russo-German alliance and functional theory. Second chapter will discuss the facts and arguments of the CEE states and the last chapter will examine foreign actors' positions and motivations in this project. The USA will be reviewed in the last chapter as an overseas actor.

² *The Molotov-Ribbentrop pact was a neutrality pact between Nazi Germany and the Soviet Union signed by foreign ministers Joachim von Ribbentrop and Vyacheslav Molotov in Moscow in 1939. The pact aimed at splitting Poland in two parts, East for the Soviet Union and West for the Nazi Germany composed by a written guarantee of non-belligerence by each party.*

1. ECONOMIC BENEFITS OF THE NS-2 AND FUNCTIONAL THEORY

1.1. Commercial Sides of the NS-2

The NS-2 is a widely disputed project that engages various actors including its direct and indirect beneficiaries. The project has split the positions and opinions inside the EU and outside of the Union, too. The states are divided into proponents, who assess the NS-2 as a pure commercial project and into opponents, who argue that the NS-2 has political colour that needs to be taken into tight consideration before it comes to finish. In order to realize what are the motives and aims of the pro-NS-2 and anti-NS-2 actors defending their positions, firstly, we need to discuss the project's economic interests and its negative sides, as well, that threatens opponents' national security.

The Nord Stream twin pipeline system through the Baltic Sea runs from Vyborg (Russia) to Lubmin/Greifswald (Germany). The route crosses the Exclusive economic zones of Russia, Finland, Sweden, Denmark and Germany, as well as the territorial waters of Russia, Denmark and Germany. The longest offshore pipelines present the most direct connection between the vast natural gas reserves in Russia and energy markets in the EU, which combines total of 55 billion m³ of natural gas per year for businesses and households in the EU (Nord Stream). The NS-2 has its defined economic profits that facilitate Germany to guard its positions to finalize the project.

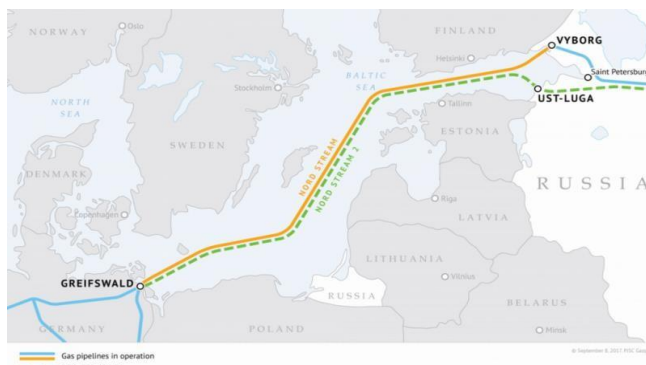


Figure 1. The NS-2 would follow the route of the existing NS-1 twin pipeline underneath the Baltic Sea.

Source – PJSC Gazprom (2017).

Note: Orange line – Nord Stream 1, green line – Nord Stream 2.

Throughout the last decades, European gas supply is set to continue the decline which has been on-going since the start of this century and it seems inevitable that it will continue (Henderson *et al.* 2015, 37). For example, Norway, regarded here as indigenous production, appears to peaked in 2012 with its 115 billion m³ of natural gas, and although no rapid fall is expected output is likely to stay in a 100-105 billion m³ range to 2020 before gradually declining thereafter. Production in the Netherlands as one of the local gas producers has been hit by serious problems at the Groningen field, where series of fragile events has led to restrictions on output. Both Norway and Netherlands will examine serious decline in the future by 2030 that will increase demand for imported gas (Henderson *et al.* 2015, 37). African countries, previously safe gas suppliers, face domestic difficulties to arrange gas export to the EU. North Africa, which have supplied the EU for many years, have been undermined by the political turmoil in the region as well as rising domestic consumption has been encouraged by subsidized prices. Reducing local consumption and eradicating worsened investment climate in North African region will still undermine traditional import to the EU from Algeria, Libya and Egypt (Henderson *et al.* 2015, 38). Along with the supply obstacles with African countries, LNG from the USA and Qatar cost more expensive than Russian gas that increases the priority of Gazprom to dominate the EU market.

A climate-related issue takes a role in the discussion. The EU's unanimous agreement to replace coal consumption with gas has attracted attention in a recent past and is directed to healthier ecological policies and gas is considered as a vital option for implementing those policies. In order to improve ecological conditions and decrease the emissions, Europe, as a whole, needs more gas. Refurbishing gas infrastructure in Ukraine, which transmits Russian gas to Europe with around 100 billion m³ gas per year, requires financial sources annually to remain operational. In October 2015, the European Bank of Reconstruction and Development approved a 300 million US dollar trade financing facility for Ukraine's gas company Naftogaz. In December 2016, the World Bank approved and signed a similar 520 million US dollar facility for Naftogaz, The World Bank facility was facilitated by a guarantee offered by the European Investment Bank to the World Bank for its credit exposure to Ukraine for 500 million US dollars, since 2017 (European Commission 2017, 9). Compared to amortized Ukrainian gas infrastructure, which is responsible to provide the millions of EU households with no hindrance, the NS-2 infrastructure is fresh and more reliable and doubly checked by German and Russian counterparts with high European standards.

