The Perch Pod Episode 38 Nord Stream 2 with Dr. Maria Shagina

**Jacob Shapiro**:

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**Jacob Shapiro**:

Hello listeners and welcome to another episode of The Perch Pod. As usual, I'm your host, I'm **Jacob Shapiro**. I'm also the founder and chief strategist of Perch Perspectives, which is a human centric business and political consulting firm. If you haven't checked us out online to learn more about the geopolitical risks services we offer to explore some of the newsletters that we do, please do so at perchperspectives.com. You can also email us at info@perchperspectives.com if you want more information or just to chat.

**Jacob Shapiro**:

Joining us on the Podcast today is Dr. Maria Shagina, she is a postdoctoral fellow at the Center for Eastern European Studies at the University of Zurich. I've been following her work for a number of years now. And I tweeted at her on Twitter, and asked her to come on the Podcast, and she said yes. So thanks so much Maria, for making some time. I thought this was a really, really excellent conversation about a fairly technical topic that I don't think gets enough coverage in English language media, and certainly doesn't get nuanced coverage in the English language media. And I think that at the end of this, not only will you know a little bit more about Nord Stream 2, but you'll understand what's happening right now in US-German relations, what's happening in Ukrainian-Russia relations, and why some of this matters so much and in general. So without further ado, thanks, Maria, for coming on. Listeners, thanks for joining us and being along with us on this ride, and we'll see you out there. Cheers.

**Jacob Shapiro**:

Maria, thank you so much for joining us, and for continuing this tradition of me trying to get people on Twitter to respond to my messages and then come on the Podcast. It's nice to have you here.

**Maria Shagina:**

It's a pleasure to be here.

**Jacob Shapiro**:

Look, you're an expert on a lot of different things, and we're going to talk about Nord Stream 2, which is a very technical topic. So let's start with maybe it's an easy question, maybe it's so easy that it's hard. Tell the listeners who don't know. What is Nord Stream 2? Just at a very basic level, what are we talking about here?

**Maria Shagina:**

The Nord Stream 2 pipeline is a very controversial topic. But in technical terms, it's a second pipeline that was launched in 2015, to connect Russian market to the German market specifically. And then from there, distribute the market to the EU customers. And what it does basically, it diversifies from the Ukrainian gas transportation system.

**Maria Shagina:**

So this new pipeline is about to ship 55 billion cubic meters of natural gas to German Lubmin Port in the northern part of Germany. And the reason we see so much discussion and politicized debates is that it abandons the Ukrainian transportation system, which has been a traditional route to the European customers. And in light of the events between Ukraine and Russia. This causes the security situation for Ukraine.

**Jacob Shapiro**:

Help us situate this in time and in chronology. So where does the discussions about Nord Stream 2 happen in relation to the Ukrainian revolution 2014? Was this something that Russia, and Gazprom had been thinking about for a long time already? Was it moved forward by what happened in Ukraine? Is it a completely independent of that? How do we think about the timing of all this?

**Maria Shagina:**

Russia's plans to diversify from Ukraine to circumvent Ukraine as a transit country should be placed in a broader context. It's a historical legacy that after the demise of the Soviet Union, the Russian authorities and Gazprom is the main monopoly of the gas sector in Russia. Have been thinking about having a direct access to European customers. So this is not any of new pipeline with these objectives there have been many more, and the Nord Stream 1 pipeline is already there. So it does exactly the same, it diversifies from Ukraine.

**Maria Shagina:**

But the timing of the launch of the Nord Stream 2 pipeline is in 2015. And as we know, the Euromaidan Revolution happened in 2014. So this is a very sensitive timing for Ukraine, and it actually counters the European sanctions policy, which states, "To increase costs for Russia to conduct its aggressive policy towards Ukraine." So we see this counter-productive project in this sense that it goes against the stated EU sanctions policy, and then later we can talk about the decarbonization, which also counters what the EU stated.

**Jacob Shapiro**:

Great. Well, two questions here. How dependent is the European Union as a whole on Russian natural gas? And then how dependent in particular is Germany on Russian natural gas? Are there alternatives that are just more expensive? Is it really this is the only game in town? Just how serious is that dependency?

**Maria Shagina:**

Right, we should distinguish between reliance and dependency. So while Russia is dependent on European gas market, those are the primary customers for Russia. Russia's pivot to Asia, in particular to China has not been that successful or it's still in its emergency.

