

# Gas Pipelines, LNG and Shale Gas in the Political Game within Euro-Russia (with a Special Reference to Poland)

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## Abstract

The decisions to build Nord Stream, South Stream, Nabucco and other gas pipelines, to build LNG terminals and to explore shale gas in Europe are elements of the geopolitical game between Russia, EU member states, first of all Germany, Italy, France as well as other European states, including Poland, the EU as a separate player, and the USA. Participants and especially rules of the game are not clear. Individual elements (events) in this game can be subjected to various interpretations depending on political bias, time and country of origin of those who interpret them. Individual decisions provoke reactions. The crucial in the game is the Russian – German decision (2005) to build the Nord Stream pipeline connecting Russia with Germany across the Baltic Sea bypassing Poland and other countries. By some observers it was interpreted as an element of the Russian – German strategic partnership which neglects the interests of Poland and other transit countries and the very European unity. The same can be said of the Russian – Italian South Stream. As a reaction to the too high dependence on Russia there emerged the idea of building Nabucco connecting the EU with the Caspian Sea area. Besides, Poland, in order to keep Yamal pipeline (from Russia via Poland to Germany) operating, accepted conditions of the 2010 Russian – Polish agreement on gas deliveries that are highly advantageous for Russia and to a some extent contradictory to EU competition policy in gas industry. Another reaction of Poland to the new situation was the decision to build Liquefied Natural Gas (LNG) terminal in Swinoujscie port as an element of the cross-European "north-south gas corridor" from Swinoujscie to Krk (Croatia). Construction works have started but a problem of access to the port has emerged as the fairway to the port, located in the German territorial waters, will be blocked to bigger ships by the pipe of the Nord Stream put directly on the sea bottom and the German side ignores Polish appeals to dig in the pipe into the sea bed. This behavior of the German side can be interpreted as an attempt to block building of the LNG terminal. Another element in the game is the shale gas. Poland supports the idea of its exploitation by American firms on its territory. This technology is, however, controversial for its impact on the natural environment and is subject of disputes in the European Union.

**Keywords:** Poland, European Union, Russia, Germany, gas pipelines, Nord Stream, South Stream, Nabucco pipeline, Yamal pipeline, Swinoujscie LNG terminal, shale gas

## Introduction

One of the crucial elements shaping contemporary international political and economic relations is international energy trade, and, within it, the natural gas trade. The role of gas trade in international relations results from the importance of energy as such, from the characteristics of natural gas as a source of energy (considered as "clean" and "safe" energy compared with coal and nuclear energy) and from technological and economic characteristics

of gas exploration, exploitation and transportation (limited scope for market, pipelines being the main way of transportation, high capital and technology requirements). These involve political decisions of national governments concerning e.g. exploration and exploitation of gas fields, building gas pipelines, building and location of gas terminals and other infrastructure, etc., international agreements and regulations.

The involvement of political factors makes gas trade an element of a geopolitical game. This game is especially complicated in the geographical area encompassing Europe and Russia ("Euro-Russia") given the intensity of political and economic relations between the countries involved, the high number of countries, their different interests resulting from different roles as suppliers, consumers and transit countries, from their geographical location and economic, political and technological strength. Additionally, there is a supranational player, the European Union, especially the European Commission, as gas trade regulator and as institution supporting integration of energy networks of member states. Last but not least, the game is also complicated by the not always clear relations between national governments and firms (so called "national champions") – to what extent firms fulfill political aims of governments and to what extent governments promote interests of their firms?

Multiplicity of actors and complicity of their interests and intentions make analysis of the game especially difficult and subject of different and changing interpretations, largely depending on national origin of those who interpret, let alone their personal interests as lobbyists of particular players, and on the changing international situation.

The aim of this paper is to present, as objectively as possible, this game. The focus of the analysis is Poland, as an example of a country participating in the game. The analysis covers first of all the period after 2000, with only some remarks concerning earlier events.