Along with aforementioned standards that the NS-2 is meant to satisfy to win to contest over the alternative routes providing gas to the EU, supporters of the project presenting the arguments why the NS-2 is out of political danger. After the annexation of Crimea in 2014, Russia was left under heavy sanctions that worsened its economic activities in the West that urged Vladimir Putin to suspend the South Stream gas corridor, too passing the Black Sea, Bulgaria and Romania directed to Central European States. A given fact make pro-NS2 flank believe that Russia and respectively Vladimir Putin is conscious about the sanctions and using the NS-2 for geopolitical aspirations will leave Russia in a heavy political and economic isolation. In 2016, the Atlantic Council held a debate on the NS-2 and Friedbert Pflüger, a former high-profile German politician and a vocal supporter of the project, announced that the EU has strong regulatory framework and Germany or the EU, as a whole, are no longer vulnerable to Gazprom's actions (Atlantic Council 2016). According to Pflüger, the EU's gas market is properly diversified and has a solid ground to tackle any Gazprom shortages if it ever appears in the future. His argument was also that the companies of the NS-2 consortium are real entities with high sense of responsibility and reliability.

When it comes to showing the positive outcomes of the NS-2, Germany's Chancellor Angela Merkel usually emphasizes on the project's economic consequences and argue that both Germany and Russia possess strong trading ties with each other and neither aims at worsening bilateral trades. Chancellor Merkel plays a top guardian's role to the NS-2 and convinces academia and political audience that the project is economically profitable for the entire EU and Germany. During the last Munich Security Conference on February 16, 2019 Angela Merkel assessed the NS-2 as a completely safe project for Germany and the CEE states backing by the argument that the Soviet Union stayed a reliable gas supplier to Germany for long time that leaves less space for questioning the Russo-German economic alliance as a threat for the EU's security (Munich Security Conference 2019).

1.2. Functional Theory Applied to the Russo-German Alliance

The Russo-German alliance is widely questioned partnership as it carries some sort of political burden that is considered as a security threat in the EU. Political community and academia attempt to understand whether it is a Russian project of gaining certain geopolitical influence in Europe or Germany's priority to enhance its leadership in Europe by becoming a main gas distributor. Functionalism originated by David Mitrany as a guidebook for European solidarity

and prospective European integration will be applied to the Russo-German alliance in this sub-chapter and will discuss it in two dimensions, which will show the direct connections between functional theory and the Russo-German collegiality.

First dimension of functionalism, in terms of Russo-German alliance firmly confirms that the NS-2 can be estimated political project rather than economic, regardless of the fact it generates clearly defined commercial advantages. According to David Mitrany, coordination as a continuous process at all stages between the Member States of a coalition is a guarantee of maintaining once hardly achieved unanimity (Popoviciu 2010, 169). Indirect communication between Germany, the CEE and the Baltic states contradicts Mitrany's functional theory that has assumed a crucial role in forming European coalition by sharing mutual trust and common values. The EU has taken a considerable step forward to strengthen its energy security by adoption of the Security of Gas Supply Regulation in 2016 (European Commission 2017, 3). The regulation aimed at improving risk identification, cross-border cooperation and solidarity principle between the Member States in case of gas crisis that could be assessed as an on-going process between Poland and Germany. Functionalism aims at understanding common priorities in order to lower the probabilities of miscommunication between allies that threatens union's stability. Worsened direct communication between Germany and Poland proves the fact that Mitrany's academic take on coordination as a cornerstone of maintaining stability (in our case – of the EU) is deemed to failure since both parties seek for an alternative platform of exhibiting own priorities rather than establishing enhanced bilateral coordination. An on-going race of advancing different priorities by Germany, Poland and other anti-NS-2 states opposes a function of functional theory, which refers to coordination instead of confrontation between the allies.

Second dimension of Mitrany's functionalism applied to the Russo-German alliance emphasis on its spill-over effect. Mitrany also rises some other indicators of functional theory that argue about its spill-over effects rooting from economic integration transformed into political community (Weiner 2010, 1). Economic integration as a basic step towards political integration was properly absorbed by the architects of the European Coal and Steel Community as Jean Monnet and Robert Schuman were. Fathers of the modern EU have anticipated that active economic integration could make previously rivals dependent on each other that prevent them from military conflicts. Positive trade volumes between states bring us to *Pax Mercatoria* theory, which argues that tight economic ties between states is a solid guarantee these states to reject confrontation, instead to develop their own economic activity. The Russo-

German economic partnership encompassed the NS-2 contains certain solid doubts for the anti-NS-2 flank to alarmingly criticize economic partnership between Russia and Germany, especially then when Angela Merkel harshly condemns the Crimean Annexation and simultaneously gives a green light to Gazprom to increase its presence in Europe. The project that costs 9 billion Euro and 50 per cent of its cost is meant to be contributed by the Russian side that vividly indicates on boosted economic interdependence of the stakeholders. **Contributed 9 billion Euro from the parties provides guarantees of long-term co-operation in commercial matters between Russia and Germany that will be close to relaxed diplomatic relationships between them.** The Russo-German alliance particularly threatens Poland and the Baltic States since these countries still fight bitter historical experience of national trauma carried out by Russia and Germany in the XX century.