**Maria Shagina:**

European Union is reliant on Russian gas, but it's not dependent. There are other suppliers such as Norway, Algeria, also LNG has shaped the European gas market as any other gas markets in particular. So EU has much more leeway than Russia does. Whereas the discussion is often seen in media is very black and white, that European Union is much more dependent on Russian gas than vice versa.

**Maria Shagina:**

So the questions you asked, European Union has been consistently more or less dependent on Russian gas one third of its needs. So 30% is supplied from the Russian sources.

**Maria Shagina:**

Germany is more dependent on Russian gas and with Nord Stream 2, it will in fact become a European gas hub. 60% of all gas will be concentrated in Germany. So that makes this project for Berlin in particularly attractive as Germany will be the key country to distribute gas to other countries. Czech Republic in particular, which was previously supplied by Ukraine.

**Maria Shagina:**

So we'll see the redistribution of gas flows in Germany will be the key country. But there is also historical component to that. Germany, since the Cold War has established this close relationship with a back then the Soviet Union.

**Maria Shagina:**

So this gas flow have been going towards a Germany's since the '70s, '80s. And this was part of the so called Ostopolitik. The New Eastern policy establishment Willy Brandt, Chancellor to increase this economic relationship and gas was this bridge that connected the two countries.

**Jacob Shapiro**:

And that gets us right to the issues, that are the whole reason I wanted to talk to you today. Because, Nord Stream 2 has been a big problem in US-German relations since 2015. Since I started talking about it. And I think that Germany's relationship with the Soviet Union, and then Russia afterwards has also been a stumbling block for US-German relations. Apparently it's gotten more serious in recent years.

**Jacob Shapiro**:

How do you, I guess the first question there is obviously the US-German relationship deteriorated under the Trump administration? And a lot of that was just because President Trump is who he is, he wasn't very nice to Angela Merkel, when she visited. He kept on telling him that the Germans needed to pay for all the things that the Americans did for them over the years. Any country that hears that is going to be skeptical.

**Jacob Shapiro**:

But it sounds to me like there were some structural forces that were going to cause problems in US-German relations anyway, surrounding Nord Stream 2. So before we get to the agreement that Biden and Merkel seem to hash out recently. Where were US-German relations before and how bad do you think things actually got? Was this a simple disagreement between two allies? Or do you think that the US opposition to Nord Stream 2 particularly under Trump was actually threatening the basis of the US-Germany relationship?

**Maria Shagina:**

Right. So these disagreements again, have this historical baggage if you want. So the disagreements about whether Russia or the Soviet Union can use energy as a weapon have divided their allies since the Siberian Pipeline in the '80s. And this is something the current Secretary Blinken, has written extensively about. So those are the disagreements that have been continuing for almost four decades, they haven't been resolved.

**Maria Shagina:**

And this is again another illustration that we cannot reconcile different perceptions of Russia whether... Sorry. What are the red lines for Russia to cross? Where can we impose sanctions? What is economic interdependence, whether it leads to productive policy towards Russia or whether it's counterproductive? So those are the elements that been there for a long time, haven't been resolved. And with the Trump administration, it became more... Not aggressive, sorry. I'll have to rephrase it. It became more chaotic and how to solve it. Trump was actually against Nord Stream 2.

**Jacob Shapiro**:

Mm-hmm (affirmative).

**Maria Shagina:**

And this caused the rift in transatlantic relationship. And the way it was done, actually, consolidated the opinion in Germany that extraterritorial sanctions is a legal tool. And this sort of blatant blame in Germany on perhaps, good things that Germany should have changed. This undiplomatic way it has been done has actually caused more tensions between the allies. And that hasn't done any good for that matter.

**Maria Shagina:**

It's a legitimate question whether Germany's-Russia policy deeply rooted in this Ostpolitik should continue. Whether this in German is called "changed through trade", through cooperation is still there, whether we just see economic cooperation without change.

**Maria Shagina:**

This raises big questions since 2014. And since then, we have seen many more transgressions when it comes to Navalny, attacks in Germany itself, and cyber attacks, you name it. The list is very long. So it does raise the very important question whether Germany's Russia policy is still up to date. Still, in reality check was what's happening within Russia and with its foreign policy.

**Jacob Shapiro**:

So we'll get to that in a few moments. But let's just fast forward now a little bit forward to the deal, apparently, that Biden and Merkel were able to make. I was struck you, you recently wrote an article, we'll link to it in the description and the German Institute for International Security Affairs. And you talked about how Ukraine was caught completely off guard by Biden and Merkel coming to some kind of agreement about Nord Stream 2.