### **The main players**

We can distinguish several players in the Euro-Russian gas game. These are countries (and their governments), firms, international institutions (mainly the EU) as well as influential personalities. They can be divided into four groups: suppliers, consumers, transit countries and regulators. The list of main players is, obviously, to some extent arbitrary. Among suppliers the most important, especially from the Polish perspective, is Russia. Other producers can be complementary alternatives for Russia. Countries importing gas can be divided according to their degree of dependence on Russian gas and according to their general economic and political strength determining their position in the game. Also transit countries can be divided into groups depending on their geographical location and position in the game.

The list of the main players can be presented as follows:

- Russia (government and Gazprom) – the main natural gas supplier
- "Stronger" European countries and their firms (in first instance Germany, then France and Italy) – final consumers of Russian gas, but less dependent on it than the "weaker" countries, and political and economic partners of Russia
- "Weaker" EU member states (Poland, other Central European and Baltic states) – consumers of Russian gas, strongly dependent on it, and at the same time transit countries between Russia and Western Europe
  - Nordic Baltic countries – transit countries between Russia and Western Europe
  - Ukraine and Belarus as the area of Russia's special interests ("near abroad") – consumers and transit countries between Russia and Western Europe
  - Caspian Sea area (Azerbaijan and others) – potential sources of alternative gas supply to Europe
  - Norway as supplier of gas for some European countries and alternative source of supplies for some other countries

- Turkey and Georgia – consumer and transit countries between the Caspian Sea and Europe
- The European Union (represented by the European Commission) – energy industry regulator and promoter of competition and integration of the EU energy market
- USA and its firms – exporter of LNG (liquefied natural gas) to Europe and supplier of technology and capital for shale gas exploration and exploitation
- Natural environment protectors, especially in Western Europe – supporters of natural gas and opponents of shale gas
- Influential personalities: Putin, Schröder, Berlusconi, Merkel... - promoters of cooperation between Russia and Western Europe and of Russian pipelines.

### **Possible interpretations of aims of the players**

While the list of main players seems to be quite obvious, more complicated is the question of their intentions and aims. This is especially important because moves of players largely depend on their perception of other players' intentions, or, in other words, on rules of the game.

A special source of uncertainty as relates to its intentions is Russia. We can propose several interpretations of its aims in the game:

Russia wants to regain the position of a global superpower by harnessing the economic potential of disunited Europe into its policy, especially by close relations with Germany (and other countries) and by disuniting (by rewarding some and punishing other countries) and "neutralizing" the European Union as a potential geopolitical rival (Varga 2008<sup>100</sup>, Helm 2007)

Russia wants to form a strategic alliance with Europe due to the economic complementarity and geographical proximity of the two sides, impacts of this policy on individual European countries being negligible side effects

Russia wants to reintegrate the Soviet space (maybe except the three Baltic states) without political ambitions towards the EU, the main political target of this policy being Ukraine and Belarus

Russian government and businesses are reliable partners guided by strictly economic motives aiming at strengthening their profits and bargaining power by increasing their supplies (their share in the European gas market), raising prices of gas and by bypassing transit countries, individual steps in pursuing this policy being dependent on actual circumstances. (Russia as a reliable partner without political ambitions often appears in texts and declarations of some German experts and business people, see: *Russland ist 2008*, *Moskau nutzt 2009*)

The second player is Germany and its firms. Two interpretations of its intentions in the game can be presented:

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<sup>100</sup> According to the Hungarian expert Tamás Varga the idea of building a pipeline directly connecting Russia and Germany and bypassing Poland and the Baltic countries has a strictly political significance. It is an element in Russia's long term and large scale political strategy. Its main aim is to make Germany dependent on Russia (on Russian energy supply and on profits resulting to Germany from its role as a distribution center of Russian gas in Europe) and thus to make Germany Russia's ally or assistant, and, at the same time, to "draw" Germany out of the European Union and thus to "neutralize" the EU as a political player. A secondary aim, fully compatible with the main one, is to weaken Poland and the Baltic countries by making them vulnerable to Russian energy blackmailing (by possible turning off the supply of natural gas to them in existing pipelines without affecting supplies to Russia's main partner – Germany). According to this reasoning, it is up to Germany to accept the role of Russia's strategic assistant and "neutralizer" of Europe and Russia's partner in weakening and blackmailing Poland and other countries between Germany and Russia.