2. THE NS-2 PERCEPTIONS IN THE CEE REGION

2.1. The NS-2 in Central Europe: the Polish Case

The NS-2 has generated a big volume of new research in the field and academia aims to realize why the project has attributed such different positions and why it threatens ideological unanimity of the EU. This sub-chapter of the thesis will encompass the arguments of representing the NS-2 as a politically incentivized project. Despite the project's commerciality and its economic benefits which are described in the sub-chapter 1.1., the NS-2 has attracted international resonance and political resistance in a number of states. Aim of this sub-chapter will also be to show the NS-2 as a leverage for Russia to strengthen its political influence in West and to use energy policies for geopolitical aspirations. The project has already split the positions within the EU. Countries like Poland and Slovakia race against the project and consider it as a challenge for national and regional security. Gazprom's domination over the EU market place Poland and Slovakia under constant historic threat that took place in the XX century by the Russo-German alliance and the 2006 and 2009 winter crisis when Russia's price games left Ukraine and several EU states without gas supply (Stulberg 2015, 112). Poland and Slovakia are flagship opponents of the NS- 2 from the Central European region who tirelessly oppose the project and criticize the Russo- German alliance as a whole.

When it comes to the Russo-German alliance, Warsaw has been the NS-2's most vocal critic (Gurzu 2019). Arguably, Poland is one of the most affected country by that alliance and historical experience urges this country and its political officials to condemn any partnership between Russia and Germany which takes place within the EU's borders. Along with Ukraine, Poland is a leading state which arguably criticizes the NS-2 in its commercial and political context. The NS-2 has already differentiated the positions inside the EU by placing Poland and Germany on two different sides as the main opponent and the main proponent of the project. Functional theory explains current worsened diplomatic relations and indirect communication between the latter ones as a premise of unrealized European solidarity. According to David Mitrany's functionalism, unsuccessful coordination between members of the bloc could obstruct the further sectorial integration that could ended up in failed political integration

(Alexandrescu 2007, 25). Historical passages are the obstacles that play a sizable role in normalizing tensed diplomatic relations between Germany and Poland in order to find a common ground for consensus towards the NS-2. History has become a principle backing for Poland to question any actual Russo-German alliance regardless of its economic benefits. The 2006 and 2009 winter crises between Gazprom and Ukraine has fueled Polish mistrust to Russian energy policies. Price ‘battles’ initiated by Gazprom to hinder Ukraine’s EU- and NATO-bound integration processes in 2006 have convinced number of states that Vladimir Putin would not plan to cede former Soviet bloc’s political Europeanisation. The 2009 and 2014 price changes against Ukraine has peaked CEE states’ constructive mobilization against Gazprom’s actions. Raising and lowering gas prices in Ukraine regarding its pro-Russian or anti-Russian policy implementer leaders plays a historical guideline for Poland to be convinced that Russia uses Gazprom as a political tool.

Realizing the threats derived from monopolization of the EU gas market by Gazprom, Poland and Lithuania started building own terminals in the near past to receive LNG from the USA and other parts of the world in order to successfully suspend the contract with Gazprom by 2022 and to annul dependence on Russian gas. Both Poland and Lithuania raised a supply diversification matter equal to national security issue that is considered as an alternative mean to avoid risks from Gazprom. LNG from the USA is a substituting mean for Poland, which is safer but more expensive than Russian gas. Despite the fact LNG is relatively expensive supply, because it requires more shipping fees from the USA, Poland assumes it as a successful mean for replacing fluctuating Russian gas since political sustainability and national security present a top priority for Polish officials where commercial issues are secondary. Polish politician and academic Piotr Naimski states that Poland does not diversify its supplies in order to continue trading with Russia, rather it is a question of security where Polish authorities put very attentive steps (Coelho *et al.* 2018).

In comparison with Angela Merkel, who experiences certain domestic barriers from academia and political opposition, Poland gradually confirms that resistance towards the NS-2 is supported by the absolute majority and its influential political entities within the EU institutions tirelessly encourage the counterparts to acknowledge the NS-2 as a political project. The fact, that Gazprom as a dominant market player holds the capacity to choose where supply should be directed, significantly increases its market power that threatens Poland and the Baltic States. To