**Jacob Shapiro**:

So there are two part question here. Can you just talk a little bit about what Biden and Merkel agreed to? And then I'd love to know, was it surprising to you or the Ukrainians sort of where they're not keeping up on things if they were surprised by this development?

**Maria Shagina:**

Right. So unlike the Trump administration, the Biden Administration took a very different approach more diplomacy going forward, and meaning that extraterritorial sanctions is an option of last resort. So this is the foundation that has helped to shape the deal whether it's ideal perfect we can discuss in a moment. But this is the fundamental basis that we should have in mind when we're thinking about this deal.

**Maria Shagina:**

The deal can be roughly divided in three parts. It assures that the US and Germany would impose sanctions should Russia use energy as a weapon or further transgressions in Ukraine, showing the aggressive policy towards this neighbor.

**Maria Shagina:**

There are questions or uncertainties in fact, how it could be implemented whether Germany and the US has actually agreed on what constitutes use of energy as a weapon when it comes to Russia. I'm not sure this has been in any case resolved. Again, we're talking about this historical disagreements that are still there.

**Maria Shagina:**

Second part says that Washington and Berlin will establish a so called Climate and Energy partnership. And here the main burden to deliver on various measures that are included here will be on Berlin.

**Maria Shagina:**

Berlin has said that will invest 175 million as a first installment to this fund, which is expected to grow to one billion with the attraction of private clients. Berlin will appoint a special energy envoy to shape the much closer energy relationship between Ukraine and Germany, has also 70 million allocated to this person.

**Maria Shagina:**

And the third part of this deal is the decarbonization, basically taking the long-term perspective of this very politicized project. Saying that, in the long-term we can mitigate the burden that comes or the threats that come with Nord Stream 2 for Ukraine by leveraging Ukraine's position in the decarbonization game because decarbonization is very capital intensive. It's very technology driven, something that Ukraine doesn't have. And the two allies are committed at least on paper, to help his partner to be a bit ahead of the game. Given that Russia is not also lagging behind, it would be in Ukraine's interest to be there.

**Maria Shagina:**

From the Ukrainian side, there are many uncertainties, and the country that is currently at war. And has underlined this position many times in outright interviews to various American newspapers as well. This is not the deal that Ukraine is happy with. And the reason is that it doesn't provide security guarantees. So there's been a shift in narrative in Ukraine itself, from economic losses, up to the $3 billion annually, Ukraine can lose due to Nord Stream 2.

**Maria Shagina:**

But for the past at least six months, this narrative has been heavily shifted to security concerns. And the Ukrainian narrative is that with the launch of Nord Stream 2, Russia will be afraid to launch full scale war in Ukraine. Something that Germany does not buy entirely. Some of the German officials said that's a speculation at the time, being we cannot be certain that this will go ahead.

**Maria Shagina:**

But what we can see was the deal is that some of the security aspects are there. But there are no concrete implementation mechanisms. And this is what Ukraine is not happy with, and there are more insecurities that has been left behind or unheard of.

**Maria Shagina:**

Now, the second question, you asked whether Ukraine has been caught off guard with the deal, for the time being we can say that Ukraine has been very certain in February that sanctions from the US will stop the pipeline.

**Maria Shagina:**

In my understanding, this has been a strategic miscalculation of the Biden's policy. Because, the strategy from the Ukrainian government was banking on us sanctions alone. There was no plan B to elaborate. What will happen if Nord Stream 2 is launched. And the only contingency plans that we've seen has been over the past months, and this is quite belatedly to counter something, a policy that Russia has been conducting since '80s, basically.

**Jacob Shapiro**:

Is there really a whole lot Ukraine can do? I mean, is it an issue of not having developed a plan B? Or is it really just that there isn't a plan B, and Ukraine doesn't have a lot of options. They're stuck between powers that are more powerful than they are. Ukraine has its own internal political dysfunction? It doesn't, the idea that you're going to get the United States to go along with you. I mean, maybe you can do some lobbying and things like that. But ultimately, none of the decisions that are going to be made that are going to affect Ukraine here are going to take place in Kiev, no matter what you do. Am I being a little too cynical there? Or are there things that Ukraine could have done to shape this process in a better way?

**Maria Shagina:**

I think the problem was with the Ukrainian side. The way I see it is unwillingness to accept that the negotiations will take place. The sheer fact that negotiations is something that Biden and Merkel prefers versus extraterritorial sanctions, is something that in Ukraine has been discarded. So the sheer willingness to come to the negotiating table has been delayed.