Germany wishes a strategic alliance with Russia to make Germany the "hub" of Russian gas supplies, regardless of its effects on "weaker" countries and on the European unity<sup>101</sup>, and at presenting it as beneficial for Europe (while offering the "weaker" countries symbolic political gestures or neglecting them) (example of this policy being Germany's support for the Nord Stream pipeline)

Germany benefiting from cooperation with Russia while being suspicious towards special relations with Russia and trying not to destroy the European Union and not to make it too dependent on Russian energy supplies (support for the Nabucco pipeline).

Another player whose intentions are not clear is the European Union represented mainly by the European Commission: the question is to what extent it represents interests of the European Union and its unity as a whole, and to what extent it represents interests of the biggest countries, especially Germany, in the Euro-Russian gas game.

As regards other countries, their aims seem to be strictly economic and determined by their position as exporters, importers or transit countries, and on their dependence on individual sources of imports (those highly dependent on Russian gas trying to diminish their relative dependence on imports from Russia while the others desiring to increase imports from Russia). Their participation in the game consists in reactions to their internal needs and to moves of the main players, or more correctly, to their own interpretations of the moves of the main players.

It should be stressed that interpretations themselves are also elements of the game as players try to influence other players' interpretations of their own intentions, encouraging or discouraging them from taking specific steps<sup>102</sup>.

### **Events – actions and reactions in the gas game (especially after 2000)**

The gas game in Euro-Russia really began after the collapse of the geopolitical division of Europe into blocks in 1989-91. In the first decade the game was determined by the political and economic weakness of Russia, by its inability or lack of interest in large-scale geopolitical games and its needs to export more oil and gas to earn badly needed hard currency. One of the significant results of this situation was the construction of Yamal gas pipeline from Yamal peninsula in Russia via Belarus to Poland and Germany. It was of crucial importance for

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<sup>101</sup> Such an interpretation is presented for instance by Dieter Helm (2007), professor of energy policy at Oxford University. He denounces the attitudes of Germany and France in their dealings with Russia in energy industry, especially the Nord Stream pipeline, as detrimental for European interests: "The reluctance of member governments to allow a similar role for the EU [as in the case of Kyoto protocol, reduction of CO2 emissions, etc] in the security of supply matters has already had real costs to the EU, and the choice is now between the national interests of the dominant countries – particularly Germany and France – and the wider EU interests" (p.2), "in the case of energy the fear in other European countries is that Germany's national interests in energy are rather different from those of Europe as a whole, and the bilateral relationships which Germany has been pursuing with Russia are at the expense of the European wider interests. Of all the manifestations of this tension, the Baltic Pipeline is the most obvious example" (p. 35). "The Baltic Pipeline not only increases Russian power in respect of Ukraine, but it also serves to remind Poland and the Baltic states of their historically somewhat precarious position sandwiched between Russia and Germany. (...) Unsurprisingly, then, there is suspicion that the Baltic Pipeline is a German – Russian enterprise, rather than a European – Russian, and a divisive rather than inclusive step" (p. 36). "As noted above, the Russian strategy has been to pursue bilateral agreements with individual EU member states, against the backdrop of 'special relationships' with Germany. In this, it has been largely successful. Germany is the Russian hub, with all the strategic, industrial and security benefits that follow" (p. 52).

<sup>102</sup> Especially active in this field is the former German chancellor Schröder advocating for Nord Stream and discouraging Nabucco (see for instance opinions on him in the Romanian press presenting him as "Moscow's advocate" (*Moscova vorbește...* 2008, Dubravie 2008). Contrary to Schröder, his former minister of foreign affairs Joschka Fischer, employed by Nabucco, defends the viability and purposefulness of Nabucco (*Fischer keilt...* 2009)

Poland as it made Poland transit country between Russia and its main economic partner – Germany.