fight at institutional level, Polish high officials invoke the EU Commission to comply the Third Energy Package (further – TEP) and restrict Gazprom from full access of the gas network within the EU (Riley 2015, 6). Former Polish Prime Minister and current President of the European Council Donald Tusk has suggested the EU Commission to create an Energy Union to encourage diversification away from Russian gas. President Tusk as an advocate of the Energy Union could be addressed as an active defender of European solidarity and supporter of functional theory who invokes for liberalization of energy markets and increased interconnection between countries (Henderson *et al.* 2015, 62). Polish Minister of European Affairs Konrad Szymański adds that Energy Union is the EU’s flagship project, which aims at controlling monopolizing endeavours in the EU energy market. His criticism towards Germany’s inactive participation within such institutional frameworks strengthens the argument the project has wears clear political weight. According to Szymański, the NS-2 is a test of European Unity and the credibility of the EU institutions and during this exam, Poland will stay determined to defend bloc’s fundamental principles (Ministry of Foreign Affairs of Republic of Poland). As a president of the country and distinguished critics of the NS-2, Andrzej Duda points out that bypassing Poland, other Central European States and Ukraine by stopping the operation of the Yamal and Brotherhood pipelines and replacing it by the NS-2 pipeline, will tense energy relations in Europe that has an aim of placing the CEE region in undesired conditions. Regarding Duda, for European energy security, unanimous rejection of the project is acceptable, otherwise project’s successful completion unambiguously brings Europe under one dominant market player that justifies the NS-2’s strategic tone rather than commercial (Deutsche Welle 2018).

2.2. The Baltic States’ Position on the NS-2

Estonia, Latvia and Lithuania indomitably counter the NS-2 as a destabilizer force in the Baltic region. For Poland, the NS-2 is perceived as a matter of security in the Baltic States, too, and the project’s commercial profits stand behind the security issues. The NS-2 pipelines will lay down into these states’ territorial waters that reinforces the arguments that Russia will weaponize its energy infrastructure in the Baltic region. Unlikely to Lithuania, Estonia and Latvia are 100% dependent on Russian gas that does not accumulate much freedom for these states to close eyes to the NS-2 build-up process, which is, as already noted in this research, qualified as the “Trojan Horse” in the region. All three Baltic States are the objects of daily Russian cyber-attacks and hybrid warfare. Russian and local mass media and social media are employed to spread propaganda in order to create unrest and

social instability in the region. Opposing the Russo-German alliance, the Baltic States unanimously uphold the NATO forces' representation in the region that stays a solid guarantee for their national security. The states, which examine such tensed border relations with Russia, the NS-2 obviously contains alarming signals of vulnerability. As the former members of the Soviet Union, historical narratives of the Russo-German alliance and gas price disputes between Ukraine and Gazprom within the last two decades makes the NS-2 less acceptable project regardless of its commercial interests.

Supporting and opposing the NS-2 place Germany and the Baltics States in an ideological rivals' positions. Unconformity of the priorities challenge nascent solidarity between "old" and "new" EU member states (European Commission 2017, 4). Germany as the main shareholder, upholds the project's commercial benefits while the Baltic States call the NS-2 as a "new Molotov-Ribbentrop Pact" that have made Poland and the Baltic States allies united on a common problem. Estonia, Latvia, Lithuania and Poland have signed a joint letter that calls the NS-2 "an instrument of Russian state policy, which should be viewed in a broader context of today's Russian information and cyber-hostilities and military aggression" (Coelho *et al.* 2018). In March 2016, the prime ministers of the Czech Republic, Hungary, Slovakia, Romania, Poland, Estonia, Latvia and Lithuania signed a letter that warns the NS-2 as a generator of "potentially destabilizing geopolitical consequences" (Sziklai *et al.* 2018, 7). The NS-2 has already shown that it serves political missions of cracking EU solidarity that Russia successfully carries out. The Visegrad-Baltic priorities conflict against Germany powerfully assists Russia to divide and weaken the bloc as one of its long-term strategic aims: *divide et impera* (Riley 2018, 11). If not mention Russia's try to penetrate and divide the "old" and "new" members of the EU, the Kremlin successfully follows its foreign policy strategy to complicate the transatlantic relations between Germany and the USA, which are already sufficiently worsened. Creating hardships to NATO at the Baltic borders is a Russia's foreign policy priority since it gives more geopolitical leverages to the Kremlin to spread its influence over the region.

Lithuania takes a guardian's role amongst the Baltic States to defend the region's stability. By completion of the Klaipeda LNG terminal in 2014, Lithuania opened its domestic market for several suppliers like Norway and the USA to compete with Russia that has resulted in ended Gazprom's monopoly over Lithuanian energy market (Zaslavskiy 2017, 9). By operating its LNG terminal, Lithuania is a successful example of "game changer policy" implementer against Gazprom's prices that leaves less means in Kremlin's hands to set sort of turmoil in the Baltic

region. Country's history suggests that Moscow still believes that it could get away with signalling out smaller countries, as when Russian state-owned oil pipeline company Transneft disrupted oil supplies to Lithuania in 2006 with impunity, even though the country had been a member both of NATO and the EU for two years by that time. European leaders' failure to draw a unified set of red lines creates the risk of emboldening Russia to continue using energy as a wedge issue in the Baltic region (Collins 2017, 7). Evasion of the EU institutions and untimely punishments by sanctioning Gazprom's actions, Russia uses lack of bloc's unanimous positions towards external violations that seriously damages the small members like Estonia, Latvia and Lithuania. Lithuanian scholar, Dovyle Sukite stresses on Lithuanian government's heavy investments in energy projects aimed at reducing reliance on Russian gas (Eggert 2018). He announces that paying more in gas is worth it, if it increases energy independence. According to Sukite, Germany as the main architect of the EU should lead the bloc by example, not by exception.