**Maria Shagina:**

So again, banking on US sanctions has been Plan A, and it's still there. But now this plan A is basically to expand the room for maneuver for Plan B. And there are options what Ukraine can do and it's been doing. First of all, we need to acknowledge that for now, there is a willingness from Washington and Berlin to listen to Ukraine, and to engage Ukraine. It hasn't done properly with this deal that has been announced recently but there is a desire to listen to Ukraine to take on board the security concerns and the economic obligations as well.

**Maria Shagina:**

The main question here is the bargaining game, whether the stakes are too high. And whether linking for example, Nord Stream 2 to Ukraine's membership in NATO, or the occupation of Crimea is something tangible. So again, this is a question of how high you're prepared to raise your stakes and how tangible they are.

**Maria Shagina:**

But in technical terms, what Ukraine can do, and has been already doing. So we know that when the deal was announced, the Ukrainian foreign ministry teamed up with the Polish counterpart announced the statement basically saying that they are not happy with the deal. It doesn't include hard security guarantees, and that Ukraine is using the EU Ukraine Association Agreement, and basically demanding from the EU the same treatment attitude as compliance with the articles within this association agreement.

**Maria Shagina:**

So it refers to Article like 274, which talks about securities, energy securities and how to cooperate, collaborate on infrastructure developments. So in this case, Ukraine is asking from the EU to be counterpart not just for Ukraine to be a role taker. It asks for the equal footing in this association agreement.

**Maria Shagina:**

The other... Sorry.

**Jacob Shapiro**:

Yeah. Okay.

**Maria Shagina:**

The other strategy that Ukraine is now banking on is to use market instruments. In 2019 Ukraine, Ukrainian Naftogaz and Russian Gazprom signed the gas transit agreement. And that was basically contingent on the condition that Ukraine applies with the third energy package, which has unbundling third party access and transport tariffs.

**Maria Shagina:**

Ukraine apply it was this conditions, and now it wants Russia to comply with this. And this is the next big question mark in the Nord Stream 2 story. But now Ukraine is pushing, is lobbying that Gazprom also complies with the EU's own rules. And you should be more rigorous in applying its own energy market rules to third parties like Russia.

**Maria Shagina:**

Ukraine has been also raising an issue, that Russia monopolizes gas flows from Central Asia. Something that given EUs energy strategy, EU should be interested in diversifying routes through which gas comes to the EUs and central gas, Central Asian gas is another source for that matter.

**Maria Shagina:**

So there are various not just political ways in which Ukraine can push. But it's been banking so far on this regulatory terms. There are also litigation cases prepared. But it to me again, it comes down to the time frame in whether Berlin and Washington are ready to listen to Ukraine. And to accept this terms and to take them on board. So far, there is such a willingness to do so.

**Jacob Shapiro**:

Yeah, that makes sense. I want to go back to what you talked about the EU's third energy package and where the EU deals with this in general. But before we leave Ukraine, I just thought you said one really, really important thing that I wanted to underline. Which was that Ukraine is insisting that wants Nord Stream 2 is operational, that it is vulnerable to a full scale invasion from Russia.

**Jacob Shapiro**:

Is that true? Is that something that Ukrainians are saying to try and increase the urgency of the situation? And to underscore how existential this is to their national security? Because I have to admit, I don't see it. I've, we've had some other Russian analysts on this podcast before. And they've basically thrown up their hands and been like, we're not going to invade Ukraine. Like we're not going to tolerate anti Russia forces in Ukraine. There are certain red lines that if you cross we're going to have to deal with.

**Jacob Shapiro**:

But like, we're not just like Nord Stream 2, it's not part of this. This is something that Ukraine is using to try and get more political support in Western Capitals from. It doesn't reflect reality. And it doesn't seem to me that the Russians have the appetite to do everything that would a full scale invasion of Ukraine would entail.

**Jacob Shapiro**:

So just what do you think of that? Is that an unrealistic fear that Ukraine is having? Or is that something that we should take the Ukrainians more seriously? And maybe I'm being too naive about what Moscow's real intentions are?

**Maria Shagina:**

So this question is indeed a bit provocative. And they, the German Ambassador to Ukraine, in Ukrainian media reports called the speculation. Basically, raising the question whether this is something that will happen? You need to answer this question you need to understand the situation, the mood in Ukraine since 2014.