The situation started to change after 2000 when Russia became politically and economically stronger, prices of Russian oil and gas went up and the West, including Europe, became weaker and disunited (among other things over the Iraqi war and over relations with the USA) and Russia became a desirable partner for some European countries to counterweigh American influence. Russia started to carry out an active foreign policy using gas supply as its weapon, or at least Russia's activity was so interpreted in some countries, especially in Central and Eastern Europe. To avoid too strong dependence on Russia these countries, supported (one may say: halfheartedly) by the European Commission, undertook some actions to limit this dependence.

The situation changed, again, in 2008 as a result of

a) the economic crisis which also hit Russia and made it more inclined to cooperate with Europe,

b) the military conflict between Russia and Georgia in 2008 (which sparked suspicions as to the imperial ambitions of Russia regardless of direct causes of the conflict),

c) the gas conflict between Russia and Ukraine at the beginning of 2009 (turning off the gas tap for several weeks which hurt not only Ukraine but also some countries down the pipe) which raised doubt, even in Germany, the most reliable partner of Russia in the West, as to Russian intentions.

Quite independently from these events the United States, due to exploitation of shale gas, ceased to import LNG and thus contributed to a decrease of prices of liquefied gas and of natural gas in general in Western Europe.

Among the concrete events in the gas game after 2000 the following should be mentioned as the most important:

Nord Stream pipeline (decision in 2005, in 2011 almost ready for exploitation), a Russian-German project, connecting directly Russia with Germany across the Baltic Sea bypassing Poland, Belarus and the Baltic states

South Stream pipeline (decision in 2007, under construction), a Russian-Italian project, connecting Russia with the EU across the Black Sea bypassing Ukraine and being competition (or complementary, depending on interpretation) for Nabucco

Nabucco pipeline (first idea in 2002, organization in 2004), a European project (supported mostly by some "weaker" states and the EU, but in 2009 joined by a big German firm - RWE) to import gas from the Caspian Sea area to Europe, to reduce excessive dependence on Russian supplies

EU energy policy: demonopolization, liberalization, building of interconnectors to integrate national energy systems, "unbundling" (separation of gas supply from operating gas pipelines), as the main elements of the "third energy packet" (2009, in force in 2011) to weaken the position of Gazprom and to strengthen the energy security of EU member states

The shale gas: proponents (USA), opponents (environmentalists), impact on gas market in Europe (2010, 2011).

### **Polish reactions and actions**

The aforementioned actions and reactions involved all players in the game forcing them to take a stance. One of them is Poland (Polish government and other representatives). The position of Poland is determined by its relatively high dependence of gas imported from Russia (2/3 of total consumption, remaining 1/3 being from domestic production) and the location as a transit country between Russia and Germany, which was considered as advantageous. The list of Polish reactions and actions can be presented as follows:

Strongly negative reactions towards Nord Stream as harmful for Poland and not necessary for Europe, suspicions towards Russian – German strategic partnership

Attempts to stop building Nord Stream by the EU and to persuade the EU to build an alternative pipeline on the land (called "Amber" from Russia via Estonia, Latvia, Lithuania, Poland to Germany) (both failed due to strong pro Nord Stream lobby in the EU and hesitation of some partners, mostly Latvia)

Rejection to import Nord Stream gas from Germany, as it would make Poland being on the end of the pipe (importing Russian gas from Germany)

Giving priority to keep Yamal pipeline functioning, acceptance of Russian conditions in the 2010 Russian – Polish gas agreement, not fully respecting the EU "third packet" (the agreement was concluded before the 3rd packet came into force), problems with "unbundling" in the agreement leading to an involvement of the European Commission in the Polish – Russian negotiations. Quite paradoxically, the European Commission, so enthusiastically advocating EU – Russian cooperation in gas industry, represented by the German commissioner for energy, warned Poland against too close a cooperation with Russia<sup>103</sup>