As for Lithuania, the Klaipeda LNG terminal has generated more bargaining power to Estonia as well. As the most affected state by Russian cyber-attacks, the fact of gaining negotiation tools against Gazprom, is considered as a national success. Being actively participated in the NATO operations and upholding region's security stays priority that plays a huge role to Estonia to initiate its own realpolitik. Absolute dependence on Russian gas seems an asleep volcano to Estonian officials who assume the Klaipeda LNG terminal as a neutralizing force. Modernization of storage facilities, as well as planned development of an LNG terminal in Estonia and the prospects for a new interconnector between Poland and Croatia, this subsystem creates opportunities to bring Baltic "energy islands" into mainstream EU trading and to swap deliveries from Northern to Southern Europe (Stulberg 2015, 122). In 2018, Minister of Foreign Affairs of Estonia Sven Mikser criticized and question the NS-2 fortunes. Mikser argued that the NS-2 is first and foremost political, not a business project that is incompatible with the aims of the energy policy of the EU (Vahtla 2018). He also believes that the project does not contribute the EU's energy independence and diversification of suppliers rather it becomes solo-actor dependent.

Latvia is not exclusion, because the threats derives from the NS-2 could be equally damaging for Latvia as well as for Lithuania and Estonia. As President of the Council of the EU in 2015, Latvia initiated mass steps towards creating the Energy Union of the EU. Latvia's efforts to diversify the EU's internal energy market by effectively using its Presidency, is unanimously

estimated as a succeeded work as country, once again, fixed the position that the NS-2 would be the “Trojan Horse” in the Baltic region, not only in Central Europe. As his colleague from Estonia, Latvia’s Minister of Foreign Affairs notes that the on-going Russo-German alliance is not only a matter for European security, but also a question of transatlantic relations. According to the Latvian Foreign Minister Edgars Rinkēvičs, the NS-2 can become one of the collision points in the transatlantic relationship, the relationship that carries a significant weight for Baltics’ security (The Baltic Times 2018). According to Latvian officials, the NS-2 has fueled the Baltics’ coordination with the major anti-NS-2 states like Poland and the USA that accumulates resistances towards Germany that hits the bloc’s solidarity principles.

2.3. The NS-2 in Eastern Europe. The Ukrainian Case

Energy security is high priority in Ukraine. Ukraine is the most suffered country from Gazprom’s price games. The Gazprom-Ukraine relations could be precisely called as game since price has constantly been changing throughout the last three decades and never reaches a valid stance. In Ukraine, in spite of its measured economic benefits, the NS-2 is estimated as the worst solution of diversifying European internal market. The fact that Ukraine’s energy infrastructure is dated and continuous Russo-Ukraine gas conflicts contains arguable threats of cutting supply to European consumers, the NS-2 supporters still lack the persuasive claims that the project is geopolitically safe. In regards of field researchers, Ukraine might be turned out the very first country which will experience the geopolitical consequences of Russia’s weaponization of the NS-2. According to Polish Prime Minister Mateusz Morawiecki, once the NS-2 is built and Ukraine’s transit capacities are bypassed, Vladimir Putin will be able to manipulate in Ukraine regarding the necessities since Germany and EU major power cannot control Russia’s actions on the Eastern border (*Coelho et al.* 2018). The main logic that comes from Mateusz Morawiecki’s claim is that Russia will enjoy absence of bilateral obligations with Ukraine that will advance the Kremlin to strengthen military operations in occupied regions of Eastern Ukraine.

Writing on commercial interests of bypassing Ukraine by stopping gas supply in the Brotherhood pipeline which connects Russian gas to European consumers, convinces a reader that project truly has foreseeable future. Bypassing Ukraine will accumulate additional 2 billion Euro to Russia annually which it pays for Ukrainian transit; Simultaneously, it annualizes the Russo-Ukraine endless conflicts that damages the European consumers which demonstrates Gazprom as

unreliable supplier; Russia can avoid dated Ukrainian gas infrastructure, instead can be dependent on new pipelines which are being built by Russian supervision. However, realizing the geopolitical threats the NS-2 poses, the reader needs to summarize the historical passages of the Russo-Ukraine gas conflicts which undoubtedly qualifies the NS-2 as a threat for Ukraine's security.