**Maria Shagina:**

Any relations with Russia has been very black and white, basically black for that matter. There are no positives or very little for that. So anything that also involves energy is something very strategic, is raising alarms for Ukrainian officials. And there's been this sort of securitization of the energy deals as well. As we've seen Presidents Zelensky, Ukrainian president also raised that Nord Stream 2 should be now discussed in the Normandy format, which is actually for the settlement of the Donbas situation in eastern Ukraine.

**Maria Shagina:**

So if you listen to the Ukrainian officials, they've been raising this alarm, this concern for a very long time. So they call that existential crisis openly in many Western newspapers including. But again, if you think rationally, and not every state acts rationally, but we know with Crimea. But rationally Russia should not have incentives because the to uphold, to sustain Crimea is already costly to sustain Donbas and Luhansk, is also proven to be costly.

**Maria Shagina:**

And even there, Russia is not ready to fully annex this territory. Since it's interested in keeping them as a lever to manipulate where Ukraine is heading towards a UN or NATO for that matter. So rationally, we could say that there are no incentives. Also, rationally we can say that Crimean incident will not take place because there is no other Crimea for that matter. There is no other peninsula or territory in Ukraine that Russia has been so attached to.

**Maria Shagina:**

At the same time, Russia likes to flex his muscles and as we've seen with the deployment of troops on Ukrainian border. That does cause alarm. And we've still seen in Ukrainian and Russian media speculating what that was for. Whether was to force the meeting between Biden and Putin.

**Maria Shagina:**

I would say that for now, those are not speculation don't want to say speculation, but something that Ukraine, the country that borders with Russia, and the country that is in war with Russia is taking it seriously. Whether you know, that makes full sense only the future can tell us.

**Jacob Shapiro**:

Yeah. And it's easy for us who are not in Kiev to say that, and I understand that, you it's a legitimate fear for the Ukrainians to have to deal with that. But it seems less likely you're going to convince people in Berlin or Washington or anywhere else that that's an existential threat because as you said, there's just no rational incentive for Russia to do it. All right. Well, I'm glad I'm not crazy about that.

**Jacob Shapiro**:

Going back to what you were talking about the EU. So I haven't actually asked you about the EU yet. And it seems to me that I don't quite understand. So the EU has to approve whatever Germany is going to deal with Russia. And then also, you mentioned the EU's you use third energy package. I was wondering what the status of that is, and how the outcome of that debate is going to affect Russian and German energy strategies going forward. So that's a broad question, take it in whatever direction you want.

**Maria Shagina:**

I'll start with the EU third energy package because this is the big question mark when it comes to Nord Stream 2 story. Because after certification and this is another question mark, the Nord Stream 2 pipeline will have to comply with these three requirements that are included in this third energy package or gas directive. This gas directive was first implemented in 2009, and then amended in 2019. And basically the strategy was to diversify supply roads to the EU also to minimize this vulnerability. And the strategy was largely shaped by the previous Ukrainian-Russian gas disputes in 2006 and 2009.

**Maria Shagina:**

So this is a very telling story that the same dispute are beginning to shape how the EU energy rules will be applied. So in 2019, the gas directive was amended and was applied to offshore pipelines from third countries. Meaning that the Nord Stream 2 pipeline will have to comply with it.

**Maria Shagina:**

The US sanctions have shaped the way Nord Stream 2 or Gazprom will now have to comply with EU energy rules, and that way that Gazprom had a derogation. Meaning that was basically exempt from the EU energy rules, and contingent on the fact that the pipeline will have to be finished by May 2019. We know that it didn't happen for various reasons but also due to US sanctions as well, so that delayed it. And now Gazprom is filing three court case in German courts, and EU courts to challenge this EU directive.

**Maria Shagina:**

And basically, it comes down that, from the Russian point of view. The financial investment decision was this final cut off point, which was obviously before the directive was implemented. Meaning that a Nord Stream 2 should be exempt from this.

**Maria Shagina:**

From the European point of view, they the final decision is when the construction is finished. And we know that for as of now, it's only 99% complete. So this litigation battle can take a while, andit's still a big unknown.

**Maria Shagina:**

Strictly speaking, the EU should obviously apply those EU energy rules and the recent decision that we obtained from the EU court on the Opal. Another pipeline linked to Nord Stream 1, which basically says that the principle of solidarity in the energy's sector should mitigate all security concerns from all EU member states.

**Maria Shagina:**

So it's not just the political concept. It's a legal concept and all security concerns from all EU member states, and here Poland is the one, the key to think about should be taken into account.