Project of building LNG terminal in Swinoujscie port (north-western Poland, near the border with Germany) (the idea put forward in 2006, in 2011 under construction), this project has encountered problems of future access to the port by bigger ships via German territorial waters due to putting of the Nord Stream pipe on the sea bottom in the fairway

no reaction of Germany to Polish requests to dig in the pipe, since 2007 to June 2011, deliberate blocking of the LNG terminal?<sup>104</sup>

June 2011, chancellor Merkel promises that "the pipeline will be dug in when the terminal is ready and the pipeline makes problems to the terminal" (Tusk po...2011), but doubts remain (if Germany really will dig the pipe in when the pipeline is already functioning, and who will pay the cost)

Building of interconnectors with the Czech Republic and Slovakia in the framework of the "North – South gas corridor" from Swinoujscie to Krk (Croatia) entailing Nabucco (Kublik 2011)

Promoting the idea of "energy solidarity" and emergency measures in the EU

Support for shale gas exploration and exploitation, concessions to (mostly) American firms (70 koncesji 2011, 70 concessions for shale gas)

As can be seen, the Nord Stream project provoked a series of reactions by the Polish government, to some extent contradictory ones. On the one hand is the project of building LNG terminal to import LNG from Qatar, and on the other hand is the Polish – Russian gas agreement securing long term supplies from Russia. While imported LNG may diversify sources of imports, there is a doubt if not too much gas will be imported. Poland opts for closer cooperation within the European Union in energy policy, but at the same time it gave concessions to Russia which were objected by the European Commission. These seemingly contradictory moves are, however, justified by moves of other players and by Polish interpretation of these moves: building of LNG terminal (as well as the "North – South gas corridor") was a direct reaction to the Nord Stream project deemed as hostile and dangerous for Poland (given its history Poland is extremely sensitive to cooperation between Germany and Russia against Poland) and the agreement with Russia had to be concluded in 2010 because the previous one was expired and the Russian side made use of its strengthened bargaining power to impose its conditions (this strengthened bargaining power was a result of the Nord Stream project giving Russia possibility to turn off Yamal pipeline without doing harm to Germany).

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<sup>103</sup> For more details of the Polish - Russian gas agreement and gas pipelines see *Europe's gas pipelines 2010*

<sup>104</sup> Some Polish experts have no doubts that the attitude of Germany is a deliberate attempt to block the LNG terminal, see *Dlaczego Niemcy blokują (Why does Germany block development of LNG terminal in Poland)*

The above list of Polish actions and reactions is, of course, not complete. It does not include, e.g., the recurrent idea of building a gas pipeline from Norway, controversy between the Polish government and some firms concerning building or not building a connector to import gas from the Nord Stream (which would undermine the viability of the LNG terminal at Swinoujscie) etc.

### Conclusions

There is a political game taking place in the European – Russian space concerning gas supplies. Each participating country wants to strengthen or defend its position as exporter, importer or transit country and to promote their firms on national and international markets. The relative strength of the players is changing depending on the general economic and political situation and on specific situation in the gas industry (e.g. changing prices, new technologies). There are, however, some limits to the game. Egoistic attitudes of individual countries, especially those belonging to the EU, are mitigated by common rules established by the EU and by the desire not to destroy the unity of the EU. While there is a natural contradiction between exporters and importers concerning prices, both sides are interdependent and cannot fully impose their conditions. Importers want to diversify sources of supply, exporters, mainly Russia, want to diversify markets, both want to diversify routes of transportation. Small, not so spectacular but important actions, such as building short interconnectors integrating national energy systems and competition and solidarity rules established by the EU are changing the nature of the game. The game is losing its political and confrontational character and is becoming more concerned with technical and legal details. It does not mean that "the game is over". Problems of the Swinoujscie LNG terminal is a case in point.

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