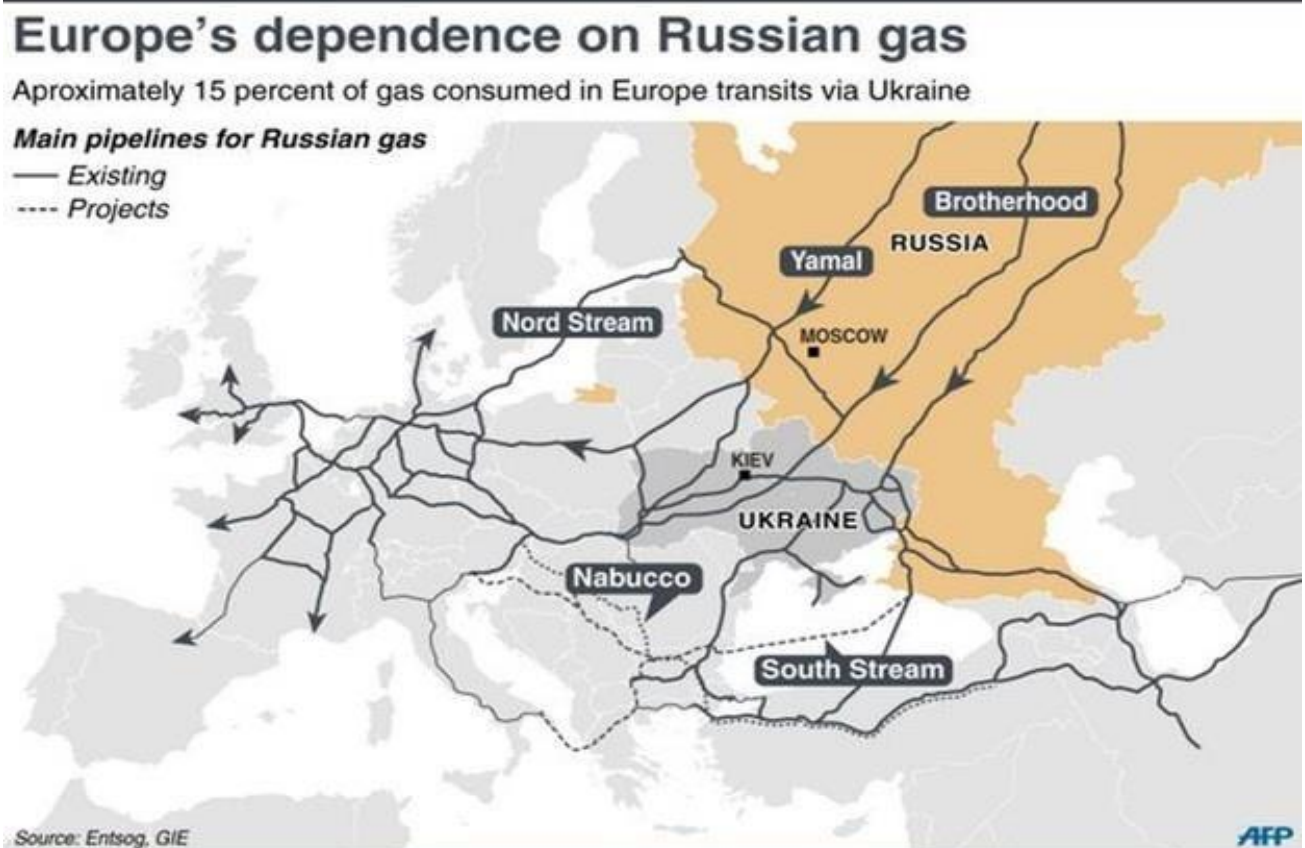


Figure 2. Major Russian pipelines which connect to Europe by the Baltic Sea, Belarus and Ukraine, respectively – the Nord Stream, the Yamal and the Brotherhood pipelines.

Source: EntsoG, GIE (2016).

Russia has been competing the EU and the NATO for influence in Kyiv since 2000s. As a former Soviet state, restoring influence in Ukraine remains a priority to Russian foreign policy in which pro-Russian and anti-Russian leaders of Ukraine take their active roles. Viktor Yushchenko was the first openly pro-European Ukrainian president who attempted to change the country's foreign policy course towards Euro and NATO integration that caused soaring gas prices by Gazprom (Hubert 2010, 7). The Orange Revolution, which took place in Ukraine in 2005, changed the gas prices for Ukraine once Vladimir Putin realized that Russia was losing the spares of geopolitical influence in the region. Viktor Yanukovich's campaign for presidency in Ukraine became a

turning point for Russia to invest in pro-Russian president in order to advance Russian influences in Kyiv. After becoming President of Ukraine, Putin promised Viktor Yanukovich that Gazprom can save Ukraine's gas debts for long time and approximate domestic price would be guaranteed for Ukraine (Besemeres 2016, 183). This was the second large economic-political bargain between Putin and Ukrainian President, which favourably affected the gas prices in Ukraine. Third large price change flow appeared right after the Euromaidan processes that happened in 2014. A then new, pro-Western President Petro Poroshenko, having had to arrange his country's fight against the Russian aggression in East Ukraine, emphasized on the EU and NATO as the unchangeable partners and guarantors for Ukrainian security. Association Agreement with the EU and increased participation in the NATO-led operations, Ukraine has got responses from Russia by soared gas prices equal to European market price.