**Maria Shagina:**

So this is a big story to think about in the future because it will take quite some time. But for now, the next decision to expect is Gazprom also filed that court case with the German court in Dusseldorf. And that decision is expected in August 25. And this is about whether Nord Stream 2 Agere, which is the Swiss registered company can act as an international transportation system operator. Something that could potentially allow Gazprom to bypass the EU third energy package.

**Jacob Shapiro**:

One of the things I thought was the most interesting in one of your more recent articles. Was that, obviously, for the last decade or so maybe that's a little long. But for the last five, five or six years, gas prices in Europe have been relatively low. And they're not right now. They've gone up something like five times or six times, and it doesn't look like they're going to go down anytime soon. Which creates a whole new urgency around these questions.

**Jacob Shapiro**:

All the stuff you just talked about certification and legal cases, and this that of the other thing. It seems like that's going to take more than six to eight months to resolve. And in your paper, you talked about how it seems like a lot of these actors are basically acting as if Nord Stream 2s going to come online this year. And so maybe that's going to create the price for higher gas prices soon.

**Jacob Shapiro**:

So is that something that you're worried about is this is the current spike in gas prices just the beginning and things are going to go up a lot more? Do you think that maybe we get to a place where Nord Stream 2 is technically operational? But all the legal stuff still has to be worked out on the back end and we'll just start generating paper and bureaucracies. What do you think the future is there going forward?

**Maria Shagina:**

Your absolutely right. So this is a direct link from the legal discussion that we just had to the market situation. Basically, Gazprom has always supplied cheap gas to the EU, and it preferred this market share strategy. That prefer to have this about 30% share in the European gas markets, even though the prices could below. It prefer to have this strategy. And now we see the switch in its strategy, that it's not supplying any gas to the EU. And that makes all traders very worried.

**Maria Shagina:**

As you said, the gas prices in the EU are at 13-year high, and today was they used a word that it's at 500 per billion cubic meters. This is astonishingly high if you compare to the previous years before COVID, and COVID only dampened the prices.

**Maria Shagina:**

And the other problem is that the biggest storage facilities in Europe also very low. It's at about 55% versus in normal years. It's about 80. So the summer period is used to pump gas into the gas storage facilities. And now we have the major supplier, Gazprom is refusing to pump or to use the situation where it can cash in. And it refuses to do so. In this situation, there are speculations that Gazprom is using this very tight gas market to exercise pressure on a German regulator that is about to issue his decision as I mentioned, whether or Nord Stream 2 geared the Swiss entity can operate as this independent trans transmission system operator. And to speed up all EU clearance when it comes to the EU third energy package. So this is one side of the story. There are market elements to that cold month from February to May have caused that to also high margins in Asia.

**Maria Shagina:**

Diverted the gas to Asia so Novatek, for example, shipped a lot to Asia. So there are some market elements to the story. I don't want to boil it down to political story only, but discussed with some traders they agree that there are two elements to the story. That Gazprom is using this type gas market too, to exercise the pressure.

**Jacob Shapiro**:

Hypothetical question. Do you think that the spike in gas prices affected Germany's desire for some kind of deal, to move forward with Nord Stream 2? That made it softer towards Russia on Nord Stream 2? Or where do you think that this was going to be Russian strategy anyway? I guess I'm asking a what if question that.if gas prices had stayed where they were, say in 2018, do you think Germany would have taken a harder line with Russia and Nord Stream 2, or are higher gas prices basically forcing Germany's hand and making it a much more urgent task to get this understanding what the United States.And to get a compromise going so that the gas is flowing?

**Maria Shagina:**

In my understanding, Germany didn't change its position on Russia's policy at all. It has been soft in terms of prefer this dialogue, this economic cooperation as this safeguard to avoid any conflict. It doesn't take Ukraine's side of the story. So this policy hasn't been changed in that sense.

**Maria Shagina:**

I'm not sure to what extent the gas prices really have even soft in German approach, to me it's more or less the same. Even the opposite, I would say that to a certain extent, Merkel, the German Chancellor has taken into account Ukrainian concerns. But again, it all comes down to the implementation to harder security guarantees.

**Maria Shagina:**

But if we observe the German attitude towards the Nord Stream 2 since 2015-19, the major time points here. It has always said that it's a commercial project. And now with this deal we can see some security elements, some acknowledgements that the pipeline is in fact geoeconomic at least, that Russia is using this line to diversify from Ukraine.

**Jacob Shapiro**:

Mm-hmm (affirmative). That makes sense. You mentioned the crazy poles. Let's talk about the crazy poles. I say they're crazy because on the one hand, they want to declare what looks like political war on the European Union every other day. And then on the other hand, it feels like the European Union is their best chance for actually getting an energy strategy that works in Poland's interest vis-à-vis Russia.

**Jacob Shapiro**:

So I wanted to ask you. What the effect of an operational Nord Stream 2 is on Eastern Europe's energy strategy in particular? But obviously Poland is the big one there because, the Baltic pipeline, new LNG terminals that they're trying to build, there's the Three Seas gas infrastructure as well, all of that kind of wrapped up in there. So help us understand where the rest of Eastern Europe is looking at the situation and to what extent they have any influence over the situation at all.

**Maria Shagina:**

So as I mentioned, together with Nord Stream 1 and Nord Stream 2 will see the real diversification of gas flow. Meaning that central Eastern Europe will be dependent on shipping from Germany. And this is this major change in gas flows, that causes these countries like Ukraine and Poland to be very insecure. So this divide in East and West axis that we've seen throughout history is basically is from '70s, '80s when the first shipment was gone.

**Maria Shagina:**

Its something that will change the way also prices will be shaped because it will be more expensive for countries like Ukraine to get gas now from Europe directly. So this will change. Some countries like Lithuania, and Poland have been more proactive in how to mitigate dependency on Russian gas. There's historical dependency. And for example, Lithuania with the construction of LNG terminal has decreases dependency from 100 to 50. Which is astonishing if you think about it. Something that the Ukraine could take a page from the strategies book.

**Maria Shagina:**

You mentioned also Three Seas Initiative. This is also an important initiative backed by the US government actually by Trump Administration. It didn't have a lot of policies coming out but in its essence, it's a good policy. In terms of, again mitigating this historical dependencies in infrastructure, and creating the so called north-south axis. We know that historically, gas has been flown from east to west. And this is this historical legacy.

**Maria Shagina:**

Now, the Three Seas Initiative. With the construction of interconnectors on the Eastern European borders. With the construction of OMG terminals, can break it down and create a vertical north-south axis that will help to make this market even fluid. They're even more flexible.

**Maria Shagina:**

And again, this is something that Ukraine also should look up to and become more active as a member. So far, it's not a member, but maybe collaborate more closely and actually the deal that we've been talking about, US-Germany deal specifically mentioned this initiative as well.

**Jacob Shapiro**:

You've mentioned decarbonization a couple times. And it seems that one of the main, well, I don't know if it's one of the main planks of the deal. But one of the planks of the deal that both Germany in the US are, from a PR standpoint are really talking up is this idea that they're going to fund Ukraine's transition to being a more renewable based economy, a green economy, go for hydrogen instead of natural gas, all these other sorts of things. Could be as much as a billion dollars of investment when you put it all together.

**Jacob Shapiro**:

For the record, I'd love if we invested some billions of dollars in dealing with climate change and renewables in the US. But let's let's not go down that rabbit hole right now. But I wanted to ask, so what is Ukraine's capacity to be a renewable energy sort of power? How easy is it to transition from say natural gas to hydrogen? Is that something Ukraine could do? And in some ways have a competitive advantage with Europe? If it wanted to make that transition? Is there an outcome here where forcing Ukraine to decarbonize or become more independent of Russia natural gas? Yes, it will be very, very painful and very scary in the short-term, but 10 years from now, Ukraine will be very thankful to have done it.

**Jacob Shapiro**:

Is that realistic at all? Or is all of this stuff just pie in the sky, and it doesn't mean anything, and there's no chance for Ukraine to decarbonize in that way or be a sort of green energy investment hub the way that Germany and the US are trying to talk it up.

**Maria Shagina:**

And the state component is decarbonization, to me is a crucial one actually because it's a long-term strategy that needs to be taken into account. If a country bases its economy economic model on gas, transit fees and in by 2030 after 2050 in particular, gas will be largely phased out. It poses a question if this economic model was viable. And Naftogaz Ukrainian monopoly has been very active in trying to include these decarbonization plans. And to Ukraine's credit, it has been, again, very active in launching cooperations with the EU to match with the EUs Green Deal in particular. So Ukraine, together with World Bank, Ukraine has announced that it will launch its hydrogen strategy this year.

**Maria Shagina:**

There's been already concrete business projects together with Germany's launch hydrogen projects in Mariupol which is southern city bordering next to the Donbas region. There have been many reports, including, again, a World Bank stating that Ukraine has a huge potential in solar energy, in wind offshore energy. So the potential is there. The question is capital to European Investments for that matter are American investment and technology. Because this is something Ukraine doesn't have and it's very costly given that the limits of Ukraine's economy whether it can actually get it.