The price games from Moscow qualify Gazprom as a political weapon in Kremlin's hands. Ukrainian officials are concerned about bypassing Ukraine's transition capacities, because 2 billion Euro Ukraine earns from gas transition, equals 2% of country's GDP. However, political accents of the NS-2 are the most noteworthy since country's political authorities argue that Russia will be able bring social outrage and political turmoil in occupied regions of Ukraine. At Munich Security Conference in 2018, President Petro Poroshenko desperately appealed to his colleagues to say a strong European "no" to the NS-2. Poroshenko announces the project is not about the economic interests but about Russian political and energy expansionism (Klikushin 2018). Ukrainian specialist argue that Gazprom tries to monopolize the gas transports that is against of harmonization of competition, non-discrimination. Access to markets, infrastructure and foreign investments are the central issues that arise, on a regular basis at every regional or international forums. By violating free market competition rules, Russia attempts to own pipelines outside of Russia and not giving a possibility to foreign companies of investing in Russian energy sector that repeatedly demonstrates Gazprom as a Moscow's foreign policy implementer entity (Russian Analytical Digest 2009, 18).

Unlikely to Poland, keeping the Brotherhood pipeline in operation has economic and political motives for Ukraine. Remaining as a transit country is a mission to Ukrainian political establishment in order to deter Russia's security undermining actions in Ukraine's occupied regions. By the end of 2019, sides are supposed to revise the contract where Ukraine's fundamental motivation will be to extend the contract by saving 2 billion Euro annually. Loosing such significant income from gas transit, will face Ukraine to serious economic obstacles since

finding alternative sources of filling 2 billion Euro gap in budget will be a considerable problem for low-developing Ukrainian economic. Although, driving factor for Poroshenko and his administration is to find country's security guarantee mechanisms through the EU and the NATO. After one from the Munich Security Conference of 2018, in February 2019, Poroshenko appeals Germany to defend Ukraine's transition function and carry out direct negotiations with Russia to extend contracts with Ukraine. He also refers to the Central European and Baltic States to strengthen their resisting efforts towards the NS-2 and support Ukraine's race against the project, because Ukraine's security has a direct linkage to European security (Munich Security Conference 2019).

3. THE USA AS A FACTOR: THE NS-2 CONTEXT

The US involvement in NS-2 building process is a matter of political economy. Its active participation in Europe's energy politics dates back to 1950's when the USA claimed that the gas pipelines which were coming from the Soviet Union to Germany could be used for oil supply that would seriously affect the US's energy policies. The USA continuously threatens the NS-2 consortium companies with heavy sanctions that reinforce its two-faced narratives whether the NS-2 presents pure commercial competition for US LNG or it could be perceived as a challenge for American geostrategic influences. The NS-2 has already burdened the transatlantic relations between Germany and the USA in which Donald Trump calls the project as a political bribe agreed between Angela Merkel and Vladimir Putin. Despite its vivid economic and political contexts, US resistance towards the NS-2 should be viewed from both commercial and political angles in order to identify the US intentions of criticizing the project by sanctioning the NS-2 consortium.

Continuously emphasizing on NS-2's political narratives, it seems that US officials don't possess counter-arguments to defending their LNG selling volumes. Accenting on the NS-2 that it challenges the European solidarity and CEE region's security makes the reality more convenient that the USA attempts to earn more incomes from selling LNG in Europe rather than guarding European common values, though this argument has its own credibility, as well. Compared to Russian one, price of US LNG export in 2019 comprised of 5.89 US dollar per thousand cubic feet that sounds relatively expensive for European consumers (US Energy Administration 2019). For number of European countries, for example Germany, which don't qualify the NS-2 as a political project and the threat for their security, expensive US LNG could be considered as an unacceptable deal. Gazprom's deep roots on European energy market present a serious threshold for USA's growing gas production volumes to alter the market traditions in Europe. Maintaining traditional European customers is a strategic task for Gazprom in which damping price policy is a key leverage (Mitrova 2019, 9). Gazprom's ability to increase or decrease price for its old European customers regarding its necessities, complicates US LNG commercial superiority over Russian gas that drives US officials to oppose the NS-2 and similar Russian projects with double

strengths. Head of board of directors of the NS-2 and Former German Chancellor Gerhard Schroeder argues that the USA is seeking to throw sand in the wheels of the project, in no way standing with the EU guided by its own commercial interests. He also notes that President Donald Trump, who criticizes the project such harshly, tries to hinder the implementation of the NS-2. Promoting sanctions over the NS-2 consortium, Donald Trump guards US LNG sales to the European market (Sharifulin 2018). Gazprom's territorial advantages on US LNG, makes US commercial bargaining dialogue less relaxed that causes American authorities' argumentation less credible that the NS-2 is not economic, instead it is political project. The fact that the Middle East, Central and South Asia don't consume Russian gas in high volumes, followed by its worsened geostrategic positions in these regions, European market continues to stay number one priority for Gazprom's sales that gives more commercial colour to the Russo-US competition.

Line of arguments, why the NS-2 is a political project in US officials' view, is comparably short rather than economic one. Referring on general developments, the USA is a strong supporter of former Soviet Republics' Euro and NATO integration and supports their national security. Increased Russian presence in the region presents a fear for the USA to lose its hardly achieved unanimity with the region's states and insecurity of the Baltic and CEE regions directly hits its geostrategic influences. In order to maintain security of its interests in Europe, the USA tirelessly opposes the NS-2 by condemning Germany's commercial interests with the project. President Donald Trump calls German Chancellor Angela Merkel as a "captive" of Russian cheap gas since Germany's leading role in the project violates the solidarity principles of Europe and directly negatively affects the US-German relations (Ellyatt 2019). The USA perceives the NS-2 as a project which aims at weakening NATO's credibility by cracking sufficiently tensed US-German relations. Ideological resistance between the "old" and "new" members of the NATO is a Kremlin-led plan by increasing EU's dependence on Russian gas. The US sanctions against 5 European companies (ENGIE, OMV, Shell, Uniper, Wintershall) that are responsible of NS-2 completion process is a powerful force for the USA to protect NATO unanimity from Russia's undermining actions in Europe. Questioning the EU and NATO solidarity principles by allowing state-run energy company Gazprom to double its presence in Europe demonstrates a heavy political matter for the USA where Germany assumes alliance "betrayal's" role.

The US Secretary of Energy Rick Perry argues that the USA is exporting not only gas, it is exporting freedom. According to Secretary Perry, the USA is exporting to their allies in Europe the opportunity to truly have a choice where to buy gas that needs to be treated as freedom. His

key argument is that the USA does not intend to monopolize the market compared to Russia that, once again, demonstrates that the NS-2 serves political aims (Cunningham 2018). The US political establishment uses the Baltic and Central European States for arguing that the NS-2 serves geopolitical goals rather than economic ones. Building LNG terminal in Lithuania is a supportive argument for the USA that certain states in Europe are deeply concerned about Gazprom's geopolitical aspirations and they are prepared to pay more in LNG and invest more in their security instead of blindly following the German initiatives. Poland as a driving force of the anti-NS-2 coalition is another example for the USA how energy vulnerable states must fight for being taken into consideration. Beside the latter two, bypassing Ukraine significantly challenges the Black Sea region stability in which the USA has its defined interests. Staying Ukraine out of gas games has direct correlation with Russia's increased military forces at the Black Sea coastlines that could cause destabilization of the region. The Black Sea's stability is a priority for the NATO in Eastern Europe and any turmoil in the region seriously affects Europe's security. For the USA, notion that Ukraine's security equals European security gains more momentum to evaluate the NS-2 as a political project.

CONCLUSION

The NS-2 is the project which divides the positions of the EU Member States over energy strategy. Likely to its predecessor the NS-1, the NS-2 has generated a big volume of new research in academia. Positions in academia are also split into the proponents and opponents. Regarding of the project's budget, main supporters of the NS-2 claim that the project serves pure commercial interests rather than geopolitical ones as the Baltic and CEE States claim. Germany is the main supporter of the project and attempts to convince political and academic audience that increased Russian gas presence in the EU does not end up in EU's mass dependence on Gazprom since the EU has a strong regulatory framework to protect its energy security. Unlikely to Germany, Poland and the Baltic States are active protectors of EU solidarity principles who argue that the NS-2 is the "Trojan Horse" in the region which aims at undermining hardly achieved unanimity between the EU Member States. These states also argue that the historical passages must be taken into comprehensive consideration when dealing with Gazprom that clearly shows that increased Russian gas in the EU is a matter of national security. The Baltic and CEE States emphasize on threats that could arise from the Russo-German alliance within the NS-2. They heavily criticize that alliance regarding of its historical fear of the Russo-German cooperation. Polish authorities claim that economic integration between Russia and Germany could end up in political cooperation that will present a serious challenge for EU security. The small states of the EU like Estonia, Latvia and Lithuania fear what exactly David Mitrany's functional theory explains that indirect coordination between the members of the bloc damages the bloc's solidity and hits the small members' integration in the bloc.

Apart from the Baltic States and Poland, Ukraine harshly criticizes the project and its government officials argue that bypassing Ukraine by stopping gas supply in the Brotherhood pipeline will accumulate number of security issues. Ukrainian authorities definitely believe that stopping contract with Gazprom will enable Moscow to strengthen military mobilization in Russian-occupied regions of Ukraine. Another non-EU opponent of the NS-2 is the USA which actively promotes its expensive LNG sales to Europe by competing Gazprom. The US officials argue that the project undermines Eastern Europe's security that is a challenge for US

geostrategic plans over the region. With less relaxed commercial superiority of the US LNG over Gazprom cheap gas, the US officials complain on Gazprom's occupational policies in order to reach unanimous support in the EU and to grow its LNG presence on European energy market.

Despite the fact that the NS-2 has its measured economic benefits for certain states and it has practical commercial justifications, academia agrees upon the notion that the NS-2 is a matter of security for number of states that clearly shows that the project serves geopolitical goals, too. The project demonstrates a leverage for Moscow to distance the EU Member States from the common values, however, at the same time it unites the Baltic and CEE region's states on common goal that is a region's security. Small states of the EU are to be prepared of paying security price by diversifying away from Russian gas while they argue that Germany needs to pay a reputational cost of violating EU solidarity principles that could be assessed as a premise of academia's active involvement in the project.

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