**Maria Shagina:**

So the deal to me actually offers a good plan how to step up Ukraine's game, in the decarbonization. Because Russia as I said, is not just sitting idly. It's also preparing for this big changes for its own economy. Which will deprive the Russian economy from two billion to almost 60 billion depending on the scenario from various agencies, and consultancies. But this is something that the two countries can also compete against each other when it comes to hydrogen.

**Maria Shagina:**

So Ukraine can profit from deliveries of green hydrogen. Which is produced from the renewables against solar, and wind offshore is the key here. Russia can profit from blue hydrogen, which is produced from natural gas. So what to me, we'll see basically the same geopolitics, as it is now that the two countries will perhaps compete for access to the EU market.

**Maria Shagina:**

And again, Ukraine has been active in introducing very lavish subsidies when it comes to solar power panels and whether the policy was successfully implemented as it's been basically acquired by oligarchs, and we can question the success of this story. But if we talk about the renewables, the launch of this policy, this has been rather successful. Something that in Russia has been perceived with more resistance and opposition.

**Jacob Shapiro**:

I feel like I'm, I had a "Nietzschean Moment" there. Where you're saying, this is we're going to do all this again in 30 years. It's just going to be with hydrogen, and it's going to be the same dynamics a little eternal return of the same.

**Jacob Shapiro**:

Last question before we let you go. We can't have a podcast about anything these days and not talk about China. And you refer to China a little bit, and about how Russian gas sales to China have actually been disappointing. I think for Moscow, maybe they're going to pick up especially as the EU starts to phase out natural gas. Do you think that China factored into Germany's decision-making process at all, that at least some of what Germany is trying to do here is to link Russia closer to Europe? Because Germany sees a long-term future in which the EU is going to have to worry about China and balance against it?

**Jacob Shapiro**:

Do you think that in general the EU is going to have to start shifting its thinking towards, "We have to protect against Russian aggression in the region," to, "Hey, if Russia and China team up suddenly, all these fears that we have about Russia get even more so because a Russia-China Alliance is really bad if you're trying to prevent a hegemon in Eurasia?" Does China factor in here at all, or is that an empty concern? Is it too abstract and far away? Where do you situate that concern within this broader conversation?

**Maria Shagina:**

To me, those concerns have been mainly voiced from some American politicians or another country in the EU and this is France. So Emmanuel Macron refer to this danger of two countries, Russia and China aligning. This won't be productive for the EU. I haven't seen this narrative in Germany. So to me, it's still running parallel to this historical cooperation trade through change, the trade narrative, whether China has been. Germany has its problems with China on its own, when it comes to human rights and other agreements.

**Maria Shagina:**

But there are concerns, as I said, voice within the European Union by other countries, like France, that this is the situation we're heading to. I'm rather skeptical towards this. Because if we look at the relationship between Russia and China, they have problems on its own. So by lumping them together, will might create this artificial alliance that is filled with a lot of tensions on itself. And we could potentially use those disagreements, instead of creating this artificial from that it's not there. Because China is very cautious when it comes to cooperation, economic cooperation with Russia. It still factors in Western sanctions, when it comes to Russia.

**Maria Shagina:**

Russia is very apprehensive of China's strategy towards Central Asia, towards dominance in the technological sphere. So there is a lot of there is a lot of mistrust on its own. And by creating this false or exaggerated narrative that might not serve any good to create a proper policy towards this country's.

**Jacob Shapiro**:

Amen to that. Last question is Nord Stream 2 operational by the end of the year? Putting you on the spot a little bit.

**Maria Shagina:**

It's definitely finished in terms of physical construction.

**Jacob Shapiro**:

Is the gas flowing? Are gas supplies being delivered by the end of the year?

**Maria Shagina:**

I think 2022 is something that is perhaps, more of a year that we should look into. Gazprom as I said, is trying to create this pressure to speed up, to clear all of the remaining roadblocks. But I think the European Commission and the opposition from Ukraine and Poland will not make it easy. And plus, we have US opposition in Congress. And today we've had there are new protest, there are new sanctions, prepositions. So the battle is not done, that's for sure. And there are a lot of regulatory hindrances on its way to be operational.

**Jacob Shapiro**:

All right. Well, thank you so much for coming on and explaining some of this to us, and we'll have to have you back on as further battles emerge because as you said, "The story is not over." Thank you so much.

**Maria Shagina:**

Thank you very much for having me.

**Jacob Shapiro**:

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